

VERIFONE SYSTEMS, INC.  
Form 10-K  
December 19, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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Form 10-K

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(Mark One)

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

For the fiscal year ended October 31, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-32465

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VERIFONE SYSTEMS, INC.  
(Exact name of Registrant as Specified in its Charter)

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DELAWARE 04-3692546  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

2099 Gateway Place, Suite 600 95110  
San Jose, CA (Zip Code)  
(Address of Principal Executive Offices)  
(408) 232-7800  
(Registrant's Telephone Number, Including Area Code)

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Securities registered pursuant to Section 12(b) of the Act:  
Title of Each Class Name of Each Exchange on Which Registered  
Common Stock, \$0.01 par value New York Stock Exchange  
Securities registered pursuant to Section 12(g) of the Act:  
None.

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files). Yes  No

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

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

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

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

As of April 30, 2013, the aggregate market value of the common stock of the registrant held by non-affiliates was approximately \$1.56 billion based on the closing sale price as reported on the New York Stock Exchange.

The number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on November 30, 2013:

Class	Number of shares
Common Stock, \$0.01 par value per share	110,418,768

DOCUMENTS INCORPORATED BY REFERENCE

As noted herein, the information called for by Part III is incorporated by reference to specified portions of the Registrant's definitive proxy statement to be filed in conjunction with the Registrant's 2014 Annual Meeting of Stockholders, which is expected to be filed not later than 120 days after the Registrant's fiscal year ended October 31, 2013.

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FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K and certain information incorporated by reference herein contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Many of the forward-looking statements are located in “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements relate to future events or our future financial performance based on certain assumptions. In some cases, you can identify forward-looking statements by words such as “may,” “should,” “expect,” “plan,” “intend,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” or “continue,” the negative of such terms, or comparable terminology. Actual events or results may differ materially from those expressed or implied in these forward-looking statements.

Forward-looking statements are not guarantees of future results, events, levels of activity, performance, or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by these forward-looking statements. In evaluating these statements, you should specifically consider various factors, including the risks outlined in Item 1A, Risk Factors, in this Annual Report on Form 10-K, and elsewhere in this report, including our disclosures of Critical Accounting Policies and Estimates in Item 7, our disclosures in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, as well as in our Consolidated Financial Statements and related notes. We are under no duty to update any of the forward-looking statements after the date of this Annual Report on Form 10-K to conform such statements to actual results or to changes in expectations. We assume no obligation to revise or update any forward-looking statements for any reason, except as required by law.

In this Annual Report on Form 10-K, each of the terms “VeriFone,” “Company,” “us,” “we,” and “our” refers to VeriFone Systems, Inc. and its consolidated subsidiaries.

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### PART I

#### ITEM 1. BUSINESS

##### Our Company

VeriFone is a global leader in secure electronic payment solutions at the point of sale (“POS”). We provide expertise, solutions and services that add value at the POS and enable innovative forms of commerce. For over 30 years, we have been a leader in designing, manufacturing, marketing and supplying a broad range of innovative payment solutions and complementary services that enable secure electronic payment transactions and value-added services at the POS. We focus on delivering value to our customers at the POS where merchant and consumer requirements drive increasingly innovative POS payment capabilities, value-added services that increase merchant revenues and consumer experience and solutions that enrich the point of interaction between merchant and consumers. Key industries in which we operate include financial services, retail, petroleum, restaurant, hospitality, taxi, transportation, and healthcare.

VeriFone, Inc., our principal operating subsidiary, was incorporated in 1981. Shortly afterward, we introduced the first check verification and credit authorization device utilized by merchants in a commercial setting. In 1984, we introduced the first mass market electronic payment system intended to replace manual credit card authorization devices for small merchants. VeriFone, Inc. operated as a publicly-traded company from 1990 until it was acquired in 1997 by Hewlett-Packard, which operated it as a division. In July 2001, HP sold VeriFone, Inc. to Gores Technology Group, LLC, a privately held acquisition and investment management firm. In July 2002, VeriFone, Inc. was recapitalized and VeriFone Systems, Inc. (formerly known as VeriFone Holdings, Inc.), a Delaware corporation, was organized as a holding company for VeriFone, Inc. In connection with the recapitalization, certain investment funds affiliated with GTCR Golder Rauner, LLC, a private equity firm, became our majority stockholders. VeriFone completed its initial public offering on May 4, 2005. In June 2009, the GTCR-affiliated funds ceased to be beneficial owners of 5% or more of our outstanding common stock.

We are headquartered in San Jose, California and operate in more than 150 countries worldwide, with a direct presence in more than 45 countries.

##### Our Business Strategy

We seek to provide innovative payment and payment-enabled solutions and services to facilitate trade and commerce on a worldwide basis. Since 1981, we have designed and marketed payment solutions that take advantage of the long-term shift toward electronic payment transactions and away from cash and checks in both developed and emerging economies worldwide. We have one of the leading electronic payment solutions brands and are one of the largest providers of electronic payment solutions worldwide.

We are committed to designing reliable and secure payment solutions to meet our customers' requirements and to offer flexible solutions that support a wide range of deployment options, payment types and value-added programs, including media and content delivery. Our payment solutions are available in several different combinations, offering our customers flexibility to support a variety of connectivity options, including various wired and wireless connectivity infrastructures deployed globally. Our solutions enable payment and commerce in both consumer-facing and self-service, or unattended, environments. We believe we have the largest selection of certified value-added applications. An increasing number of our electronic payment devices are also connected directly to VeriFone-operated processing gateways, through which we can provide payment-enabled functionality such as advertising, couponing, loyalty and data analytics services for our customers. We have integrated media capabilities into a number of our products as well as other consumer-facing devices, such as mobile devices, to allow us to

leverage POS systems as a delivery channel for media and advertising.

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Services are an increasingly important part of our business strategy. We offer a broad range of traditional services, including professional services related to customized application development, equipment repair and maintenance, helpdesk support and software post-contract support, installation and deployment, helpdesk support, and training. We are focused on offering full-service solutions, such as our “All in One” managed service solution (also referred to as “Payment-as-a-Service”), and other managed services, such as gateways, encryption, tokenization, and end-to-end terminal estate management services. In addition, we offer services complementary to our payment solutions that facilitate commerce, such as our VNET media platform deployed at gas dispensers and in taxis, PAYMedia/LIFT retail services that enable basket-level targeting of media content at convenience stores, and other digital media solutions that utilize media-enabled equipment to display digital content at the POS. We also offer our customers technical support for our installed payment systems, consulting services, and project management services for system deployment, and customization of integrated software solutions.

We believe expansion into new and emerging markets and complementary verticals are important components of our business strategy. Our acquisition strategy has expanded our global presence and customer base, improve our global competitive position, broaden our product and service offerings, increase the reach of our distribution channels and vertical markets, and provide us with greater resources to increase our research and development of innovative products and services. In August 2011, we completed our acquisition of Hypercom Corporation (“Hypercom”), a global provider of electronic payment solutions and value-added services at the POS, excluding its businesses in the U.S., United Kingdom and Spain, which were divested immediately prior to our acquisition. We believe our acquisition of Hypercom expanded our geographic reach and our customer base and business for our EMEA and ASPAC segments (as defined below). In December 2011, we completed our acquisition of Electronic Transaction Group Nordic Holding AB (“ETG”), a Swedish company operating the Point International business (“Point”), which was previously one of our distributors. The Point business serves as Northern Europe's largest provider of payment and gateway services and solutions for merchants and has expanded our global presence and augmented our EMEA services business.

Other acquisitions in recent years include our December 2010 acquisition of certain assets and liabilities of Gemalto N.V.'s e-payment terminals and systems business unit which expanded our customer base and geographic reach in South Africa, India and parts of the Middle East and increased our penetration into certain vertical markets. We also made recent acquisitions to broaden our services business and infrastructure, including our June 2011 acquisition of Destiny Electronic Commerce (Proprietary) Limited (which traded as CSC), our South Africa-based distributor, whose business included value-added services and end-to-end estate management services and tools for Sub-Saharan Africa and the Indian Ocean Islands, and our May 2013 acquisition of EFTPOS New Zealand Limited, which holds the switching and terminal business of ANZ Bank New Zealand Limited, and Sektor Payments Limited, which was our main distributor in New Zealand. In addition, we completed a number of smaller acquisitions over the past several years targeting complementary products, services and technologies.

## Our Business Organization

We manage our business primarily on a geographic basis. Accordingly, we determined our reportable operating segments, which are generally based on our geographic markets and customer location, to be Americas, EMEA and ASPAC. The Americas segment includes North America, South America, Central America, and the Caribbean. The EMEA segment includes Europe, the Middle East, and Africa, and the ASPAC segment consists of Asia, Australia, New Zealand, and other Asia Pacific Rim countries. For segment and geographic information, see Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations - Net Revenues, and Note 11, Segment and Geographic Information, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

## Our Industry Trends



The electronic payment solutions industry encompasses systems, software, and services that enable the acceptance and processing of electronic payments for goods and services and provide other value-added functionality at the POS. The electronic payment system is an important part of the payment processing infrastructure and serves as the interface between consumers and merchants at the POS and the payment transaction processing infrastructure.

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The global payments industry has continued to move towards electronic payment transactions. Consumer habits have continued to shift to higher volume of non-cash transactions with demand for additional payment options. In developed markets, such as the U.S., the continued shift to electronic payments is characterized by an increasing volume of transactions, including increase in volume of low value card transactions, through multiple payment forms. Our industry continues to move toward advanced payment technologies and methods, and has also seen the emergence of new market entrants, including outside the traditional POS providers. Certain regions, such as parts of Eastern Europe, Latin America, and Asia, currently have relatively low rates of electronic payments, but are experiencing a growing number of such transactions. The adoption of electronic payments in emerging markets is driven primarily by economic growth, infrastructure development, expanding presence of Internet connectivity and support from governments seeking to modernize their economies and to encourage electronic payment transactions as a means of driving commerce and improving tax collection. In some emerging markets, the trend toward non-cash transactions is driving the need for innovative solutions to address access barriers to large populations of consumers who are not using or able to use the banking and financial systems.

We anticipate that the industry will see growing demand for mobile and portable products. The increased use of smartphones and tablets for mobile commerce has generated consumer expectation of the ability of secure and easy to use mobile payment options. Acquirers and banks are correspondingly investing in mobile technologies and payments. With the rise in the number of smartphones globally, we anticipate rising demand for mobile platforms for payments. In addition, smartphones and tablets based on the popular Apple iOS, Google Android, and Windows Phone operating systems are increasingly being utilized to conduct payment transactions and to enable new mobile retailing solutions for merchants. Industry leaders have launched initiatives intended to drive mobile payments acceptance into the merchant community. For example, Isis, a joint venture among AT&T, Verizon, and T-Mobile, recently launched its Isis Mobile Wallet in the U.S., enabling consumers who have loaded the Isis Mobile Wallet onto their smartphones to make payments by tapping their phone on POS payment terminals, such as ours, that are enabled with near field communication, or NFC, technology. Google Wallet, which was commercially released in September 2011, similarly enables consumers to pay with a single tap of their phone on NFC-enabled payment systems. We are also working with PayPal to increase the acceptance of PayPal wallet at large retailers across the U.S. through our NFC-enabled devices. Expanded communications networks by major telecommunications carriers, as well as lower cost to users, further increase the feasibility of portable and handheld devices. The increased use of wireless Internet connectivity is also a factor that drives demand for compact, easy-to-use, and reliable payment solutions that can connect to the Internet wirelessly. Smartphones and tablets are also increasingly being used as multi-purpose hardware and integrated software platforms that are being adopted for commerce, payments, and complementary applications.

We expect continued advancement in payment technologies driven by demand for payment solutions that accommodate different payment methods and channels. The payments industry has seen the continued advancement in technologies, with the emergence of new payment methods, such as contactless, NFC, and mobile cloud-based payments, including card not present options. In the U.S., there continues to be the anticipated adoption of EMV (a chip and PIN based card acceptance), a payment method already used in other countries. Merchants are striving to enrich the consumer experience and to accommodate consumer expectations for flexibility at the POS by offering a variety of payment options and other value-added services at the POS. We expect this trend to create a need for a single platform that can support different payment options and delivery channels, and that is offered on a managed service basis to reduce risk and time to market. With the continued emergence of new and innovative technologies, our markets have become increasingly complex, which has in turn driven increasing interest in managed services solutions such as outsourced terminal estate management and payment systems implementation and management.

We expect merchants to increasingly seek to have rich and dynamic interactions with consumers. In addition to enabling multi-payment acceptance options for consumers, customized relevant content at the POS, such as promotions, offers, coupons, merchandise suggestions and loyalty programs, offer a means to enrich the consumer experience, particularly in retail and hospitality environments. The time between the initiation and completion of a

transaction on a media-enabled payment solution provides merchants the opportunity to engage with consumers. Incorporation of emerging technologies, such as Bluetooth low energy, or BLE, into payment solutions may enable complementary features for consumers, such as customer check-in and other location-based functions.

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Security continues to be a driving factor in our industry. Security over payment transactions will need to become increasingly more sophisticated as security threats become more sophisticated, new payment methods are introduced, and payment transaction volumes increase. Further, new payment types and platforms exacerbate security concerns and the need for security solutions. In addition to offering products that are independently certified to meet stringent security standards, we provide transaction encryption and tokenization services to facilitate an end-to-end security solution for payments. Our security solutions must continue to evolve to meet changing needs and threats.

We expect compliance requirements and regulatory mandates applicable to our industry will continue to expand. Compliance requirements include government regulations related to the prevention of identity theft, as well as operating regulation safeguards issued by the credit and debit card associations. Card associations have established the Payment Card Industry Security Standards Council (“PCI SSC”) to oversee and unify industry standards, known as PCI standards, to enhance payment card data security and serve as a framework for the safe handling of cardholder information. These standards continually evolve to become more stringent and increasingly dependent on complex measures to protect all payment related data. Compliance requirements and regulatory mandates continue to evolve to accommodate new payment types and related security concerns.

Our products and solutions generally must be certified against applicable payment industry requirements and mandates. The continual evolution of industry security standards drives recertification and replacement of electronic payment systems. In addition to meeting the PCI standards, additional governmental regulations over payment card data security may apply and require separate local certifications in certain non-U.S. countries, such as Australia, China and Brazil. Certain other countries also have their own set of compliance and certification requirements for payment card data security, including Germany, the United Kingdom, and the Netherlands. Furthermore, in order for our products to be allowed to connect to payment networks, we must obtain certification of the relevant products and solutions with card associations, financial institutions, and payment processors and comply with local government and telecommunications regulations. Some of these certification processes may take up to twelve months to complete. See Item 1, Business-Industry Standards and Government Regulations, for a more detailed description of these standards and regulations.

### Products and Services

#### Our System Solutions

Our system solutions consist of point of sale electronic payment devices that run our unique operating systems, security and encryption software, and certified payment software, and that are designed to suit our customers' needs in both consumer-facing and unattended environments. Our system solutions can securely process a wide range of payment types including signature and PIN-based debit cards, credit cards, contactless/radio frequency identification, or RFID, cards, smart cards, pre-paid gift and other stored-value cards, electronic bill payment, check authorization and conversion, signature capture and electronic benefits transfer, or EBT. Our unique architecture enables multiple value-added applications, including third-party applications, such as gift card and loyalty card programs, healthcare insurance eligibility, and time and attendance tracking, and allows these services to reside on the same system without requiring recertification upon the addition of new applications.

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### Countertop and PIN pads

Designed with merchant and consumer needs in mind, our suite of countertop solutions incorporate compact design, easy installation and consumer-friendly features. Our countertop solutions accept a wide variety of card payment options including NFC, mobile wallets, chip and PIN, and contactless payments. Our VX Evolution generation of countertop devices offer features such as bright-color touch screen and high resolution graphic displays for a richer consumer experience, and expanded memory and high performance processors enabling fast transactions and capability to support a range of applications, such as pre-paid products, including gift cards and loyalty programs. The VX Evolution devices also integrate our NFC software technology to manage multiple NFC-based mobile wallets, applications and programs. We also offer a variety of other VX model countertop devices, including a hybrid device that reads both magnetic strip and chip card transactions using a single card reader, offering options for a range of connectivity choices, and battery operated and color displays. We also supply secure PIN pads that support credit and debit card, EBT, EMV and other PIN-based transactions, and include multiple connectivity options, including a 3G option, and NFC capability. Our countertop solutions also support a wide range of applications that are either built into electronic payment systems or connect to electronic cash registers, or ECRs, and POS systems. In addition, we offer an array of certified software applications and application libraries that enable our countertop systems and secure PIN pads to interface with major ECR and POS systems.

### Multimedia Customer Facing

Our range of multimedia consumer facing POS devices are designed to allow merchants, particularly in the multi-lane retail environment, to engage in direct customer interaction through customized multimedia content, in-store promotions, digital offers, and other value-added services using a POS device, to enrich the customer experience while enabling new merchant revenue opportunities. Our multimedia consumer facing solutions are offered under our MX solutions brand. These products include large, easy-to-read color graphic displays, user-friendly interfaces, ECR compatibility, durable key pads, signature capture functionality, and other features that are important to serving customers in a multi-lane retail environment. Our MX solutions also feature a modular hardware architecture that allows merchants to introduce capabilities such as contactless or NFC. Our MX solutions include a range of products that support these same features in self-service market segments such as taxis, parking lots/garages, ticketing machines, vending machines, gas pumps, self-checkouts, and quick service restaurants.

### Portable

Our portable payment devices consist of small, portable, handheld devices that enable merchants to accept electronic payments in customer locations wherever connectivity is available. Our portable devices are designed for restaurants, hospitality, delivery, transportation and other businesses that benefit from the pay-anywhere, pay-anytime convenience offered by a portable payment solution that also has capabilities to allow merchants to offer coupons, loyalty and other programs to enrich the consumer experience. Our portable solutions support 3G, GPRS, Bluetooth, and WiFi technologies based on our VX Evolution and Optimum platforms for secure, “always on” connectivity. Our VX Evolution portable devices offer a color display as well as a touch screen option. We expect that market opportunities for portable solutions will continue to be found in developing countries where wireless telecommunications networks are being deployed at a much faster rate than wireline networks. We have leveraged our wireless system expertise to enter into new markets for electronic payment solutions such as the pay-at-the-table market solutions for full-service restaurants and systems for transportation and delivery segments where merchants and consumers are demanding secure payment systems to reduce fraud and identity theft.

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### Mobile

Our PAYware Mobile solutions offer mobile payment capabilities for all segments of the mobile point of sale ("mPOS") environment, from large retailers to small merchants. Our portfolio of PAYware Mobile solutions includes devices that attach to, and interface with, iOS, Android or Windows-based smartphones and tablets, enabling these devices to be used as a secure payment device by merchants to accept payments wherever and whenever they do business with mobile connectivity. Our broad range of PAYware Mobile solutions is intended to address merchant needs in all types of retail environments and to enrich the overall consumer experience whether in or out of the traditional bricks and mortar store location. Our portfolio includes devices that accept a variety of payment types, including EMV chip and PIN, NFC/contactless and magnetic stripe payment types. Our devices are PCI compliant and employ fully-encrypted card readers so that sensitive cardholder data do not enter the device. We provide options designed to enrich the overall consumer experience, including an integrated PIN pad for faster transaction processing, integrated laser barcode imager, and functionality that facilitates sales services such as "on the spot" verification of merchandise availability or pricing.

### Petroleum

Our family of products for petroleum companies consists of integrated electronic payment systems that combine electronic payment processing, fuel dispensing, and ECR functions, as well as secure payment systems that integrate with leading petroleum pump controllers. These products are designed to meet the needs of petroleum company operations, where rapid consumer turnaround, easy pump control, and accurate record keeping are imperative. These products allow our petroleum customers to manage fuel dispensing and control, and enable "pay at the pump" functionality, cashiering, store management, inventory management, and accounting for goods and services at the POS. They are compatible with a wide range of fuel pumps, allowing retail petroleum outlets to integrate our systems at most locations. We have expanded this suite of products with our Secure PumpPAY range of payment devices and related software that integrate into petroleum dispensers and deliver secure payment capabilities. We have also introduced our PAYmedia service that leverages the large color screen of Secure PumpPAY units and our VNET media platform to enable digital content, including paid advertising and couponing at the petroleum forecourt, which can help to offset the cost of the system and offer the possibility of an ongoing advertising revenue stream with the operator. Our media platform delivers short-form video and digital coupons at eye-level displays for fueling customers, thereby engaging the consumers and influencing their purchasing decisions.

### Unattended and Self-Service

Our unattended and self-service payment solutions are designed to enable payment transactions in self-service environments and include our UX, TransitPAY, and MX solutions. Our UX solutions include a series of secure payment modules for vending machines and other self-service, high-transaction-volume environments such as on-street parking meters, petroleum pumps and ticketing machines. The UX modules are offered as OEM solutions that are customizable and integrate with existing self-service environments, and designed for both indoor and outdoor use in harsh environments. These solutions include versions to accept a range of payment options, including mobile wallets, magnetic stripe, EMV chipcard or NFC or other contactless payment schemes. TransitPAY is our unattended payment solution that enables implementation of an open fare-collection system for riders to quickly and easily pay with a wave or tap of almost any contactless card or NFC-enabled phone, with connectivity to control turnstile gates where applicable. TransitPAY is designed for public transportation environments including bus, train, and subway. Our MX 760 is an all-in-one OEM module with graphic display and audio features that integrates into a wide range of unattended environments. The MX 760 accepts both magnetic track and EMV chip cards using its hybrid card reader and encrypted pin pad and supports a variety of value-added services.



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### Contactless Peripherals

Our contactless peripherals enable upgrades of existing payment systems for contactless payment acceptance. These contactless modules, consisting of the QX 1000 and the QX 700, support a variety of contactless payment schemes. The QX 1000 is a countertop contactless module that enables merchants to quickly upgrade existing payments systems to enable acceptance of contactless payments without having to replace their existing POS terminal estate. Our QX 1000 is designed to provide “plug-and-play” integration with other electronic payment devices and is designed for implementation at retail locations, including quick service restaurants, retail stores, parking garages, movie theaters and sports arenas. Applications supported on the QX 1000 include EMV and Visa payWave MSD and MasterCard PayPass, American Express ExpressPay, Discover Network Zip, and MiFare. The QX 700 is a contactless module designed to enable contactless payments for vending machines and other self-service, high-transaction volume environments, such as on-street parking meters, petroleum pumps and ticketing machines. The QX 700 can be integrated into existing indoor and outdoor unattended systems through a field upgrade, and is capable of supporting a variety of card types, including public transportation, stored value and other value-added applications.

### Network Access Solutions

Our network access solutions are designed and customized to support the unique requirements of the electronic payments industry by providing the networking hardware technology and communications infrastructure necessary to achieve connectivity within the POS environment. Our Integrated Enterprise Networks ("IENs") are designed to reduce operating costs, protect investments in current legacy networks and work on a wide range of standard network technologies and protocols. Our Intelligent Network Access Controller ("IntelliNAC") is an intelligent networking device that provides a wide range of digital and analog interfaces, line and data concentration, protocol conversion and transaction routing among other features. IntelliNAC is offered with IntelliView, an enterprise-level solution that provides the networking tools needed to manage POS solutions, such as remote downloads, and centralizes network management for reporting and monitoring.

### Our Services

We continue to invest in developing a broad portfolio of service solutions complementary to our systems solutions and designed to meet a wide range of merchant and partner needs, including adding value by enabling commerce and enriching the consumer experience at the POS. Services are an increasingly important part of our business and revenues, accounting for approximately 37% of our total net revenues in our fiscal year ended October 31, 2013. Our service offerings include our payment-as-a-service solution and other managed services solutions, terminal management solutions, payment-enabled media, and payment system security solutions. We also offer a host of support services, including software development, installation and deployment, warranty, post-sale support, repairs, and training.

### Payment-as-a-Service

Our Point payment-as-a-service payment system management solution is hosted and managed by us and offered as a subscription-based model that includes hardware and software, as well as comprehensive security, payment and value-added services for a fixed rate per device. The packages provide flexibility for merchants to select an option that is tailored to their specific business requirements. The solution supports processing of payment types across all channels of a merchant's business, including credit and debit card payments, online payments, mobile platforms, loyalty cards, gift cards and membership cards, with integrated payments management and reporting. The hosted service includes 24x7 support, encrypted transactions, integration for new methods of payment, ongoing EMV maintenance, merchant support, and PCI compliance. The payment-as-a-service web-based portal serves as a single point of entry for merchants and partners to access, configure, and manage their payment services, as well as to deploy



loyalty programs and enable new payment types. Our payment-as-a-service solution is designed to simplify EMV adoption and enable rapid integration of mobile wallets and emerging payment technologies. Merchants can adjust their subscription service packages to more advanced features and functions as their business grows or as the payment industry evolves. Currently, the payment-as-a-service model is implemented primarily in our EMEA segment and, to a lesser extent, in our ASPAC segment.

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### Managed Services

In addition to our payment-as-a-service solution, we offer a range of other managed services to provide our customers a complete managed solution that accommodates their business needs and plans. Our managed services include secure web-based transaction processing that is consolidated across payment types, from traditional retail to e-commerce, cloud-based remote loading of supported devices with the most up-to-date base files and firmware, software and applications, and estate management, including remote key loading, capabilities to remotely activate NFC/contactless and EMV, and consolidated reporting and analytics. PAYware Connect, our cloud-based hosted payment solution, consolidates all payment transactions through our payment gateway and enables merchants to process from any internet-connected PC through a single portal. PAYware Connect uses our proprietary VeriShield Total Protect for end-to-end transaction encryption and tokenization and is certified by all of the major payment processing networks. Our VX Direct managed solution combines our VX device with the latest payment applications, automatic updates, security protection with VeriShield Total Protect, and estate management capabilities through VeriFone HQ or VeriCentre. These managed solutions are offered globally to retailers, acquirers and merchants in the restaurant and hospitality markets. Our limo, livery and taxi fleet management solution provides tools for fleets installed with our POS devices, including real-time vehicle and trip/fare activity monitoring, computerized dispatch, vehicle tracking and faster card processing.

### Terminal Management Solutions

Our terminal management solution, VeriFone HQ ("VHQ") enables efficient management of an entire estate of devices with minimal on-site intervention. Customers include retailers, financial institutions, processors with helpdesk operations, and device maintenance companies. VHQ, which is currently available for retail environments, connects the devices within a merchant's estate to back office operations, enabling remote deployment of software to POS terminals, centralized estate tracking, monitoring and diagnostics, and consolidated information collection and management reports. VHQ includes features designed for today's POS environment, with a range of communication choices, options to manage multiple payment types, including mobile wallets and NFC, and the ability to remotely deliver and manage POS media content and value-added programs at the POS. VHQ also enables enhanced security controls, such as tamper and offline alerts, remote troubleshooting and diagnostics using a real-time, graphical dashboard, and added communications for POS content management. We also continue to support our VeriCentre, Term-Master Suite, ETMS, MagIC Management System, and Nurit Control Center terminal management solutions. Our terminal management solutions are offered globally and provided on a subscription fee basis as a part of a total payments solution hosted on VeriFone's payment gateway and inclusive of hardware, software and services, or as a stand-alone management system hosted by VeriFone. Customers can also license the tools and host the solution on their own servers.

### Payment-Enabled Media Solutions

VeriFone's PAYmedia solution is a media content management tool that enables digital media at the POS to deliver media content of interest to customers, provide relevant advertisement, promotions and merchant loyalty programs at the POS. Media content is delivered through our media-enabled POS devices, including our MX devices, in conjunction with our Secure PumpPay devices in petroleum dispensers, or through our LIFT Retail platform connected to a merchant's ECR. In addition to delivery of special offers and couponing, our LIFT Retail platform accommodates loyalty program enrollment and touch screen capabilities so that a customer can immediately scan additional merchandise for purchase. Using PAYmedia, merchants can customize digital media content and manage content and promotions. Merchants also have the option of outsourcing the media content and advertisement management and delivery to us.

In conjunction with our in-taxi payment and Secure PumpPay POS devices, we offer both third-party licensed and internal digital media content through our VNET media platform. This content includes local news, weather, traffic, and public service messages. Certain of our taxi leasing arrangements for advertising cover the rights to place advertisement on taxi tops or elsewhere on a taxi such as on the trunk or with wraps on the exterior of the taxi. For our VNET platform and other media content on taxis, we typically are engaged by advertisers through ad agencies for display of their advertisements, and we generally do not create or design third-party media content.

Our VNET platform is designed to accommodate a host of custom solutions desired by advertisers and marketers, such as adjusting content based on the location or time of day when the content is aired and audience segmentation.

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Our payment-enabled media solutions seek to leverage customer engagement at the POS, in taxis, and at petroleum dispensers.

### In-Taxi Payment Solutions

We provide an integrated suite of hardware, software and services to the taxi industry to enable electronic payment of taxi fares. In-taxi equipment we provide includes our secure electronic payment devices, GPS navigation, wireless communications, and fleet management services. All payment transactions made through our in-taxi electronic payment devices are sent wirelessly through our secure payment gateway and we generally earn a per transaction service fee.

Our taxi payment solutions are currently deployed in multiple U.S. cities, including New York City, Philadelphia, Boston, Chicago, Las Vegas, Miami, Baltimore, and Fort Lauderdale, as well as certain international locations in our EMEA segment.

### Security Solutions

Our security solutions offer customers tools to secure payment transaction data. VeriShield Total Protect provides end-to-end encryption coupled with server-based tokenization to securely protect data from the point of capture, whether transmitted from a card or mobile device, to the processor, and tokenizes card data for use post-authorization to eliminate cardholder data from POS applications, networks and servers. In the U.S., the majority of the leading payment processors have selected our end-to-end encryption technology. VeriShield Total Protect is available for our VX and MX 800 series devices and can be remotely deployed. VeriShield Remote Key enables merchants to remotely and securely manage key injection into PIN pad devices as needed, including as part of scheduled maintenance, in response to changing compliance standards, and in response to suspected security breach. VeriShield Remote Key is available for our VX and MX devices. Our VeriShield Retain file authentication software is designed to secure a merchant's terminal estate against unauthorized third parties executing software on the payment devices and is available for our VX devices. Our VeriFone Secure Data solution allows applications with access to our SRED compliant encryption library to enable point-to-point encryption capabilities.

### Server-based Payment Processing Software and Middleware

Our server-based software allows merchants to integrate advanced payment functionality into PC-based and other retail systems seamlessly. These products handle the business logic steps related to an electronic payment transaction (credit, debit, gift, and loyalty), including collection of payment-related information from the consumer and merchant, and communication with payment processors for authorization and settlement. These solutions also enable the functionality of peripherals that connect to PC-based electronic payment systems, including consumer-facing products such as secure PIN pads and signature capture devices. Our PAYware software product line, consisting of server-based, enterprise payment software solutions, now includes card acceptance and merchant acquiring solutions (PCCharge, PAYware PC, PAYware Direct, PAYware Transact), POS integration software (PAYware Link, PAYware STS, PAYware SIM, and VeriFone Retail 360), value-added payment solutions (PAYware Gift and PAYware Prepay), and card management systems for issuers and acquirers (PAYware CMS).

### Support Services

We offer a suite of support services, including installation, deployment, standard or customized training, and application development and delivery solutions. We support our installed base by providing payment system 24-hour helpdesk support, consulting, on-site and telephone-based training, repair and/or replacement, asset tracking, and reporting. We also offer customized service programs for specific vertical markets in addition to standardized service

plans, per incident repair services and annual software maintenance on some of our licensed software products.

We offer professional services for customized application development and delivery solutions. We also provide specific project management services for turn-key application implementations. We also offer customer education programs as well as consulting services regarding selection of product and payment methodologies and strategies such as debit implementation. We believe that our client services are distinguished by our ability to perform large-scale customizations for customers quickly and efficiently.

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Our payment devices generally carry a standard one-year warranty. For repairs of defective devices covered by such warranties, we either repair or replace the devices at no charge to the customer, except for certain shipping and related costs. For repairs of defective devices not covered by such warranty, we offer repair services in many countries or customers may use our authorized service centers to repair the device.

## Libraries and Development Tools

We make a broad portfolio of application libraries and development tools available to our large community of internal and third-party application developers, including certain pre-certified software libraries that can be integrated into third-party applications without the need for further card brand certifications for these functions. We provide a set of application libraries, or programming modules such as smart card interfaces, contactless card and NFC phone interfaces, and communications drivers with defined programming interfaces that facilitate the implementation of our multi-application system solutions. Further, we maintain application compatibility, including use of standardized application programming interfaces, also known as APIs, and service calls, designed to facilitate the migration of applications to future system solutions. We continually develop new iterations and enhancements for these tools.

We also provide developer tool kits that contain industry standard visual development environments (C/C++) along with platform-specific compilers and debuggers. We provide a broad range of support services for our application development communities, including developer training, a dedicated developers' support team, and VeriFone DevNet, an online developers' portal that provides registered developers access to libraries, tools, programming guides, and technical support. Our libraries, developer tool kits, training, and support systems facilitate the rapid growth in deployment of third-party, value-added applications for our system solutions.

We believe that this growing portfolio of value-added applications increases the attractiveness of our solutions to global financial institutions and payment processors by adding services beyond payment transaction processing.

## Customers

Our global customers consist primarily of financial institutions, payment processors, large retailers, petroleum companies, transportation companies, government organizations, healthcare companies and quick service restaurants. In our Americas and EMEA segments, we also sell our in-taxi payments solution to taxi fleets and advertising space to advertisers and media companies. We also sell directly to smaller merchants and retailers under our payment-as-a-service model, primarily in our EMEA and ASPAC segments. We also sell to distributors, resellers, system integrators, and independent sales organizations who resell our products. Increasingly, we are engaging with non-traditional industry participants, such as mobile phone operators, mobile wallet providers, coupon/offer providers, and social media networks, who desire access and integration with our payment solutions at the POS to deliver their services.

The percentage of net revenues from our ten largest customers is as follows:

	Years Ended October 31			
	2013	2012	2011	
Percentage of net revenues from our ten largest customers	21.8	% 22.8	% 27.4	%

For information regarding our largest customers by reportable segment, see Note 1, Principles of Consolidation and Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.



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Historically, we have experienced fluctuations of orders from customers based on the timing of customer technology refresh cycles and/or customer capital expenditure decisions, which typically drive larger volume orders. Timing of such cycles from larger customers, such as large retailers and processors could cause our net revenues and results of operations to vary from year to year. In addition, the timing of releases of regulatory and industry standards, such as PCI standards, as well as releases of new product introductions can significantly impact net revenues, cost of net revenues and operating expenses. Net revenues from both direct customers and our third-party distributors may decline pending an upcoming standards change or in anticipation of a standards change or new product introduction. However, neither historical patterns of net revenues nor timing of net revenues related to releases of new standards or products should be considered reliable indicators of our future net revenues, results of operations or financial performance.

## Sales and Marketing

We sell our products worldwide through our direct sales force or through third-party distributors and partners. Internationally, we rely on distributors to represent us in countries or geographies where we do not have a direct presence. In recent years, we have expanded the number of countries where we have a direct presence, in part through our acquisitions. As we continue to focus on services, we expect a shift to more direct sales and support personnel.

Our sales personnel consists of sales representatives, business development personnel, sales engineers, and customer service representatives with specific vertical market expertise. Our sales teams are supported by client services, manufacturing, product development, and marketing teams to deliver products and services that meet the needs of our diverse customer base. Our marketing personnel includes product managers, account managers, program marketing personnel, and corporate communications and public relations personnel.

As of October 31, 2013, we had 998 sales and marketing employees, representing approximately 18% of our total workforce.

## Competition

The markets for our System Solutions and Services are highly competitive. We compete based on various factors, including product functions and features, product availability and certifications, pricing, product quality and reliability, design innovation, interoperability with third-party systems, service offerings, support, and brand reputation. We continue to experience intense competition in all of our operating segments from traditional POS terminal providers for both systems solutions and services. We also see new companies entering our markets, including newer entrants offering mobile-based payments solutions. In certain foreign countries, some of our competitors may be more established, benefit from greater local recognition and have greater resources within those countries than we do.

Competition from manufacturers, distributors, or providers of products and services similar to or competitive with our System Solutions or Services could result in lower market share, price reductions, reduced margins, or could render our solutions obsolete. For example, a leading provider of payment processing services that is one of our largest customers develops and markets a series of proprietary electronic payment terminals for the U.S. market. Some smaller local electronic payment terminal vendors, particularly in our ASPAC segment, have also introduced pricing pressures in their markets by offering substantially lower prices. In addition, a number of the financial institutions and payment processors to whom we market our products typically adopt a dual vendor approach for the supply of their POS terminals.

We expect to continue to experience significant competition in the future. We compete globally with suppliers, manufacturers, and distributors of electronic payment systems and services as well as suppliers of ECRs that provide



built-in electronic payment capabilities and producers of software that facilitates electronic payments over the Internet. Our primary competitors in these markets for POS terminals and services include Ingenico S.A., PAX Technology, Ltd., SZTZ Electronics Co. Ltd., Equinox Payments, CyberNet Inc., and Spire Payments Ltd.

We also compete with Gilbarco, Inc. (a subsidiary of Danaher Corporation), International Business Machines Corporation, MICROS Systems, Inc., NCR Corporation, and Wayne, A GE Energy Business. In addition, we face vigorous competition from smaller companies that have been able to develop strong local or regional customer bases.

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As we focus on specialty services and increase our emphasis on mobile and full service solutions, as well as on small to medium sized enterprises, we face new competitors, including those who target merchants that are not traditionally our customers or offer competing technologies, such as mobile-based payment dongles or electronic wallets. We believe these competitors are targeting merchants that are our customers.

Most of our customers are large, sophisticated organizations that have significant purchasing power and seek innovative solutions from trusted brands. We believe that we benefit from a number of competitive advantages gained through our more than 30-year history in our industry. These advantages include our globally trusted brand name, large installed base, significant involvement in the development of industry standards, security infrastructure, global operating scale, customizable platforms, and investment in research and development. Additionally, we compete primarily on the basis of the following additional key factors: end-to-end system solutions, industry leading security, product certifications, value-added applications and advanced product features, advanced communications modularity, reliability, supply chain scale and flexibility, and low total cost of ownership.

We expect competition in our industry will be largely driven by the requirements to respond to increasingly complex and evolving technology, industry certifications, and security standards. We also see the prospect of continued consolidation among suppliers of electronic payment systems as they seek inorganic ways to enhance their capability to carry out research and development and seek other efficiencies, such as in procurement and manufacturing. The rapid technological and other changes in the payments industry have led to increased competition from new technologies and competitors both within and outside our traditional industry.

## Research and Development

Our R&D activities include design and development of our hardware products and unique operating systems, development of new solutions and applications, attaining applicable certifications and approvals required for our products and solutions, and ensuring compatibility and interoperability between our solutions and those of third parties. We work with our customers to develop system solutions that address existing and anticipated end-user needs. Our development activities are distributed globally and managed primarily from the U.S. Our regional application development centers provide customization and adaptation to meet the needs of customers in local markets.

As of October 31, 2013, we had 1,820 research and development employees, representing approximately 32% of our total workforce. For the total amounts of our research and development expenses for the fiscal years ended October 31, 2013, 2012, and 2011, see our Consolidated Statements of Operations of this Annual Report on Form 10-K.

## Industry Standards and Government Regulations

In order to offer products that connect to payment networks, electronic payment system providers must certify their products and services with card associations, financial institutions, and payment processors, as well as comply with government and telecommunications company regulations.

The following are key standards and requirements that apply to our industry.

### Security Standards

Industry and government security standards are implemented to ensure the integrity of the electronic payment process and protect the privacy of consumers using electronic payment systems. We design our product security architecture to meet the requirements of those countries that have the more stringent and specific security requirements, such as Australia, Brazil, Canada, Germany, the Netherlands, New Zealand, Singapore, Sweden, Switzerland, and the United Kingdom.



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### Card Association Standards

Payment Card Industry Security Standards. Formed in 2006, the PCI SSC develops standards and supporting materials that enhance payment card data security and serve as a framework for the safe handling of cardholder information. The following are the PCI SSC principal standards applicable to our industry.

• PCI Data Security Standard (“PCI DSS”) provides a specifications framework for the payment card data security process, including prevention, detection, and appropriate reaction to security incidents.

• PIN Transaction Security (“PTS”) provides vendors and manufacturers with the requirements for all personal identification number (“PIN”) terminals, including POS devices, encrypting PIN pads, and unattended payment terminals.

• Payment Application Data Security Standard (“PA-DSS”) provides a set of standards to help software vendors and others develop secure payment applications.

• Point-to-Point Encryption (“P2PE”) provides a set of requirements for vendors, assessors, and point-to-point encryption solution providers to validate their solutions. P2PE certified solutions may help a merchant reduce the scope of their PCI DSS assessments when using a validated P2PE solution for account data acceptance and processing.

EMV Standards. EMV standards are intended to address the growing need for transaction security and interoperability, and are designed to ensure global smart card interoperability across all electronic payment systems. To ensure adherence to this standard, specific certifications are required for all electronic payment systems and their application software. We maintain EMV certifications across our applicable product lines. EMV has already been adopted in many countries outside the U.S., and we anticipate adoption of EMV in the U.S. within the next several years, in part as card associations seek to incentivize adoption of EMV.

Contactless and NFC System Standards. The major card associations have each established a brand around contactless payment, for example, PayPass for MasterCard, Visa payWave and Visa Wave for Visa, ExpressPay for American Express, ZIP for Discover Financial Services, and J/Speedy for JCB. Each contactless payment brand has a complete set of specifications, certification requirements and a highly controlled testing and approval process. In addition to EMVCo standards, there are also regional specification and certification and other payment scheme requirements for contactless such as PBOC in China, CEPAS in Singapore, Interac Flash in Canada, Geldkarte in Germany, and Carte Bancaire in France.

MasterCard PTS and TQM Program. The MasterCard PTS program identifies and addresses stability and security of communications between Internet-enabled POS terminals and the acquirer host system using authentication/encryption protocols approved by MasterCard ensuring transaction data integrity. We have successfully achieved VX product-line compliance with the MasterCard PTS security specification regarding security of Internet connected payment systems. As of May 2010, the MasterCard PTS program was subsumed into a PCI SSC PTS 3.x program known as the Open Protocols module. The Open Protocols module addresses POS devices that are Internet, WIFI, or GPRS enabled to make sure they are secure. The MasterCard PTS program compliance applies to several of our Internet-enabled products including the VX Evolution series payment systems. The MasterCard TQM (Terminal Quality Management) program was created in 2003 to help ensure the quality and reliability of EMV compliant terminals worldwide. MasterCard's TQM program validates the entire life cycle of the product, from design to manufacturing and deployment, and is in addition to the EMV Level 1 certification. We maintain TQM approval across all EMV Level 1 approved products deployed with EMV applications. The TQM program is now extended to contactless payment systems and is a requirement for achieving a full PayPass approval with MasterCard.



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### Payment Processor/Financial Institution Requirements

U.S. payment processors have two types of certification levels: (1) Class B certification, which ensures that an electronic payment system adheres to the payment processor's basic functional and network requirements; and (2) Class A certification, which adds another stipulation that the processor actively supports the electronic payment system on its internal helpdesk systems. Attainment of Class A certification, which may take up to twelve months, requires working with each payment processor to pass extensive functional and end-user testing and to establish the help desk related infrastructure necessary to provide Class A support. Attaining Class A certifications increases the number of payment processors that may actively sell and deploy a particular electronic payment system.

### Other Regulatory Authorities

Our products must comply with government regulations, including those imposed by the FCC (U.S. Federal Communications Commission) and similar telecommunications authorities worldwide regarding emissions, radiation, safety, and connections with telephone lines and radio networks. Our products must also comply with recommendations of quasi-regulatory authorities and of standards-setting committees. Our electronic payment systems have been certified as compliant with a large number of national requirements, including those of the FCC and Underwriters Laboratory in the U.S. and similar local requirements in other countries. In addition, wireless network service providers mandate certain standards and certifications applicable to connected devices and systems that operate on their networks. Our wireless electronic payment systems have been certified by certain leading wireless carrier networks around the world.

We are also subject to various other legal and regulatory requirements related to the manufacture and sale of our products, such as the European Union ("EU") directive that places restrictions on the use of hazardous substances (RoHS and RoHS2) in electronic equipment, the EU directive on Waste Electrical and Electronic Equipment (WEEE), the EU's Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), and the environmental regulations promulgated by China's Ministry of Information Industry (China RoHS). RoHS and RoHS2 set a framework for producers' obligations in relation to manufacturing (including the amounts of named hazardous substances contained in products sold) and WEEE sets a framework for treatment, labeling, recovery, and recycling of electronic products in the European Union. REACH imposes chemicals regulation and controls including requirements for registration of chemicals on the EU market.

### Foreign Operations

For our fiscal years ended October 31, 2013 and 2012, our international net revenues accounted for 71.6% and 72.7%, respectively, of our total net revenues. Margins on our sales of products in foreign countries and on sales of our products, which include components sourced from foreign suppliers, can be adversely affected by foreign currency exchange rate fluctuations and by international trade regulations, including tariffs and other applicable duties. See "Foreign Currency Transaction Risk" under Item 7A, Quantitative and Qualitative Disclosures About Market Risk in this Annual Report on Form 10-K. In certain regions outside the U.S., we rely on third-party distributors to market and sell our products in accordance with our policies for promotional efforts and maintenance of adequate technical expertise with respect to our products, and with our requirements for compliance with applicable laws, including for example, trade regulations applicable to our products and anti-corruption laws. Although we generally have contractual relationships with these third parties, if such third parties do not comply with our requirements, we face potential liability, harm to our brand reputation, and disruptions to our business, which could have a material adverse effect on our results of operations.

We outsource our product manufacturing to various suppliers in the Electronic Manufacturing Services ("EMS") industry. Our primary EMS providers are located in China, Singapore, Malaysia, Brazil, Germany, Romania, and

France. For several of our product lines, we directly ship from our EMS providers to our customers in various countries around the world. Substantially all of our products contain key components that are obtained from foreign sources. These concentrations in external and foreign sources of supply present risks of interruption for reasons beyond our control, including political and other uncertainties. See “Manufacturing Agreements” under Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report on Form 10-K.

See also Item 1A, Risk Factors, in this Annual Report on Form 10-K for additional discussion about the risks that we face related to our foreign operations.

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Disclosures of Iranian Activities under Section 13(r) of the Securities Exchange Act of 1934

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Securities Exchange Act of 1934, as amended. Section 13(r) requires us to disclose in our annual or quarterly reports, commencing with our first fiscal quarter ended January 31, 2013, whether we or any of our affiliates knowingly engaged in specified activities relating to Iran during the reporting period covered by the annual or quarterly report. Disclosure is required even where the activities, transactions or dealings are conducted outside the U.S. by non-U.S. affiliates.

As disclosed in our Quarterly Report on Form 10-Q filed for our fiscal quarter ended January 31, 2013, certain employees of non-U.S. VeriFone subsidiaries provided technical support services to a third-party distributor based in Dubai, U.A.E., with reason to know that the services would assist the distributor in reselling certain VeriFone point of sale terminals out of its inventory to two Iranian entities, Bank Melli and Bank Mellat. Both of these banks are identified in Section 13(r)(1)(D) as entities with which transactions and dealings are subject to disclosure. These services related to sales to the Dubai-based third-party distributor from two non-U.S. VeriFone subsidiaries in the prior fiscal year, and net revenues from these sales were recognized in the prior fiscal year. No sales were made to this distributor during the current reporting period. This third-party distributor is not listed on any U.S. sanctions lists and is not, to our knowledge, an Iranian government-owned entity or otherwise acting on behalf of the Government of Iran. These activities by employees of our non-U.S. subsidiaries were conducted in contravention of VeriFone's export control and sanctions policies, which prohibit VeriFone and its affiliates from conducting any activities, transactions or dealings with Iran or Iranian counterparties.

The non-U.S. VeriFone subsidiaries did not charge the third-party distributor any fees for the technical support services provided by its employees. Accordingly, we recognized no net revenues or profit from this activity. VeriFone does not intend to continue this activity or to knowingly permit any activities with Iran or Iranian counterparties. In connection with our discovery of the above-described activities, we have terminated all business activities with this distributor because such activities constitute breaches of our contractual terms with such distributor (although one of the non-U.S. VeriFone subsidiaries has engaged and may continue to engage in efforts to collect and receive amounts due from the distributor with respect to the fiscal year 2012 sales). We have also adopted a number of additional compliance measures and controls designed to prevent such activity from recurring.

Separately, as disclosed in our Quarterly Report on Form 10-Q filed for our fiscal quarter ended January 31, 2013, we identified six POS terminals that were being leased to the Iranian embassy in Sweden by a Swedish subsidiary of Point, and two POS terminals that were being leased to the Iranian Embassy in Norway by Point's Norwegian subsidiary. We acquired Point, a former distributor of our system solutions, in December 2011. All of these leases had been in place prior to VeriFone's acquisition of Point. Of these leased terminals, one terminal is a VeriFone-branded terminal and is of U.S. origin. This VeriFone terminal was leased by the Point Swedish subsidiary in 2010 in apparent contravention of the distribution agreement we had in place with Point at the time which, among other provisions, prohibited distribution of our terminals in contravention of applicable U.S. export control laws. As part of these leases these Point subsidiaries also provided ancillary software, customer support services and supplies, such as paper rolls, for the leased terminals. Between November 1, 2012 and January 31, 2013, we recognized approximately \$1,730 in total net revenues from these activities. We are unable to calculate net profits allocable to individual leases, but the net profits related to these leases would be at an amount less than the net revenues. These two Point subsidiaries terminated their respective lease agreements with the Iranian embassies and, as a result, no longer provide any products or services to the Iranian embassies in Sweden and Norway, nor do we intend to do so in the future.

We have made voluntary disclosure of the foregoing matters to OFAC and intend to cooperate fully with OFAC.



We have also identified that Wynid Technologies S.A. (“Wynid”), a French subsidiary that we acquired as part of our acquisition of Hypercom in August 2011, had leased one POS terminal to the Paris sales office of Iran Air, an Iranian airline with which transactions and dealings are subject to disclosure under Section 13(r)(1)(D). The lease to Iran Air commenced in October 2008, prior to our acquisition of Hypercom, and terminated without renewal on December 2, 2012. The leased terminal is an Artema-branded terminal, a non-U.S. origin product that Hypercom had assumed through its 2008 acquisition of the Europe-based e-Transactions business of Thales SA, a French company. The terminal leased to the Iran Air sales office in Paris was part of Wynid’s arrangement with one of its bank customers to lease terminals to the bank’s various end merchant locations. The lease arrangements, including order management, onboarding of lessees, terminal shipments, and customer invoicing, were administered by a third-party that Wynid had subcontracted to manage the leasing of POS devices to the bank’s end customers. The subcontracted third-

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party also handled all maintenance, repair, helpdesk, and other services for the bank's end customers. Under this arrangement, Wynid received monthly rental fees for the leased terminals and paid management fees to the subcontractor for administering the leases and servicing the rental estate. During the fiscal quarter ended January 31, 2013, Wynid generated total revenues from this lease of approximately 22 euros. We are unable to calculate net profits allocable to this individual lease, but the costs associated with the lease include approximately 7 euros of fees paid to the subcontractor for the fiscal quarter ended January 31, 2013. The terminal and related documentation were returned at the termination of the lease in December 2012.

## Proprietary Rights

We rely primarily on copyrights, trademarks, patent filings, and trade secret laws to establish and maintain our proprietary rights in our technology and products. We maintain a patent incentive program and patent committee, which encourages and rewards employees to present inventions for patent application and filings.

As of October 31, 2013, we held 326 patents and 109 patent applications filed with various patent offices in 56 jurisdictions throughout the world, including the U.S., Canada, the United Kingdom, the European Union, China, Israel, Italy, India, Australia, Japan, Germany, France, Ireland, Hong Kong, Taiwan, Brazil, and South Africa, among other countries. These patents and patent applications include utility patents, utility models and designs acquired in connection with our acquisitions, such as our acquisitions of GlobalBay and LIFT in fiscal year 2012, Hypercom Corporation in fiscal year 2011 and Semtek Innovative Solutions Corporation and the assets of WAY Systems, Inc. in fiscal year 2010. We believe that the duration of our patents is adequate relative to the expected lives of our products which generally are expected to be shorter than the terms of our patents due to continual technical innovations in our industry.

We use the VeriFone name and logo globally as an important part of the branding of our company and our products, and we register these trademarks in the key jurisdictions where we do business, including the U.S. and the European Union. As of October 31, 2013, we held trademark registration in 22 jurisdictions (including registration in the European Union that covers a number of country level registrations we had previously filed) for the "VERIFONE" trademark and in 32 jurisdictions (including registration in the European Union that covers a number of country level registrations we had previously filed) for VERIFONE trademark including our ribbon logo. We currently hold trademark registration in the U.S. and a variety of other countries for our product names and other marks.

We generally have not registered copyrights in our software and other written works. Instead, we have relied upon common law copyright, customer license agreements, and other forms of protection. We use non-disclosure agreements and license agreements to protect software and other written materials as copyrighted and/or trade secrets.

In the U.S. and other countries, prior to 2001, our predecessor held patents relating to a variety of POS technology and related inventions, which expire in accordance with the applicable law in the country where filed. In 2001, as part of the divestiture of VeriFone, Inc. from HP, VeriFone, Inc. and HP entered into a technology agreement whereby HP retained ownership of most of the patents owned or applied for by VeriFone prior to the date of divestiture. The technology agreement grants VeriFone a perpetual, non-exclusive license to use any of the patented technology retained by HP at no charge.

## Employees

As of October 31, 2013, we had 5,699 employees worldwide. We have collective bargaining agreements with our employees in France, Spain, Italy, Sweden, and Brazil. Our employees in France and Germany are represented by works councils that have the right to certain information and to participate in certain operational decisions affecting the represented employees, such as relocation of office facilities, compensation and benefits, and working hours. We

have not experienced any work stoppages, and we believe that we have good employee relations and relationships with the collective bargaining groups and works councils.

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## Executive Officers

Our executive officers and their ages as of December 18, 2013 are as follows:

Name	Age	Position
Alok Bhanot	45	Executive Vice President, Engineering & Chief Technology Officer
Paul Galant	45	Chief Executive Officer
Sunil Kappagoda	49	President, VeriFone Asia Pacific and Executive Vice President, Corporate Strategy
Albert Liu	41	Executive Vice President, Corporate Development & General Counsel
Jennifer Miles	41	President, VeriFone Americas
William K. Nelson	58	Executive Vice President, Global Product Management and Services
Marc Rothman	49	Executive Vice President and Chief Financial Officer

Alok Bhanot. Mr. Bhanot has served as our Executive Vice President, Engineering & Chief Technology Officer since December 2, 2013. Prior to joining VeriFone, Mr. Bhanot served as an advisor of Walmart Labs, a unit of Walmart Global e-Commerce, from June 2013 to November 2013 and as the founder and Chief Executive Officer of Inkiru, Inc., a provider of business intelligence/analytics technology, from February 2011 to June 2013 before it was acquired by Walmart in June 2013. Prior to that, Mr. Bhanot served as the Chief Technology Officer for Rent The Runway, Inc., a company that sells and rents women's fashion products online, from July 2010 to January 2011 and Executive Vice President for Cooliris, Inc., a software developer of photo viewing applications, from April 2009 to June 2010. Mr. Bhanot served as Vice President, Risk Technology of PayPal from May 2007 to March 2009 and Vice President, Corporate Architecture of eBay, Inc. from January 2006 to March 2009. Before joining eBay, Inc. in March 2002, Mr. Bhanot served as the Chief Technology Officer of Gradiance, Inc., a market data analytics provider, from January 2000 to March 2002. Mr. Bhanot has also served as an investor and advisor to various eCommerce and payments start-up companies in California since April 2009. Mr. Bhanot graduated from University of Roorkee (Indian Institute of Technology) with a Bachelor's degree in Mechanical Engineering.

Paul Galant. Mr. Galant has served as our Chief Executive Office and a director since October 1, 2013. Prior to joining VeriFone, Mr. Galant served as the Chief Executive Officer of Citigroup Inc.'s Enterprise Payments business since 2010. In this role, Mr. Galant oversaw the design, marketing and implementation of global business-to-consumer and consumer-to-business digital payments solutions. From 2009, Mr. Galant served as Chief Executive Officer of Citi Cards, heading Citigroup's North American and International Credit Cards business. From 2007, Mr. Galant served as Chief Executive Officer of Citi Transaction Services, a division of Citi's Institutional Clients Group. From 2002, Mr. Galant was the Global Head of the Cash Management business, one of the largest processors of payments globally. Mr. Galant joined Citigroup, a multinational financial services corporation, in 2000. Prior to joining Citigroup, Mr. Galant held positions at Donaldson, Lufkin & Jenrette, Smith Barney, and Credit Suisse. Mr. Galant holds a Bachelor's degree from Cornell University where he graduated a Phillip Merrill Scholar. Mr. Galant brings to our Board of Directors, among other skills and qualifications, leadership and expertise with respect to global payments solutions, broad knowledge of the payments and financial services industries, and leadership and management of complex, global organizations.

Sunil A. Kappagoda. Mr. Kappagoda has served as President of VeriFone Asia Pacific, overseeing VeriFone's operations in China, India, Greater Asia, Australia, and New Zealand, and as our Executive Vice President of Corporate Strategy, leading the ongoing development of VeriFone's global business strategy since July 25, 2013. Prior to joining VeriFone, Mr. Kappagoda served as a Senior Partner and Managing Director for The Boston Consulting Group from November 1999 to July 2013, leading its relationships with major U.S. and international financial services organizations. Prior to joining The Boston Consulting Group, Mr. Kappagoda served as a Director of Oliver, Wyman & Company, a financial services consulting firm, from February 1996 to October 1999, and as a Principal of Booz

Allen & Hamilton, Inc.'s financial services practice from September 1990 to January 1996. Mr. Kappagoda holds a Bachelor's degree in Engineering from Imperial College in London, a Master's degree in Economics from the London School of Economics and a Master's degree in Business Administration from the University of Pennsylvania's Wharton School. He has served as a member of the advisory board for the Imperial College Business School since 2007.

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Albert Liu. Mr. Liu serves as Executive Vice President, Corporate Development and General Counsel. Mr. Liu joined VeriFone in October 2008, as Senior Vice President, General Counsel and Corporate Secretary, and was named Executive Vice President, Corporate Development in August 2011. In his capacity Mr. Liu also served as Chief Compliance Officer. Prior to joining VeriFone, he was Vice President, Legal and Corporate Development, and Company Secretary for NETGEAR, Inc., a provider of networking solutions, since October 2004. Mr. Liu also previously served as General Counsel, Director of Human Resources and Secretary of Turnstone Systems, Inc., a supplier of digital subscriber line testing equipment and General Counsel and Secretary for Yipes Enterprise Services, a provider of Ethernet connectivity services. Mr. Liu began practicing law with the firm of Sullivan & Cromwell LLP in New York, advising clients on all aspects of corporate and securities law, leading public and private securities offerings, and negotiating and finalizing venture capital investments and contracts. Before entering the legal field, he was a software engineer at Tandem Computers. He holds dual degrees in Computer Science and Political Science from Stanford University, and a J.D (magna cum laude) from the University of California, Hastings College of the Law. He is a member of the State Bar of California.

Jennifer Miles. Ms. Miles has served as President, VeriFone Americas since March 18, 2013. Ms. Miles joined VeriFone in February 2001 and has served in various management positions, playing an integral role in driving the growth of VeriFone's solutions. Most recently, she served as VeriFone's Executive Vice President, North America from August 2011 to March 18, 2013, overseeing VeriFone's North America business. Prior to joining VeriFone, Ms. Miles spent six years with Wachovia Bank serving in several roles including sales and product management of corporate treasury and cash management solutions to Fortune 500 companies. Ms. Miles graduated from the University of Georgia with a Bachelor's degree in Business Administration.

William K. Nelson. Mr. Nelson has served as Executive Vice President, Global Product Management and Services since October 1, 2013. Prior to joining VeriFone, Mr. Nelson served as Executive Vice President, Worldwide Sales for Nuance Communications, a speech recognition technology company, from April 2011. Prior to that, Mr. Nelson was Executive Vice President of North American Sales for SunGuard Availability Services, a provider of managed IT and disaster recovery services, which he joined in 2009. Prior to joining SunGuard, Mr. Nelson served as Executive Vice President of Global Sales at Nortel Networks, a telecommunications and data networking equipment manufacturer, from 2008 to 2009 and as Senior Vice President, Resource Management Software and Telecommunications/Media & Entertainment Business Units for EMC Corporation, a provider of data storage, management, protection and analysis services, from 2001 to 2008. Mr. Nelson holds a Bachelor's degree from the University of Massachusetts with a Business Administration / Economics concentration.

Marc E. Rothman. Mr. Rothman has served as our Executive Vice President and Chief Financial Officer since February 4, 2013. Prior to joining VeriFone, Mr. Rothman served as the Chief Financial Officer of Motorola Mobility, Inc., where he oversaw global financial strategy, financial analysis and reporting, regulatory financial compliance, restructuring activities, and mergers and acquisitions, including involvement in Motorola Mobility's spin-off transaction from its former parent company, Motorola, Inc., as well as the sale of the company to Google in May 2012. At Motorola, he also held a number of senior finance leadership positions across the company, including serving as chief financial officer in several of its business segments (Public Safety, Networks and Enterprise, and Mobile Devices). Mr. Rothman joined Motorola, Inc. through the acquisition of General Instrument in 2000, and at that time he was corporate controller. He began his career at Deloitte & Touche LLP. Mr. Rothman is a Certified Public Accountant in the State of California and graduated from Richard Stockton College with a Bachelor's degree in Business.

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ITEM 1A. RISK FACTORS

Risks Related to Our Business

The risks set forth below may adversely affect our business, financial condition, operating results and cash flows. In addition to the risks set forth below and the factors affecting specific business operations identified with the description of these operations elsewhere in this report, there may also be risks of which we are currently not aware, or that we currently regard as immaterial based on the information available to us, that later prove to be material.

Macroeconomic conditions and economic volatility have in the past and could in future periods materially and adversely affect our business and results of operations.

Our operations and performance depend significantly on worldwide economic conditions. For example, the current continued and prolonged weak macro-economic conditions in Europe and in some euro zone countries have resulted in a slowdown, and in some cases deferrals, of orders by customers which materially reduced our expected order levels for the region. Similarly, the significant slowdown and volatility in the U.S. and international economy and financial markets which began in the latter half of 2008 resulted in reduced demand for our products, which in turn adversely impacted our net revenues, business, financial condition and results of operations. The lower-than-expected growth rates in certain emerging market economies in which we operate have also had an adverse effect on our results of operations in these regions. In particular, the slowdown and volatility in the global markets resulted in softer demand in the financial and retail sectors, pricing pressures and more conservative purchasing decisions by customers, including a tendency toward lower-priced products and lower volume of purchases during the economic downturn. In some countries where we do business, the weakened economy has resulted in economic instability which has had negative effects, including a decrease in purchasing power due to currency devaluations. If these weak macro-economic conditions continue or if any economic recovery remains slow and fragile or is not sustained, our net revenues, business, financial condition and results of operations could be adversely impacted.

We expect certain markets where we conduct business, including parts of Europe, to continue to experience weakened or uncertain economic conditions in the near term, and some of our customers, prospective customers, suppliers and partners will continue to be negatively impacted by the continued global weakness in the economy. We cannot predict the extent and duration of the negative impact that global economic volatility may have on our business, operating results and financial condition. There is no assurance that governments and central banks will take actions to further stimulate the economy or any such actions will have positive or lasting impacts. Further, conditions such as political unrest or terrorist actions in other parts of the world, the continued uncertainty related to economic conditions, including the implementation and duration of the so-called “budget sequestration” in the U.S., the ongoing debate in the U.S. Congress regarding the national debt ceiling and federal budget deficit, the potential effect of the recent and any future federal government shutdown, additional taxes related to changes in the health care law and reports of continued high unemployment rates in the U.S. and some other regions, may negatively impact global economic conditions, including corporate and consumer spending, and liquidity of capital markets. Continued volatility in market conditions, such as fluctuations in foreign currency rates relative to the U.S. dollar, makes it difficult to forecast our financial guidance and/or to meet such guidance. If we fail to meet our financial guidance or the expectations of investment analysts or investors in any period, the market price of our stock could decline.

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Our quarterly operating results may fluctuate significantly as a result of factors outside of our control, which could cause the market price of our stock to decline.

We expect our net revenues and operating results to vary from quarter to quarter. As a consequence, our operating results in any single quarter may not meet the expectations of securities analysts and investors, which could cause the price of our stock to decline. Factors that may affect our operating results include:

- the type, timing, and size of orders and shipments;
- delays in the implementation, including obtaining certifications, delivery and customer acceptance of our products and services, which may impact the timing of our recognition of net revenues, as well as the amount of our net revenues;
- delays in customer purchases in anticipation of product or service enhancements or due to uncertainty in economic conditions;
- demand for and acceptance of our new product and services offerings;
- changes in competitive conditions, including from traditional payment solution providers and from alternative payment solution providers;
- the rate at which we transition customers to our services model;
- decisions by our distributors and other customers relating to the overall channel inventories of our products held in a particular quarter;
- changes in market conditions, such as fluctuations in currency exchange rates;
- variations in product mix and cost during any period;
- development of new customer relationships or new types of customers, penetration of new markets and maintenance and enhancement of existing relationships with customers and strategic partners, as well as the mix of customers in a particular quarter;
- component supply, manufacturing, or distribution difficulties;
- timing of commencement, execution, or completion of major product or service implementation projects;
- timing of governmental, statutory and industry association requirements, such as PCI compliance deadlines or EMV adoption in the U.S. or elsewhere;
- the relative geographic mix of net revenues;
- the fixed nature of many of our expenses;
- changes in credit card interchange and assessment fees, which are set by the credit card networks and are a component of the cost of providing some of our newer product offerings, including the Payment-as-a-Service solution and in-taxi payments solutions;
- industry, market and economic conditions, including competitive pressures and related impacts, such as inventory obsolescence; and
- the introduction of new or stricter laws and regulations in jurisdictions where we operate, such as data protection or data privacy laws and regulations covering hazardous substances, that may cause us to incur additional compliance or implementation costs and/or costs to alter our business operations.

In addition, we have experienced in the past and may continue to experience periodic variations in sales in our key vertical and geographical markets. In particular, differences in relative growth rates among our businesses in the U.S. and other regions may cause significant fluctuation in our quarterly operating results, especially our quarterly gross profit margins, because net revenues generated from international markets tend to carry lower margins. These periodic variations occur throughout the year and may lead to fluctuations in our quarterly operating results depending on the impact of any given market during that quarter and could lead to volatility in our stock price.



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If we fail to address the challenges and risks associated with international operations, including those through expansion and acquisitions, we may encounter difficulties implementing our strategy, which could impede our growth or harm our operating results.

We are subject to risks and costs associated with operating in foreign countries which could negatively impact our results of operations or cash flows. In addition, if we are not able to effectively manage these risks, our strategy of international expansion will be negatively impacted.

Our international operations expose us to a number of risks, including:

- multiple, changing, and often inconsistent enforcement of laws and regulations;
- local regulatory or industry imposed requirements, including security or other certification requirements;
- competition from existing market participants, including strong global or local competitors that may have a longer history in and greater familiarity with the international markets we enter;
- tariffs and trade barriers;
- higher costs and complexities of compliance with international and U.S. laws and regulations such as import and trade regulations and embargoes, trade sanctions, export requirements and local tax laws;
- laws and business practices that may favor local competitors;
- restrictions on the repatriation of funds, including remittance of dividends by foreign subsidiaries, foreign currency exchange restrictions, and currency exchange rate fluctuations;
- less favorable payment terms and increased difficulty in collecting accounts receivable and developing payment histories that support collectability of accounts receivable and revenue recognition;
- different and/or more stringent labor laws and practices, such as the mandated use of workers' councils and labor unions, or laws that provide for broader definitions of employer/employee relationships;
- different and/or more stringent data protection, privacy and other laws;
- changes or instability in a specific country's or region's political or economic conditions; and
- greater difficulty in safeguarding intellectual property in areas such as China, India, Russia, and Latin America.

Many of these factors typically become more prevalent during periods of economic stress, such as the ongoing weakness in the economies of the euro zone countries and volatility in global financial markets that have caused declines in the value of the euro and other currencies impacted by the European sovereign debt crisis, or disruptive events such as natural or man-made disasters and military or terrorist actions. The persistence or occurrence of weakened global economic conditions in one or more regions where we do business may exacerbate certain of these risks. Additionally, these risks and costs associated with operating in foreign countries are heightened with respect to our international expansion into emerging or developing markets, which, for example, tend to experience more economic and political instability or have less developed or sophisticated distribution channels.

We are subject to foreign currency risk including that from economic and political instability which can lead to significant and unpredictable volatility in currency rates, including significant currency devaluations, which may negatively impact our net revenues, gross margins, results of operations and financial position. Although we engage in some hedging of our foreign currency exposures, we do not hedge all such exposures and our hedging arrangements may not always be effective. See Part II Item 7A, Quantitative and Qualitative Disclosures About Market Risk - Foreign Currency Risk of this Annual Report on Form 10-K.

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In addition, compliance with foreign and U.S. laws and regulations, including changes and additions to such laws and regulations, that are applicable to our international operations is complex and may increase our cost of doing business in international jurisdictions and our international operations could expose us to fines and penalties if we fail to comply with these regulations. These laws and regulations include import and export requirements, trade restrictions and embargoes, exchange control regulations, data privacy requirements, labor laws, tax laws, anti-competition regulations, U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting corrupt payments to governmental officials and other improper payments or inducements, such as the U.K. Bribery Act. Although we have implemented policies, procedures and training designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors, distributors, suppliers and agents will not take actions in violation of our policies, particularly as we expand our operations through organic growth and acquisitions, including acquisitions of businesses that were not previously subject to and may not have familiarity with U.S. and other laws and regulations applicable to us or compliance policies similar to ours. For example, as described under the caption "Disclosures of Iranian Activities under Section 13(r) of the Securities Exchange Act of 1934" in Part I Item 1, Business of this Annual Report on Form 10-K, in early 2013, we submitted a voluntary disclosure to the U.S. Department of Treasury's Office of Foreign Assets Control ("OFAC") in connection with certain unauthorized activities by employees of one of our non-U.S. subsidiaries that involved potential violations of sanctions regulations. Any violations of sanctions or export control regulations or other laws could subject us to civil or criminal penalties, including the imposition of substantial fines and interest or prohibitions on our ability to offer our products and services to one or more countries, and could also materially damage our reputation, our brand, our international expansion efforts, our business, and negatively impact our operating results.

If we do not continually enhance our existing solutions and develop and market new solutions and enhancements responsive to technological advancements and customer or end user demand in a timely manner or at all, our net revenues and income will be adversely affected.

The market for electronic payment systems is characterized by:

- rapid technological advancements;
- frequent product introductions and enhancements;
- local certification requirements and product customizations;
- evolving industry and government performance and security standards and regulatory requirements;
- introductions of competitive products, including products that customers may decide have better functions and features, and alternative payment solutions, such as mobile payments and processing, at the POS; and
- changes in customer and end user preferences or requirements.

Because of these factors, we must continually enhance our existing solutions and develop and market new solutions, and we must anticipate and respond timely to these industry, customer and regulatory changes in order to remain competitive. If we cannot develop new products or enhancements to our existing products, or if our new products or product enhancements do not meet local certification requirements or experience delays in the certification process, we will not be able to timely and adequately respond to competitive challenges and technological advancements, and our net revenues and results of operations will be adversely affected. These efforts require management attention and significant investment in research and development as well as increased costs of manufacturing and distributing our system solutions, and we may not necessarily be able to increase or maintain prices to account for these costs, which will negatively impact our profitability, cash flows and results of operations. Our business has been in the past and continues to be adversely affected by our failure to timely obtain local certifications in some markets for certain of our products.

We cannot be sure that we will successfully complete the development and introduction of new solutions or enhancements or that our new solutions will be accepted in the marketplace. We may also fail to develop and deploy

new solutions and enhancements on a timely basis. In either case, we may lose market share to existing or new competitors and competing technologies, our solutions could become obsolete and our net revenues, income and profitability will suffer.

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We continue to experience significant and increasing levels of competition from existing and new competitors and a variety of technologies.

The markets for our system solutions and services are highly competitive and rapidly evolving, and we have been and expect to continue to be subject to significant and increasing competition from existing and new competitors and a variety of technologies. Traditionally, we have competed with other large manufacturers and distributors of electronic POS payment solutions, suppliers of cash registers that provide built-in electronic payment capabilities and producers of software that facilitates electronic payment over the Internet. In certain areas, we also compete with smaller companies that have been able to develop strong local or regional customer bases. In certain foreign countries, we compete with companies that are more established, benefit from greater name recognition and have greater resources within those countries than we do. In addition, we face significant downward pressures on prices in Brazil, China, India and other regions where price competition is increasingly intense in the POS hardware market, in particular from some local competitors. Any decrease in our selling prices in order to remain competitive in these markets could negatively impact our net revenues, gross margins and results of operations.

New competitors are entering the payments market rapidly with alternative payment solutions at the POS, such as mobile device-based card payment and processing solutions, including providers of “digital wallets” such as Merchant Customer Exchange, or MCX, initiative supported by Walmart, Target and other major U.S. retailers and Google Wallet, which offer customers the ability to pay on mobile devices through a variety of payment methods, and providers of card readers for mobile devices and of other new POS technologies such as PayPal and Square. Some of these alternative solutions enable payment and processing at the POS without use of traditional payment terminals, such as those we manufacture and sell. In addition, some of these alternative solutions are offered by companies that are significantly larger than we are.

Although a number of industry participants have announced new technologies, initiatives, and/or products that we anticipate our products and services will partner with and benefit from, there can be no guarantee that any of these will be successful. Should any or all of these initiatives fail, it could have a negative impact on our results of operations and cash flows, including due to a loss in the investment that we have made in pursuing these new developments. Furthermore, even if the market does embrace these new technologies, initiatives and products, there is no guarantee that any of these will benefit our business or that our products and services will continue to participate in those technologies, initiatives and products.

As discussed in “If we are unsuccessful in executing on our implementation of the Payment-as-a-Service model and obtaining customer acceptance of our service offerings, our net revenues, income and profitability will be adversely impacted”, the competitive environment for services offerings is complex and very different in each market and, in some markets, our competitors include certain of our customers that distribute our terminals. Some of our competitors may offer more services, have better name recognition in that market or have a longer or more established relationship with customers in that market than we do.

We expect to continue to experience significant and increasing competition. Our net revenues, income and profitability will be negatively impacted if we do not effectively compete with existing competitors and new market entrants. If we cannot develop and offer, in a timely manner, technological features our customers desire or offer alternative solutions that align with shifts to payment on devices other than the traditional POS terminal, we may lose customers and market share, experience price reductions and/or reduced margins, or, in some cases, cease to participate in the market at all.

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We have experienced rapid and significant growth in our operations in recent years, and if we cannot manage our expanded operations and also effectively execute on our business strategy, our results of operations will suffer. We have experienced rapid and significant growth in our operations in recent years, both organically and from acquisitions. If we cannot manage our expanded operations to align with our business strategy, which includes maintaining streamlined and efficient operations while effectively meeting the needs of our broader customer base, managing a competitive portfolio of products, and growing our payment services globally in a cost-effective manner, our results of operations will suffer. In particular, we may not be able to attain desired cost-efficiencies and remain competitive, and any measures we may need to undertake to further align our operations with our business strategy may be costly and could adversely impact our results of operations. If we are unable to successfully execute on our business strategy, our results of operations may also be adversely affected. Furthermore, we cannot be sure that we have made adequate allowances for the costs and risks associated with supporting our expanded operations. Any delay in implementing, or transitioning to, new or enhanced systems, procedures, processes or controls to adequately support our expanded operations, including our expansion into a number of additional international markets, including emerging markets, and our growth in payment services globally may adversely affect our ability to meet customer requirements, manage our product inventory, and record and report financial and management information on a timely and accurate basis.

If we are unsuccessful in executing on our implementation of the Payment-as-a-Service model and obtaining customer acceptance of our service offerings, our net revenues, income and profitability will be adversely affected.

A central part of our strategic plan is to increase services offerings so that we can derive higher overall net revenues and margins, develop deeper relationships with our customers and drive more predictable financial results. With our December 2011 acquisition of Point, we are introducing Point's Payment-as-a-Service model in multiple jurisdictions. Implementing a new services model is difficult and involves management focus, upfront local infrastructure and capital costs and other resources that could otherwise be utilized in research and development of other hardware and software product offerings, and the build-out of local service and support teams. In addition, the competitive environment for services is very different in each market, and the bundle of services being offered must be customized to compete effectively. The markets where we seek to implement the Payment-as-a-Service model may take longer to adopt a payment-as-a-service model than we anticipate or may choose not to adopt this model. We may also be competing against others, including certain of our customers that distribute our terminals, who already offer similar services. Continued weakness in the global economy may also negatively impact our ability to implement our Payment-as-a-Service model within the time frames we desire and to achieve the benefits we anticipate. If we are unsuccessful in executing on our implementation of the Payment-as-a-Service model and obtaining customer acceptance of our service offerings or are unable to implement the model while also maintaining focus on other key areas of our business, our net revenues, income and profitability will be adversely affected.

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Timing for orders for our products and services can be back-end weighted within the fiscal quarter, which can make our net revenues difficult to predict and can negatively impact our business and results of operations.

The timing of our customer orders and related net revenues are often back-end weighted, meaning that during a particular fiscal quarter, a substantial portion of sales orders may be received, substantial product may be shipped, and substantial revenue may be recognized towards the end of the fiscal quarter. Timing of customer orders and related net revenues often become more back-end weighted during economic downturns or periods of uncertainty, as well as in markets where there is uncertainty related to acceptance and/or implementation of our products, such as that related to changes or potential changes in regulations or other local requirements that impact deployment of our products. These effects can also be exacerbated in markets where we depend on a limited number of customers, and where one or a few customers' decisions can have a significant impact on our results of operations in the fiscal quarter. Such back-end loading can also adversely affect our business and results of operations due to a number of additional factors including the following:

the manufacturing processes at our third-party contract manufacturers could become concentrated in a shorter time period. This concentration of manufacturing could increase manufacturing costs, such as costs associated with the expediting of orders, and negatively impact our gross margins. The risk of higher levels of obsolete or excess inventory write-offs would also increase if we were to hold higher inventory levels to counteract this effect; the higher concentration of orders may make it difficult to accurately forecast component requirements and, as a result, we could experience a shortage of the components needed for production, possibly delaying shipments and causing lost orders;

if we are unable to fill orders at the end of a quarter, shipments may be delayed. This could cause us to fail to meet our revenue and operating profit expectations for a particular quarter and could increase the fluctuation of quarterly results if shipments are delayed from one fiscal quarter to the next or orders are canceled by customers; and

- in order to fulfill orders at the end of a quarter, we may be forced to deliver our products using air freight which would result in increased distribution costs.

These factors can cause our net revenues to fluctuate and be difficult to predict in any given fiscal quarter. Any failure to meet our or analysts' revenue or operating profit expectations for a particular quarter could cause the market price of our stock to decline.

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A majority of our net revenues are generated outside of the U.S. and we intend to continue to expand our operations internationally. Our results of operations could suffer if we are unable to manage our international expansion effectively.

During the fiscal years ended October 31, 2013, 2012 and 2011, approximately 72%, 73% and 65%, respectively, of our net revenues were generated outside of the U.S. The percentage of net revenues generated outside of the U.S. has increased over recent years and may continue to increase over time. In particular, our acquisition of Point has increased our business in the Nordic regions and elsewhere in Northern Europe and our acquisition of Hypercom has increased our business significantly in the EMEA region and Asia. Part of our strategy is to expand our penetration in existing foreign markets and to enter new foreign markets, particularly emerging markets where we expect to see growth in electronic payments and related services. Our ability to penetrate some international markets may be limited due to different technical standards, protocols or product requirements. Expansion of our international operations will require significant management attention and financial resources. Certain emerging markets, such as those in the Middle East and Africa, may require longer lead times to develop distribution channels, may involve distribution channels with greater business and operational risk due to their relatively shorter operating histories, may be dependent upon the timing and success of local electronic payments initiatives and related infrastructure investments in such markets, as well as require additional time and effort to obtain product certifications and gain market acceptance for our products. Our international net revenues will depend on our success in a number of areas, including:

- securing commercial relationships to help establish or increase our presence in new and existing international markets;
- hiring and training personnel capable of marketing, installing and integrating our solutions, supporting customers, and effectively managing operations in foreign countries;
- adapting our solutions to meet local requirements and regulations, and to target the specific needs and preferences of foreign customers, which may differ from our traditional customer base in the markets we currently serve;
- building our brand name and awareness of our services in new and existing international markets;
- enhancing our business infrastructure to enable us to efficiently manage the higher costs of operating across a larger span of geographic regions and international jurisdictions; and
- implementing effective systems, procedures, and controls to monitor and manage our operations across our international markets.

As discussed more extensively under “If we fail to address the challenges and risks associated with international operations, including those through expansion and acquisitions, we may encounter difficulties implementing our strategy, which could impede our growth or harm our operating results”, if we cannot effectively manage our international expansion, our results of operations could suffer.

We are exposed to credit risk with some of our customers and to credit exposures and currency controls in certain markets, which could result in material losses.

A significant portion of our net revenues are on an open credit basis, with typical payment terms of up to 60 days in the U.S. and, because of local customs or conditions, longer in some international markets. In the past, there have been bankruptcies among our customer base. Credit risks may be higher and/or collections may be more difficult to enforce in emerging markets where we conduct business, including for example where the market for our products and solutions is still developing and their acceptance uncertain, and future losses, if incurred, could harm our business and have a material adverse effect on our operating results and financial condition. Also, certain customers that are invoiced in U.S. dollars, such as those based in Venezuela, have experienced, and may continue to experience, difficulties in obtaining U.S. dollars due to local currency controls, and therefore may not be able to remit timely payment to us. Additionally, to the extent that the ongoing uncertainty in the global economy continues to make it

more difficult for some customers to obtain financing or access U.S. dollar currency, our customers' ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business, cash flows, operating results and financial condition.



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If we do not accurately forecast customer demand and effectively manage our product mix and inventory levels, we may lose sales from having too few or the wrong mix of products or incur costs associated with excess inventory.

If we inaccurately forecast demand for our products, we could end up with too many products and be unable to sell the excess inventory in a timely manner, if at all, or, alternatively we could end up with too few products and not be able to satisfy demand. This problem is exacerbated because we generally receive a significant volume of customer orders towards the end of each fiscal quarter which leaves us little room to adjust inventory mix to match demand. During the transition from an existing product to a new replacement product, we must accurately predict the demand for the existing and the new product. Furthermore, introducing new products into our current markets or existing products into new markets involves the uncertainty of whether the market will adopt our product in the volumes and time frames that we anticipate or at all. Our inability to properly manage our inventory levels could cause us to incur increased expenses associated with writing off excessive or obsolete inventory, lose sales or have to ship products by air freight to meet immediate demand, incurring incremental freight costs above sea freight costs, a preferred method, and suffering a corresponding decline in gross margins. If we do not accurately predict demand, we could also incur increased expenses associated with binding commitments to certain third-party contract manufacturers and suppliers which would negatively impact our gross margins and operating results. For example, as of October 31, 2013, the amount of purchase commitments issued to contract manufacturers and component suppliers totaled approximately \$93.8 million. Of this amount, \$16.5 million has been recorded in Accruals and other current liabilities in our Consolidated Balance Sheets because these commitments are not expected to have future value to us. For additional information regarding our commitments to third-party manufacturers and suppliers, see Note 10. Commitments and Contingencies, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K. During times of economic uncertainty, such as the global economic recession that continues to impact certain parts of Europe, it becomes more difficult to accurately forecast demand and manage our inventory levels. Deteriorating market conditions have in the past and can in future periods cause us to incur additional costs associated with excess and obsolete inventory, scrap, and excess inventory held by our contract manufacturers.

We may accumulate excess or obsolete inventory that could result in unanticipated price reductions and write-downs and adversely affect our financial condition.

In formulating our solutions, we have focused our efforts on providing our customers with solutions that have high levels of functionality, which requires us to develop and incorporate new and evolving technologies. This approach tends to increase the risk of obsolescence for products and components we hold in inventory and may compound the difficulties posed by other factors that affect our inventory levels, including the following:

- maintaining significant inventory of components that are in limited supply;
- buying components in bulk for better pricing;
  - entering into purchase commitments based on early estimates of quantities for longer lead time components;
- responding to the unpredictable demand for products;
- cancellation of customer orders;
- responding to customer requests for quick delivery schedules; and
- timing of end-of-life decisions regarding products

As an example, as a result of the expiration of PCI 1.3 standards in April 2014, we will no longer be able to sell our products that are only compliant with PCI 1.3 or earlier standards except under limited circumstances, primarily as one-for-one in-kind replacements of devices for repair and replacement.

The accumulation of excess or obsolete inventory has in the past resulted in and may in future periods result in price reductions and inventory write-downs and scrap, which could, sometimes materially, adversely affect our business,

results of operations and financial condition. For example, for the fiscal year ended October 31, 2013, we incurred costs for obsolete inventory, scrap, and purchase commitments for excess components at contract manufacturers of \$26.5 million, an increase of \$13.7 million compared to the fiscal year ended October 31, 2012, due to lower-than-anticipated system solutions sales volumes and potential obsolescence because the PCI 1.3 standards will be expiring in April 2014.

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From time to time, we engage in acquisitions, divestitures, and other strategic transactions that involve numerous enterprise risks and could disrupt our ongoing business and harm our results of operations. We may not be able to address these risks without substantial expense, delay or other operational or financial problems, and may not realize the expected benefits of our acquisitions.

In pursuing our business strategy, we, from time to time, conduct discussions, evaluate opportunities, and complete acquisitions or strategic investments in related businesses, technologies, or products.

The integration of our acquisitions, particularly those that are international in scope, is complex, time-consuming and expensive, and has disrupted, and may continue to disrupt, our business or divert the attention of our management. Achieving the expected benefits of our acquisitions depends in large part on our successful integration of the acquired businesses' operations and personnel with our own in a timely and efficient manner. We cannot ensure that all of our integration efforts will be completed as quickly as expected or that our past or future acquisitions will achieve the expected benefits. These challenges and risks, which are heightened due to the number, size and varying scope of our recently completed acquisitions, include, but are not limited to:

- the need to integrate the operations, business systems, and personnel of the acquired business, technology or product, including coordinating the efforts of the sales operations, in a cost-effective manner;
- the challenge of managing acquired lines of business, particularly those lines of business with which we have limited operational experience;
- the need to integrate or migrate the information technology infrastructures of acquired operations into our information technology systems and resources in an effective and timely manner;
- the need to migrate our acquired businesses to our common enterprise resource planning information system and integrating all operations, sales, accounting, and administrative activities for the combined company, all in a cost-effective and timely manner;
- the need to coordinate research and development and support activities across our existing and newly acquired products and services in a cost-effective manner;
- the challenges of incorporating acquired technologies, products and service offerings into our next generation of products and solutions in an effective and timely manner;
- the potential disruption of our ongoing business, including the diversion of management attention to issues related to integration and administration;
- entering markets in which we have limited prior experience;
- in the case of international acquisitions, the need to integrate operations across different jurisdictions, cultures and languages and to address the particular economic, foreign currency, political, legal, compliance and regulatory risks, including with respect to countries where we previously had limited operations;
- the possible inability to realize the desired financial and strategic benefits from any or all of our acquisitions or investments in the time frame expected, or at all;
- the loss of all or part of our investment;
- the loss of customers and partners of acquired businesses;
- the need to integrate each company's accounting, legal, management, information, human resource and other administrative systems to enable effective management, and the lack of control if such integration is delayed or unsuccessful;
- the need to implement controls, procedures and policies appropriate for a larger public company at companies that prior to acquisition had lacked such controls, procedures and policies;
- the risk that increasing complexity inherent in operating a larger global business and managing a broader range of solutions and service offerings may impact the effectiveness of our internal controls and adversely affect our financial reporting processes;
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the failure or impracticality to identify or assess the magnitude of certain liabilities, shortcomings or other circumstances prior to acquiring a company, which could result in unexpected litigation, unanticipated liabilities, additional costs, unfavorable accounting treatment or other adverse effects; and  
the dependency on the retention and performance of key management and employees of acquired businesses for the day-to-day management and future operating results of these businesses.

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Our operating results or financial condition may be adversely impacted by pre-existing claims or liabilities, both known and unknown, of these acquired companies, including claims from current or former customers, terminated employees or other third parties; pre-existing contractual relationships of an acquired company that may contain unfavorable terms or that have unfavorable revenue recognition or accounting treatment; and intellectual property claims or disputes. In addition, the integration process may strain the combined company's financial and managerial controls and reporting systems and procedures and may result in the diversion of management and financial resources from the combined company's core business objectives. There can be no assurance that we will successfully integrate our businesses or that we will realize the anticipated benefits of the acquisitions after we complete our integration efforts.

These risks are heightened and more prevalent in acquisitions of larger businesses or in businesses involving geographies or business lines in which we may have less experience. Future acquisitions and investments could also result in substantial cash expenditures, potentially dilutive issuances of our equity securities and incurrence of additional debt, contingent liabilities and amortization expenses related to other intangible assets that could adversely affect our business, operating results, and financial condition.

We are party to a number of lawsuits and tax assessments and we may be named in additional litigation and assessments, all of which are likely to require significant management time and attention and expenses and may result in unfavorable outcomes that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We are currently a party in several litigation proceedings. If any of these proceedings are resolved adversely to us, this could have a material adverse effect on our business, financial condition, results of operations or cash flows. For example, in connection with the restatement of our historical interim financial statements during fiscal year 2007, a number of securities class action complaints were filed against us and certain of our officers, and purported derivative actions were also filed against certain of our current and former directors and officers. As described in Part I Item 3. Legal Proceedings of this Annual Report on Form 10-K, the U.S. District Court for the Northern District of California issued an order on October 15, 2013 and a revised order on October 16, 2013, preliminarily approving the settlement agreement we reached with the plaintiffs in the pending securities class action case, captioned *In re VeriFone Holdings, Inc. Securities Litigation*, pursuant to which we would pay \$95.0 million, subject to certain adjustments if VeriFone is acquired within six months from the court's preliminary approval of the settlement, to the plaintiffs to settle the action. We and our insurance carriers have deposited a total of \$95.0 million into an escrow account for the settlement. We expect that, subject to the final court approval and the maximum opt-out condition being met, the funds in the escrow account will be released during our second fiscal quarter ending April 30, 2014. We have recorded a total expense of \$61.2 million for this securities class action, which represents the amount of the settlement (not including the contingent payment in case of a change of control) that we do not expect to be covered by insurance.

We are also subject to a number of pending tax assessment matters, particularly in Brazil where such assessments can be difficult to defend and result in substantial losses. Further, our operating results or financial condition may also be adversely impacted by claims or liabilities that we assume from an acquired company or that are otherwise related to an acquisition. For example, in connection with our acquisition of Hypercom, we have, except for certain matters related to the businesses divested by Hypercom, generally assumed all of Hypercom's litigation proceedings and tax assessments, and may also be liable for certain matters arising after closing of the Hypercom divestitures but related to pre-closing operations.

We also are subject to the risk of additional litigation and regulatory proceedings or actions in connection with the restatement of our financial statements. We have responded to inquiries and provided information and documents related to the restatement to the SEC, the U.S. Department of Justice, the New York Stock Exchange, and the Chicago Board Options Exchange. We were the subject of a Wells Notice from the SEC stating that the staff of the SEC's

Division of Enforcement intends to recommend that the SEC bring a civil injunctive action against us, alleging violations of the federal securities laws arising from the restatement, which we settled in November 2009. Although we have settled this matter with the SEC, additional regulatory inquiries may also be commenced by other U.S. federal, state or foreign regulatory agencies. In addition, we may in the future be subject to additional litigation or other proceedings or actions arising in relation to the restatement of our historical interim financial statements.

Furthermore, we are involved, and in the future may be involved, in various litigation and regulatory matters, such as contract disputes and labor claims, that arise in the ordinary course of business.

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Our insurance policies may not cover certain claims that are filed against us or may not be sufficient to cover all of our costs for defending such actions or paying any damages in the event of an unfavorable outcome. In addition, we may be obligated to indemnify (and advance legal expenses to) both current and former officers, employees and directors in connection with the securities class action and derivative action matters. Although we currently hold insurance policies for the benefit of our directors and officers, such insurance coverage may not be sufficient in some or all of these matters. Furthermore, our insurance carriers may seek to deny coverage in some or all of these matters, in which case we may have to fund the indemnification amounts owed to such directors and officers ourselves. Because we have a number of pending litigation matters, these amounts may be material.

The amount of time and resources required to resolve these lawsuits is unpredictable, and defending ourselves is likely to divert management's attention from the day-to-day operations of our business, which could adversely affect our business, financial condition, and results of operations. We have in the past incurred and expect to continue to incur significant expenses in connection with these matters. Many members of our senior management team and our Board of Directors have been and may be required to devote additional time to our pending litigation matters. Certain of these individuals are named defendants in the litigation related to the restatement actions. If our senior management is unable to devote sufficient time in the future to developing and pursuing our strategic business initiatives and running ongoing business operations, there may be a material adverse effect on our business, financial condition and results of operations.

The outcome of litigation and tax assessments is inherently difficult to predict. If any such litigation or tax assessment is resolved adversely to us (whether as a result of a court judgment or a decision by us to settle litigation to avoid the distraction, expense and inherent risks of continued litigation), this could have a material adverse effect on our business, financial condition, results of operations and cash flows. Furthermore, even when we are able to reasonably estimate the probable loss and thus record an accrual for such probable and reasonably estimable loss contingency, the accrual may change due to new developments or changes in our estimates. For a description of our material pending litigation, see Part I Item 3. Legal Proceedings of this Annual Report on Form 10-K.

Our business may suffer if we are sued for infringing the intellectual property rights of third parties, or if we are unable to obtain rights to third-party intellectual property on which we depend.

Third parties have in the past asserted and may in the future assert claims that our products and services infringe their proprietary rights. Such infringement claims, even if meritless, may cause us to incur significant costs in defending against or settling those claims. We may be required to discontinue using and selling any infringing technology and services, to expend resources to develop non-infringing technology or to purchase licenses or pay royalties for other technology. Similarly, we depend on our ability to license intellectual property from third parties. The third parties from whom we license technology may become unwilling to license to us on acceptable terms intellectual property that is necessary to our business. In addition, we may be unable to acquire licenses for other technology necessary for our business on reasonable commercial terms or at all. As a result, we may be unable to continue to offer the solutions and services upon which our business depends.

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We have received, and have currently pending, third-party infringement claims and may receive additional notices of claims of infringement in the future. As we expand into other payment technologies and as competition in this area increases, it is possible that the rate at which third parties bring claims will increase. Infringement claims may cause us to incur significant costs in defending against those claims or to settle claims to avoid costly or protracted litigation even if we believe those claims are without merit. For example, in March 2008, Cardsoft, Inc. and Cardsoft (Assignment for the Benefit of Creditors), LLC commenced an infringement action against us and others. On June 8, 2012, following a jury trial in the Eastern District of Texas, Marshall Division, the jury issued a verdict against us and awarded Cardsoft infringement damages and royalties. On October 30, 2013, the court issued judgment upholding the jury's infringement verdict and the award of damages of approximately \$15.4 million. The court also granted Cardsoft pre-judgment interest, post-judgment interest and certain costs, the exact amounts of which are yet to be determined. In addition, the court ruled that there should be an ongoing royalty, but has not yet set a rate for such royalty. See Note 10. Commitments and Contingencies, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K. Infringement claims are expensive and time consuming to defend against, regardless of the merits or ultimate outcome. Although we believe Cardsoft's claims are without merit, we have had to expend substantial time and funds to defend these claims, and we expect to continue to incur costs to defend this litigation. Similar claims may result in additional protracted and costly litigation. There can be no assurance that we will prevail in any such actions or that any license required under any such patent or other intellectual property would be made available on commercially acceptable terms, if at all. An unfavorable outcome in any such litigation, including our planned appeal of the district court's judgment in the Cardsoft litigation, could result in a significant judgment of damages against us, which could materially and adversely impact our financial results, financial condition and cash flows. See Note 10, Commitments and Contingencies, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

Fluctuations in currency exchange rates may adversely affect our results of operations.

A substantial portion of our business consists of sales made to customers outside the U.S. A portion of the net revenues we receive from such sales is denominated in currencies other than the U.S. dollar, primarily the British Pound, the Euro, the Swedish Krona and the Brazilian Reais, and the amount of net revenues in foreign currencies has increased with our acquisitions of Point and Hypercom. Additionally, portions of our cost of net revenues and our other operating expenses are incurred by our international operations and denominated in local currencies, primarily the Euro, Brazilian Reais, British Pound, and Swedish Krona. In particular, our net revenues, cost of net revenues and operating expense denominated in the Euro and the Swedish Krona, which are impacted by the ongoing European sovereign debt crisis, have increased with the Point and Hypercom acquisitions. Fluctuations in the value of these net revenues, costs and expenses as measured in U.S. dollars have historically affected our results of operations, and adverse currency exchange rate fluctuations may have a material impact in the future. Further, changes in exchange rates that strengthen the U.S. dollar could increase the price of our products in the local currencies of the foreign markets we serve. Declines in foreign currencies relative to the U.S. dollar would result in making our products relatively more expensive than products that are denominated in local currencies, which could lead to a reduction in sales and profitability in those foreign markets. In addition, our balance sheet contains monetary assets and liabilities denominated in currencies other than the U.S. dollar, such as cash, intercompany balances, trade receivables and payables, and fluctuations in the exchange rates for these currencies could adversely affect our results of operations.

We have, to some extent, entered into foreign exchange forward contracts intended to hedge our balance sheet exposure to adverse fluctuations in exchange rates. We have also effectively priced our system solutions products in U.S. dollars in certain countries. Nevertheless, these hedging arrangements can be costly and may not always be effective, particularly in the event of imprecise forecasts of non-U.S. denominated assets and liabilities. Additionally, our efforts to effectively price products in U.S. dollars may have disadvantages as they may affect demand for our products if the local currency strengthens relative to the U.S. dollar. We could be adversely affected when the U.S. dollar strengthens relative to the local currency between the time of a sale and the time we receive payment, which



would be collected in the devalued local currency. Accordingly, if there is an adverse movement in one or more exchange rates, we might suffer significant losses and our results of operations may otherwise be adversely affected. Uncertainty in the global market conditions have resulted in and may continue to cause significant volatility in foreign currency exchange rates which could increase these risks. As our international operations expand, our exposure to these risks also increases.

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Additionally, hedging programs expose us to risks that could adversely affect our operating results, including the following:

- we may be unable to hedge currency risk for some transactions because of a high level of uncertainty or the inability to reasonably estimate our foreign exchange exposures; and
- we may be unable to acquire foreign exchange hedging instruments in some of the geographic areas where we do business, or, even where these derivatives are available, we may choose not to hedge because of their high cost.

Our international operations tend to carry lower average selling prices, may be subject to greater downward pressure on prices in some markets and may be associated with higher costs, which may promote volatility in our earnings and may adversely impact future growth in our earnings.

Our international sales of system solutions tend to carry lower average selling prices and therefore have lower gross margins than our sales in the U.S. We also face continued downward pressure on prices in certain international markets such as China and Brazil where competition has intensified and in India where we continue to work to expand our business. In addition, the costs associated with international trade may be higher as a result of the importation costs, duties and trade requirements or other import or export control laws and regulations imposed by some jurisdictions where we do business. As a result, any improvement in our results of operations from our expansion internationally will likely not be as favorable or profitable as an expansion of similar magnitude in the U.S. In addition, we are unable to predict for any future period our proportion of net revenues that will result from international sales versus sales in the U.S. Variations in this proportion from period to period may lead to volatility in our results of operations which, in turn, may depress the trading price of our stock.

We depend on a limited number of customers, including distributors and resellers, for a large percentage of our net revenues. If we do not effectively manage our relationships with them, our net revenues and operating results could suffer.

A significant percentage of our net revenues is attributable to a limited number of customers, including distributors and ISOs. For example, our ten largest customers accounted for approximately 22% of our total net revenues and three customers together accounted for 11.5% of our total net revenues for fiscal year 2013. No single customer accounted for more than 10% of our total net revenues in fiscal year 2013, but one customer accounted for 11% of net revenues in our EMEA reportable segment in fiscal year 2013. Our net revenues are dependent in part on the timing of purchases by our large customers. If any of our large customers significantly reduces or delays purchases from us or if we are required to sell products to them at reduced prices or on other terms less favorable to us, our net revenues, profitability, cash flows and net income could be materially and adversely affected. In addition, if we are not able to adequately and timely respond to demands for new or additional products or features from any of our large customers, that customer may decide to reduce its order or not to purchase from us at all, which could have a material adverse effect on our business and results of operations.

We depend on distributors and resellers to sell a significant portion of our solutions. If we do not effectively manage our relationships with them, our net revenues and results of operating results could suffer.

We sell a significant portion of our solutions through third-party resellers such as independent distributors, ISOs, value-added resellers, and payment processors. We depend on their active marketing and sales efforts. These resellers also provide after-sales support and related services to end user customers, and generally have valuable knowledge and experience with the customer base in the territories they serve. When we introduce new applications and solutions, these resellers also provide critical support for developing and supporting the custom software applications to run on our various electronic payment systems and, internationally, in obtaining requisite certifications in the markets in which they are active. Accordingly, the pace at which we are able to introduce new solutions in markets in which these resellers are active depends on the resources they dedicate to these tasks. Moreover, our arrangements

with these resellers typically do not prevent them from selling products of other companies, including our competitors, and such resellers may elect to market our competitors' products and services in preference to our system solutions. If one or more of our major resellers terminates or otherwise adversely changes its relationship with us, we may be unsuccessful in replacing such relationship. The loss of any of our major resellers could impair our ability to sell our solutions and result in lower net revenues and income. It could also be time-consuming and expensive to replicate, either directly or through other resellers, the certifications and the custom applications owned by these resellers.

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In addition, orders from our distributors and resellers depend on their sales volumes and inventory management decisions. We have experienced, and may in future periods experience, a significant decrease in our net revenues based on the timing of orders from our distributors, which generally varies based on distributor decisions on managing inventory levels, desired product mix and timing of new product introductions. Declines or deferrals of orders could materially and adversely affect our net revenues, operating results and cash flows.

We may be subject to additional impairment charges due to potential declines in the fair value of our assets.

As a result of our acquisitions, particularly that of Lipman in November 2006, Hypercom in August 2011 and Point in December 2011, we have recorded significant goodwill and intangible assets on our balance sheet. We test goodwill and intangible assets for impairment on a periodic basis as required, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The events or changes that could require us to test our goodwill and intangible assets for impairment include a reduction in our stock price and market capitalization and changes in our estimated future cash flows or changes in rates of growth in our industry or in any of our reporting units or lines of business. For example, in fiscal 2008 and 2009 we recorded significant goodwill impairment charges.

We will continue to evaluate the carrying value of our goodwill and intangible assets and if we determine in the future that there is potential further impairment in any of our reporting units, we may be required to record additional charges to earnings, which could materially and adversely affect our financial results and could also materially and adversely affect our business. The process of evaluating the potential impairment of goodwill and intangible assets is subjective and requires significant judgment at many points during the analysis and includes estimates of our future cash flows attributable to a reporting unit or long lived asset. Any changes in our estimates, such as our estimates of the future cash flows attributable to a reporting unit or long lived asset, or a longer or more significant decline in our market capitalization or the macroeconomic environment, could require us to record additional impairment charges.

We performed our annual review for potential indicators of impairment during the fourth fiscal quarter of fiscal year 2013, and concluded that there was no indicator of impairment at October 31, 2013. For example, our evaluation of potential impairment of goodwill could be negatively affected by a variety of factors, including declines in our stock price, failure to meet our internal forecasts, and weakening of macroeconomic conditions or significant changes in management's business strategies. Any requirement to record impairment charges could materially and adversely affect our financial results. See Note 8, Goodwill and Purchased Intangible Assets, in the Notes to Consolidated Financial Statements and Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Goodwill, of this Annual Report on Form 10-K for additional information related to impairment of goodwill and intangible assets.

The value of our deferred tax assets may not be realizable to the extent our future profits are less than we have projected and we may be required to record valuation allowances against previously-booked deferred tax assets, which may have a material adverse effect on our results of operations and our financial condition.

Our income tax expense includes deferred income taxes arising from temporary differences between the financial reporting and tax bases of assets and liabilities, capital loss carry-forwards and net operating losses. We evaluate the realizability of our deferred income tax assets and assess the need for a valuation allowance on an ongoing basis. In evaluating our deferred income tax assets, we consider whether it is more likely than not that the deferred income tax assets will be realized. The ultimate realization of our deferred income tax assets depends upon generating sufficient future taxable income during the periods in which our temporary differences become deductible and before our capital loss carry-forwards and net operating losses expire. Our assessment of the realizability of our deferred income tax assets requires significant judgment. If we fail to achieve our projections or if we need to lower our projections, we may not have sufficient evidence of our ability to realize our deferred tax assets, and we may need to increase our valuation allowance. Any increase in the valuation allowance would result in additional income tax expense which

could have a material adverse effect on our results of operations and financial condition. For example, for the fiscal year ended October 31, 2013 we recorded a \$245.0 million valuation allowance against a significant portion of our deferred tax assets, primarily in the U.S., because our three year cumulative U.S. pretax losses have raised uncertainty about the likelihood of realization of those deferred tax assets. For further information regarding this valuation allowance, see Note 5, Income Taxes, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

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Changes in our effective tax rate could adversely affect results of operations.

Our effective tax rate could be adversely affected by a number of factors, including shifts in the mix of pretax profits and losses by tax jurisdiction, loss or cessation of tax holidays or other tax benefit in one or more jurisdictions, our ability to use tax credits, changes in tax laws or related interpretations in the jurisdictions in which we operate, including jurisdictions where we conduct substantial portions of our business outside of the U.S. and which currently impose low or no taxes on our operations in those jurisdictions, and tax assessments and related interest and penalties resulting from income tax audits. We are subject to ongoing tax audits in various jurisdictions. Although we regularly assess the likely outcomes of such audits in order to determine the appropriateness of our tax provision, such assessments involve significant judgment and there can be no assurance that we will accurately predict the outcomes of these audits, and the actual outcomes of these audits could have a material impact on our net income or financial condition. We have not provided for U.S. federal and state income taxes or foreign withholding taxes that may result from future remittances of undistributed earnings of our foreign subsidiaries. In the U.S., there have been proposals to reform U.S. tax rules that may result in a reduction or elimination of the deferral of U.S. income tax on our foreign earnings, in which case our effective tax rate could be adversely affected. Any of these changes could have an adverse effect on our results of operations.

In addition, the government tax benefits that our Israel and Singapore subsidiaries have previously received required those subsidiaries to meet several conditions that we no longer meet and, therefore, we are subject to the statutory tax rates in these jurisdictions.

Israel

Our subsidiary in Israel (formerly Lipman) previously received tax benefits under Israeli law for capital investments that are designated as “Approved Enterprises.” This Israel subsidiary had earnings of approximately 404.7 Israeli new shekel (approximately \$115.1 million at the foreign exchange rate as of October 31, 2013) attributable to Lipman's historic Approved Enterprise programs and, therefore, were not subject to Israeli statutory corporate tax at the time they were generated. Distribution or use of these funds outside Israel could subject us to payment of corporate taxes in addition to applicable withholding tax. To the extent that these earnings are distributed to the U.S. in the future, our Israeli subsidiary could be required to pay corporate tax at the rate ordinarily applicable to such earnings, between 27% and 36%. We have provided accruals for taxes associated with potential distributions of such earnings.

Singapore

Our subsidiary in Singapore, which previously served as one of our principal operating subsidiaries, received tax benefits under the Singapore Pioneer Tax Holiday provision (the “Tax Holiday”), including tax benefits of approximately \$19.2 million, and \$13.6 million during the twelve months ended October 31, 2012, and 2011, respectively, which benefits expired on October 31, 2012. While we have continued to maintain personnel and certain operations in Singapore, we have decided not to further extend the Tax Holiday. Therefore, effective November 1, 2012, any net income we generated in Singapore has been taxed at the statutory rate of 17% instead of the agreed Pioneer Tax Holiday rate of zero. While we believe the cessation of this Tax Holiday does not require us to refund tax benefits received in the past, it is possible that the tax authorities may not agree with our positions.

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Our business and results of operations may be adversely affected if we do not comply with legal and regulatory requirements that apply to our products, including environmental laws and regulations that regulate substances contained in products.

We may be subject to various other legal and regulatory requirements related to the manufacture and sale of our products, such as a European Union directive that places restrictions on the use of hazardous substances (RoHS and RoHS2) in electronic equipment, a EU directive on WEEE, the EU's REACH, and the environmental regulations promulgated by China RoHS. RoHS and RoHS2 sets a framework for producers' obligations in relation to manufacturing (including the amounts of named hazardous substances contained in products sold) and WEEE sets a framework for treatment, labeling, recovery, and recycling of electronic products in the European Union which may require us to alter the manufacturing of the physical devices that include our solutions and/or require active steps to promote recycling of materials and components. REACH imposes chemicals regulation and controls including requirements for registration of chemicals on the EU market. In addition, similar legislation could be enacted in other jurisdictions, including in the U.S. where many states have already enacted state-level programs and requirements for recycling of certain electronic goods. In addition, climate change legislation in the U.S. is a significant topic of discussion and may generate federal or other regulatory responses in the near future. If we do not comply with environmental law and regulations, we may suffer a loss of revenue, be unable to sell in certain markets or countries, be subject to penalties and enforced fees, and/or suffer a competitive disadvantage. Customers may impose certain requirements or levels of compliance due to these regulations and programs that may increase our costs of doing business. Furthermore, the costs to comply with RoHS, RoHS2, WEEE, REACH and China RoHS, or with current and future environmental and worker health and safety laws may have a material adverse effect on our business, results of operations and financial condition.

In 2012, the SEC adopted rules pursuant to Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act requiring disclosure of the use of certain minerals that are mined from the Democratic Republic of Congo and adjoining countries beginning in May 2014. We have incurred and expect to continue to incur costs associated with complying with these disclosure requirements, including for conducting diligence procedures to determine the sources of conflict minerals that may be used or necessary to the production of our products and, if applicable, potential changes to products, processes or sources of supply as a consequence of such verification activities. In addition, these rules could adversely affect the sourcing, supply and pricing of materials used in our products, particularly if the number of suppliers offering the minerals identified as "conflict minerals" sourced from locations other than the Democratic Republic of Congo and adjoining countries is limited. It is also possible that we may face reputational harm if we determine that certain of our products contain minerals not determined to be conflict-free and/or we are unable to alter our products, processes or sources of supply to avoid such materials.

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Our results of operations will suffer if we cannot comply with industry and government regulations and standards, or if changing standards do not continue to drive upgrade cycles.

Our system solutions must meet industry standards imposed by payment systems standards setting organizations such as EMVCo LLC, credit card associations such as Visa, MasterCard, and other credit card associations and standard setting organizations such as PCI SSC, Intermec and the U.K. Cards Association and other local organizations. New standards are continually being adopted or proposed as a result of worldwide anti-fraud initiatives, encryption of cardholder data, the increasing need for system compatibility and technology developments such as wireless and wireline IP communication. Our solutions also must comply with government regulations, including those imposed by telecommunications authorities and independent standards groups worldwide regarding emissions, radiation, and connections with telecommunications and radio networks, as well as data privacy laws which regulate the collection, compilation, aggregation, sharing or use of consumer information. We cannot be sure that we will be able to design our solutions to comply with future standards or regulations on a timely basis, if at all. Compliance with these standards could increase the cost of developing or producing our solutions. New products designed to meet any new standards need to be introduced to the market and ordinarily need to be certified by the credit card associations and our customers and, in some cases, local certification bodies, before being purchased. These certification processes are costly and time consuming and increase the amount of time it takes to introduce new products and sell our products. Our business has been in the past and continues to be adversely affected by our failure to timely obtain local certifications in some markets for certain of our products. Moreover, certain uses of our products may subject us to additional regulations and licensing requirements. For example, use of our products in taxis requires additional licensing and may subject us to certain taxi business regulations. Our business, net revenues and financial condition could be adversely affected if we cannot comply with new or existing industry standards, or obtain or retain necessary regulatory approval or certifications in a timely fashion, or if compliance results in increasing costs of our products. Selling products that are non-compliant may result in fines against us or our customers, which we may be liable to pay. In addition, even if our products are designed to be compliant, compliance with certain security standards is determined based on the merchant's or service provider's network environment in which our systems are installed and, therefore, is dependent upon a number of additional factors such as proper installation of the components of the environment including our systems, compliance of software and system components provided by other vendors, implementation of compliant security processes and business practices and adherence to such processes and practices. Our business and financial condition could be adversely affected if we do not comply with new or existing industry standards and regulations, or obtain or retain necessary regulatory approval or certifications in a timely fashion, or if compliance results in increasing costs of our products.

On the other hand, our business may also benefit from changes in industry standards and government regulations as well as technological changes, which are large drivers of customer upgrade cycles. For example, if EMV standards are required in the U.S., as currently anticipated, we expect that our business could benefit as customers move to upgrade their systems. If these or other standards are not implemented on the timeline we expect, or at all, or if they are implemented but we cannot deliver products that comply with these standards in a timely manner or at all, our business will suffer. If customers do not continue to upgrade their terminals due to technological changes or changes in standards or government regulations, demand for our offerings could reach a saturation point, which would adversely affect our results of operations.



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Security is vital to our customers and end users and therefore breaches in the security of our solutions could adversely affect our reputation and results of operations.

Protection against fraud is of key importance to the purchasers and end users of our solutions. The protection of sensitive data, such as customer, company, employee and consumer data is critical to our business. The regulatory environment surrounding information security and privacy is increasingly demanding, with the frequent imposition of new and constantly changing requirements. We are subject to data privacy and protection laws and regulations that apply to the collection, transmission, storage and use of personal information and personally-identifying information. We rely on electronic networks, computers, systems and programs to run our business and operations and, as a result, are exposed to risks of system errors or cyber-attacks on our systems which could result in the loss or misappropriation of sensitive data, corruption of business data or other disruption to our operations despite the security measures, processes and technologies we have in place to protect and secure our networks and systems. Further, our expansion of our service offerings increases the types of confidential and consumer or personal data that may be processed or stored by us, which requires us to dedicate more resources to protect our networks and systems. We incorporate security features, such as encryption software and secure hardware, into our solutions and services offerings to protect against fraud in electronic payment transactions and to ensure the privacy and integrity of consumer data. Our solutions may be vulnerable to breaches in security due to defects in the security mechanisms, the operating system and applications, or the hardware platform. Security vulnerabilities could jeopardize the security of information transmitted or stored using our solutions. We also provide our customers with repair, encryption key loading and helpdesk services, and we intend to increase our services offerings including through managed services programs. We have in the past experienced and may in the future experience security breaches or fraudulent activities related to unauthorized access to sensitive customer information. If the security of our solutions is compromised, our reputation and marketplace acceptance of our solutions will be adversely affected, which would cause our business to suffer, and may subject us to damages claims. A significant breach of customer or company data could attract a substantial amount of media attention, damage our customer relationships and reputation and result in lost sales, fines, or lawsuits. Recent new data protection laws and regulations, as well as proposed legislation and the evolving interpretations of such laws, in the U.S., the European Union, and other countries where we operate, could result in additional requirements that apply to our business with respect to the protection of data, the collection, transmission, storage or use of personal information and other data, and the corrective actions in the event of a breach in security related to personal information. The restrictions imposed by such laws may require us to change our current or planned business models. For example, in the U.S., pending legislation has been introduced recommending restrictions on the use of geolocation information collected by mobile devices without consumer consent. Any restrictions imposed on use of location-based information or geolocation tracking could impact our implementation of mobile-based payments solutions that utilize such information or technology. In addition, if our current security measures and data protection policies and controls are found to be non-compliant with these laws, which vary from jurisdiction to jurisdiction and are undergoing increasing regulatory scrutiny, we may be subject to penalties and fines, and may need to expend significant resources to implement additional data protection measures.

We may suffer losses due to credit card fraud or similar fraudulent activities.

We are expanding our service solutions offerings. Some of our service solutions offerings include our services as a payment processor of credit card transactions for merchants. We may be subject to losses in the provision of such services in the event of credit card fraud or other fraudulent activities or errors in connection with such transactions. As we expand such service solutions offerings, we increase our exposure to such risks, and our business, results of operations and financial condition may be negatively impacted by such loss if material. Further, the occurrence of fraud perpetrated on our solutions may result in negative publicity and user sentiment which could harm our brand and reputation and reduce our ability to retain or attract users of our solutions.



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Our solutions may have defects or experience field failures that could delay sales, harm our brand, increase costs and result in product recalls and additional warranty and other expense.

We offer complex solutions that are susceptible to undetected hardware and software errors or failures. Our solutions may experience failures when first introduced, as new versions are released, or at any time during their lifecycle. We cannot assure you that, despite our testing procedures and controls over manufacturing quality, errors will not be found in our products. Field failure may result from usage with third-party issued payment cards, for example, if such usage generates excess electrostatic discharge. Defects may also arise from third-party components that are incorporated into our products, such as hardware modules, chipsets or battery cells. Any product recalls as a result of errors or failures could result in the loss of customers, loss of or delays in market acceptance of our solutions, diversion of the attention of our research and development personnel from product development efforts and harm to our relationships with our customers, adversely affect our business and reputation, and increase our product costs which could negatively impact our margins, profitability, and results of operations. Any significant returns or warranty claims for any of our products, including products that we have added to our product offerings from acquisitions, could result in significant additional costs to us, such as costs to implement modifications to correct defects, recall and replace products, and defend against litigation related to defective products or related property damage or personal injury, and could adversely affect our results of operations. Our customers may also run third-party software applications on our electronic payment systems. Errors in third-party applications could adversely affect the performance of our solutions.

Identifying and correcting defects can be time-consuming, costly and in some circumstances extremely difficult. Software errors may take several months to correct, and hardware defects may take even longer to correct. The existence of defects and delays in correcting them could result in negative consequences, including the following: loss of customers; harm to our brand; delays in shipping system solutions; loss of market acceptance for our system solutions; additional warranty and other expenses associated with correcting or resolving defects; diversion of resources from product development; and loss of credibility with distributors, customers and partners.

Our internal processes and control over financial reporting have in prior periods been deemed inadequate.

In certain prior periods we reported material weaknesses in our internal control over financial reporting, which we have remedied. These material weaknesses in our internal control over financial reporting contributed to our need to restate previously reported interim financial information for each of the first three quarters of our fiscal year ended October 31, 2007, and to the delays in the filing of our Annual Report on Form 10-K for fiscal year 2007. We also were unable to file our quarterly reports on Form 10-Q for our fiscal quarters ended January 31, 2008 and April 30, 2008 on a timely basis.

Although we have implemented improved controls and remedied these material weaknesses, these controls may not be sufficient to detect or prevent errors in financial reporting in future periods and will require continued enhancement to accommodate our rapid growth in operations both organically and from acquisitions. We may hire additional employees and may also engage additional consultants in these and other key areas. Competition for qualified financial control and accounting professionals in the geographic areas in which we operate is intense and there can be no assurance that we will be able to hire and retain these individuals.

We may not be able to attract, integrate, manage, and retain qualified personnel.

Our success depends to a significant degree upon the continued contributions of our key senior management, engineering, sales and marketing, and manufacturing personnel, many of whom would be difficult to replace. In addition, our future success also depends on our ability to attract, integrate, manage, and retain highly skilled employees throughout our business. Competition for some of these personnel is intense, and in the past we have had

difficulty hiring, in our desired time frame, employees that have the specific qualifications required for a particular position. Additionally, we may be unsuccessful in attracting and retaining personnel. The loss of the services of any of our key personnel, the inability to attract or retain qualified personnel in the future, or delays in hiring required personnel, particularly engineers and sales personnel, could make it difficult for us to manage our business and meet key objectives, such as timely product introductions.

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We have recently experienced turnover in our management team. On March 11, 2013, we announced that Douglas Bergeron was stepping down from the position of Chief Executive Officer, effective March 12, 2013, and that Richard McGinn, the Chairman of our Board of Directors, would become our Interim Chief Executive Officer. On September 15, 2013, we announced that Paul Galant would become our Chief Executive Officer and Richard McGinn would step down as our Interim Chief Executive Officer, each effective October 1, 2013. In February 2013, we announced the appointment of Marc E. Rothman as our new Chief Financial Officer. Further, during 2013, we have announced certain other sales, marketing, and operations management changes. These or any other management changes could be disruptive and could negatively affect our business.

During the last several fiscal years, we implemented workforce reduction plans reducing the number of employees and contractors in certain areas due to redundancies and shifting business needs, as well as in connection with acquisition-related integration efforts. These reductions have also required that we reassign certain employee duties. Workforce reductions and job reassignments could negatively affect employee morale and make it difficult to motivate and retain our remaining employees, which would affect our ability to deliver our products in a timely fashion and otherwise negatively affect our business.

We depend upon third parties to manufacture our systems and to supply the components necessary to manufacture our products.

We utilize a limited number of third parties to manufacture our hardware products pursuant to our specifications and rely upon these contract manufacturers to produce and deliver products on a timely basis and at an acceptable cost or to otherwise meet our product demands. Further, a material portion of these third-party manufacturing activities are concentrated in China. Disruptions to the business, financial stability or operations, including due to strikes, labor disputes or other disruptions to the workforce, of these contract manufacturers, or to their ability to produce the products we require in accordance with our and our customers' requirements, and particularly disruptions to the manufacturing operations in China including due to geological disruptions such as earthquakes, could significantly affect our ability to fulfill customer demand on a timely basis which could materially harm our net revenues and results of operations. Substantially all of our manufacturing is currently handled by our third-party contract manufacturers and our dependency on our third-party contract manufacturers could exacerbate these risks.

Components such as application specific integrated circuits, or ASICs, microprocessors, wireless modules, modems, and printer mechanisms that are necessary to manufacture and assemble our systems are sourced either directly by us or on our behalf by our contract manufacturers from a variety of component suppliers selected by us. Certain of the components are specifically customized for use in our products and are obtained from sole source suppliers on a purchase order basis. Disruptions to the business, financial stability or operations, including due to strikes, labor disputes or other disruptions to the workforce, of our suppliers, and particularly sole source suppliers, may also impact the availability of components to us in the quantities we require and on a timely basis. Any prolonged component shortage could materially and adversely affect our business and results of operations. Component shortages have resulted in increased costs for certain components and continued cost increases, particularly for critical components, could negatively impact our gross margins and profitability. If our suppliers are unable or unwilling to deliver the quantities that we require within the timeframe that we require, we would be faced with a shortage of critical components. We also experience from time to time an increase in the lead time for delivery of some of our key components. We may not be able to find alternative sources in a timely manner if suppliers of our key components become unwilling or unable to provide us with adequate supplies of these key components when we need them or if they increase their prices. If we are unable to obtain sufficient key required components, or to develop alternative sources if and as required in the future, or to replace our component and factory tooling for our products in a timely manner if they are damaged or destroyed, we could experience delays or reductions in product shipments. This could harm our relationships with our customers and cause our net revenues to decline. Even if we are able to secure alternative sources or replace our tooling in a timely manner, our costs could increase. Any of these events could

adversely affect our results of operations.

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Shipments of electronic payment systems may be delayed by factors outside of our control, which can harm our reputation and our relationships with our customers.

The shipment of payment systems requires us or our manufacturers, distributors, or other agents to obtain customs or other government certifications and approvals, and, on occasion, to submit to physical inspection of our systems in transit. Failure to satisfy these requirements, and the very process of trying to satisfy them, can lead to lengthy delays in the delivery of our solutions to our direct or indirect customers. Because we depend upon third-party carriers for the timely delivery of our products we may face delays in delivery due to reasons outside our control. Delays and unreliable delivery by us may harm our reputation in the industry and our relationships with our customers and result in canceled orders, any of which could adversely affect our results of operations and business.

Our proprietary technology is difficult to protect and unauthorized use of our proprietary technology by third parties may impair our ability to compete effectively.

We may not be able to protect our proprietary technology, which could enable competitors to develop services that compete with our own. We rely on patent, copyright, trademark, and trade secret laws, as well as confidentiality, licensing and other contractual arrangements to establish and protect the proprietary aspects of our solutions. Institution of legal proceedings to enforce our intellectual property rights could be costly and divert the efforts and attention of our management and technical personnel from other business operations. In addition, there can be no assurance that such proceedings would be determined in our favor. We do not have patent protection for certain important aspects of our current solutions. The laws of some countries in which we sell our solutions and services may not protect software and intellectual property rights to the same extent as the laws in the U.S. If we are unable to prevent misappropriation of our proprietary technology, competitors or others may be able to use and adapt such technology, which could diminish our competitive advantage and cause us to lose customers to competitors.

Force majeure events, such as terrorist attacks, other acts of violence or war and political instability may adversely affect us.

Terrorist attacks, war, and international political instability may disrupt our ability to generate net revenues. Such events may negatively affect our ability to maintain net revenues and to develop new business relationships. Because a substantial and growing part of our net revenues is derived from sales and services to customers outside of the U.S. and we have our electronic payment systems manufactured outside the U.S., terrorist attacks, war, and international political instability anywhere may decrease international demand for our products and inhibit customer development opportunities abroad, disrupt our supply chain, and impair our ability to deliver our electronic payment systems, which could materially and adversely affect our net revenues or results of operations. Economic and political instability, particularly in the Middle East or OPEC member countries, may also disrupt the production or supply of fuel which could increase our costs related to shipment and distribution of our products. Any of these events may also disrupt global financial markets and precipitate a decline in the price of our stock.

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Natural or man-made disasters, business interruptions and health epidemics could delay our ability to receive or ship our products, or otherwise disrupt our business.

Our worldwide operations could be subject to earthquakes, power shortages, telecommunications failures, water shortages, tsunamis, floods, hurricanes, typhoons, fires, extreme weather conditions, health epidemics, and other natural or man-made disasters or business interruptions. The occurrence of any of these business disruptions could seriously harm our business, our revenue and financial condition, and increase our costs and expenses. If our manufacturers' or warehousing facilities are damaged or destroyed, we would be unable to distribute our products on a timely basis, which could harm our business. Our corporate headquarters, and a portion of our research and development activities, are located in California, and other critical business operations and some of our suppliers are located in California and Asia, near major earthquake faults. Certain key servers and information systems are located in Florida, which has in the past experienced major hurricanes and similar extreme weather. Any disruption of our Florida operations could materially affect our operations and harm our business. Moreover, if our computer information systems or communication systems, or those of our vendors or customers, are subject to hacker attacks or other disruptions, our business could suffer. We have not established a comprehensive disaster recovery plan. Our back-up operations may be inadequate and our business interruption insurance may not be enough to compensate us for any losses that may occur. A significant business interruption could result in losses or damages and harm our business since much of our order fulfillment process is automated and the order information is stored on our servers. In addition, we increasingly rely on our computer systems and servers to conduct our business. If our computer systems and servers go down, even for a short period, our ability to serve our customers and fulfill orders would be disrupted and our net revenues could be materially and adversely affected, which could cause our stock price to decline significantly.

We have significant operations in Israel and therefore our results of operations may be adversely affected by political or economic instability or military operations in or around Israel.

We have offices and personnel in Israel. Therefore, political, economic, and military conditions in Israel directly affect our operations. The future of peace efforts between Israel and its Arab neighbors remains uncertain. Any armed conflicts or further political instability in the region is likely to negatively affect business conditions and materially harm our results of operations. Furthermore, several countries continue to restrict or ban business with Israel and Israeli companies. These restrictive laws and policies may seriously limit our ability to make sales in those countries.

In addition, many employees in Israel are obligated to perform between 30 to 40 days of military reserve duty annually and are subject to being called for active duty under emergency circumstances. If a military conflict arises, these individuals could be required to serve in the military for extended periods of time. Our operations in Israel could be disrupted by the absence for a significant period of one or more key employees or a significant number of other employees due to military service. Any disruption in our operations in Israel could materially and adversely affect our business.



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Risks Related to Our Capital Structure

Our secured credit facility contains restrictive and financial covenants. If we are unable to comply with these covenants, we will be in default. A default could result in the acceleration of our outstanding indebtedness, which would have an adverse effect on our business and stock price.

On December 28, 2011, our principal subsidiary, VeriFone, Inc., entered into a secured credit agreement (as amended, the "2011 Credit Agreement") for total senior secured credit facilities of \$1.5 billion, initially consisting of a Term A loan facility of \$918.5 million (the "Term A Loan"), a Term B loan facility of \$231.5 million (the "Term B Loan") and a revolving credit facility permitting borrowings of up to \$350.0 million (the "Revolving Loan"). These credit facilities were made available (i) to fund a portion of the cash consideration for our acquisition of Point, (ii) to refinance certain existing debt at Point, (iii) to repay all outstanding amounts under our senior secured credit agreement entered into as of October 31, 2006, (iv) to fund an escrow to repay at maturity or upon earlier conversion at the option of the holders thereof our 1.375% senior convertible notes due June 2012, and (v) to pay related fees and expenses as well as for working capital requirements and for other general corporate purposes. The 2011 Credit Agreement was amended on October 15, 2012 to provide additional commitments under the Term A Loan and the Revolving Loan. On July 19, 2013, VeriFone, Inc. entered into an amendment to the 2011 Credit Agreement, pursuant to which VeriFone, Inc. amended certain metrics used in calculating the leverage ratios, and prepaid the Term A Loan in the aggregate principal amount of \$20.0 million and the Term B Loan in the aggregate principal amount of \$50.0 million. As of October 31, 2013, we had outstanding loan balances of \$922.2 million under our Term A Loan, \$48.4 million under our Term B Loan, and \$63.0 million drawn on the Revolving Loan. See Note 9. Financings, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

Our 2011 Credit Agreement contains customary covenants that require maintenance of certain specified financial ratios and restricts the ability of certain of our subsidiaries to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make capital expenditures above specified levels, engage in certain business combinations, or undertake various other corporate activities. Therefore, as a practical matter, these covenants restrict our ability to engage in or benefit from such activities. Further, VeriFone, Inc. must limit its leverage ratio and maintain interest coverage ratio at or above specified thresholds. In addition, we have, in order to secure repayment of the Term A Loan, Term B Loan and Revolving Loan, pledged a substantial amount of our assets and properties. This pledge may reduce our operating flexibility because it restricts our ability to dispose of these assets or engage in other transactions that may be beneficial to us.

If we are unable to comply with the covenants in our 2011 Credit Agreement, we will be in default, which could result in the acceleration of our outstanding indebtedness. In addition, if our leverage exceeds a certain level set out in our 2011 Credit Agreement, a portion of our excess cash flow must be used to pay down our outstanding Term B Loan. If acceleration occurs, we may not be able to repay our debt and we may not be able to borrow sufficient additional funds to refinance our debt. In addition, under the terms of the 2011 Credit Agreement, increases in our leverage ratio could result in increased interest rates and therefore result in higher debt service costs. If we were to default in performance under the 2011 Credit Agreement, we may pursue an amendment or waiver from our lenders, but there can be no assurance that the lenders would grant such an amendment or waiver and, in light of current credit market conditions, any such amendment or waiver requested is likely to be on terms, including additional fees, as well as increased interest rates and other more stringent terms and conditions that would be materially disadvantageous to us.

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Our indebtedness and debt service obligations under our 2011 Credit Agreement are substantial and may adversely affect our cash flow, cash position, and stock price.

Following our acquisition of Point in December 2011 and the related entry into the 2011 Credit Agreement, our outstanding indebtedness and debt service obligations are substantial. As of October 31, 2013, we had total indebtedness outstanding of \$1.03 billion related to our Term A Loan, Term B Loan and Revolving Loan. Principal payments on our Term A Loan facility are required to be repaid in quarterly installments of the following percentages of the original balance outstanding under the Term A Facility: 1.25% for each of the first eight calendar quarters after the closing date of the 2011 Credit Agreement on December 28, 2011 through the quarter ending December 31, 2013; 2.50% for each of the next eight calendar quarters through the quarter ending December 31, 2015 and 5.00% for each of the calendar quarters ending March 31, 2016, June 30, 2016 and September 30, 2016 with the balance being due at maturity on December 28, 2016. The outstanding principal balance of the Term B Loan is required to be repaid in equal quarterly installments of 0.25% with the balance being due at maturity on December 28, 2018. Outstanding amounts may also be subject to mandatory prepayment with the proceeds of certain asset sales and debt issuances and, in the case of the Term B Loan, from a portion of annual excess cash flows (as determined under the 2011 Credit Agreement). See Note 9, Financings, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K for a schedule of the principal payments due under our financings.

We intend to fulfill our debt service obligations from existing cash and cash from our investments and operations. A substantial portion of our cash balances and cash generated from operations are held by our foreign subsidiaries. If we decide to distribute or use such cash and cash equivalents outside those foreign jurisdictions, including a distribution to the U.S. we may be subject to additional taxes or costs. In the future, if we are unable to generate or raise additional cash sufficient to meet our debt service obligations and need to use more of our existing cash than planned or to liquidate investments in order to fund these obligations, we may have to delay or curtail the development and/or the sales and marketing of new payment systems as well as dividends, capital expenditures, investments, and acquisitions. If we are unable to generate sufficient cash flows or other sources of liquidity to meet our debt service requirements, our lenders may declare a default on the 2011 Credit Agreement which could result in the termination of commitments under the 2011 Credit Agreement, the declaration that all outstanding loans are immediately due and payable in whole or in part, and the requirement of cash collateral deposits in respect of outstanding letters of credit.

Interest rates applicable to our debt are expected to fluctuate based on economic and market factors that are beyond our control. In particular, all of the outstanding debt under our 2011 Credit Agreement has a floating interest rate. Although we have entered into a swap arrangement that converted such floating rate to a fixed interest rate for an aggregate principal amount of \$500 million under the 2011 Credit Agreement through March 2015, any significant increase in market interest rates, and in particular the short-term LIBOR rates, could result in a significant increase in interest expense on our debt, which could negatively impact our net income and cash flows. In addition, interest rates under the 2011 Credit Agreement will fluctuate to some extent based on our leverage ratios.

Our indebtedness could have significant additional negative consequences, including, without limitation:

- requiring the dedication of a significant portion of our expected cash flow to service the indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including dividends, capital expenditures, investments, and acquisitions;
- increasing our vulnerability to general adverse economic conditions;
- limiting our ability to obtain additional financing on acceptable terms; and
- placing us at a possible competitive disadvantage to less-leveraged competitors and competitors that have better access to capital resources.



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The conditions of the U.S. and international capital markets may have an adverse effect on other financial transactions.

Deterioration in the U.S. and international capital markets has in the past had an adverse effect on certain of our financial transactions, and the credit crisis in the U.S. that began in 2008 continues to result in some softness in the U.S. credit markets. If financial institutions that have extended credit commitments to us, including under the 2011 Credit Agreement, or have entered into hedge, insurance or similar transactions with us, are adversely affected by the conditions of the U.S. and international capital markets, they may become unable to fund borrowings under their credit commitments to us or otherwise fulfill their obligations under the relevant transactions, which could have a material and adverse impact on our financial condition and our ability to borrow additional funds, if needed, for working capital, capital expenditures, acquisitions, and other corporate purposes.

Some provisions of our certificate of incorporation and bylaws may delay or prevent transactions that many stockholders may favor.

Some provisions of our certificate of incorporation and bylaws may have the effect of delaying, discouraging or preventing a merger or acquisition that our stockholders may consider favorable, including transactions in which stockholders might receive a premium for their shares. These provisions include:

- authorization of the issuance of “blank check” preferred stock without the need for action by stockholders;
- the amendment of our organizational documents only by the affirmative vote of the holders of two-thirds of the shares of our capital stock entitled to vote at an election of directors;
- provision that any vacancy on the board of directors, however occurring, including a vacancy resulting from an enlargement of the board, may only be filled by vote of the directors then in office;
- inability of stockholders to call special meetings of stockholders; and
- advance notice requirements for board nominations and proposing matters to be acted on by stockholders at annual stockholder meetings.

Our share price has been volatile and we expect that the price of our stock may continue to fluctuate substantially.

Our stock price has fluctuated substantially since our initial public offering in 2005, for example, due to the announcement of our restatement in December 2007, during the recent turmoil in the worldwide financial markets, and due to the announcement of our preliminary results for the first fiscal quarter of 2013. In addition to fluctuations related to VeriFone-specific factors, broad market and industry factors may adversely affect the market price of our stock, regardless of our actual operating performance. Factors that could cause fluctuations in our stock price may include, among other things:

- actual or anticipated variations in quarterly operating results;
- changes in our financial guidance or financial estimates by any securities analysts who might cover our stock, or our failure to meet our financial guidance or the estimates made by securities analysts;
- uncertainty about current global economic conditions;
- changes in the market valuations of other companies operating in our industry;
- announcements by us or our competitors related to significant acquisitions, strategic partnerships, or divestitures;
- additions or departures of key personnel; and
- sales or purchases of our stock, including sales or purchases of our stock by our directors and officers or by significant stockholders.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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## ITEM 2. PROPERTIES

Our headquarters are located in San Jose, California. We have material warehouse and distribution facilities located in the U.S., Brazil, Australia, France, and Sweden.

In the U.S., we maintain material sales and administrative offices and research facilities in Clearwater, Florida; Scottsdale, Arizona; Rocklin, California; Alpharetta, Georgia; Washington D.C.; Long Island City, New York; and New York, New York. Outside the U.S., we maintain material sales and administrative offices, and research facilities in France, India, Brazil, Israel, Sweden, Philippines, New Zealand, Taiwan, China, Germany, Denmark, Norway, Singapore, Australia, Mexico, Finland, South Africa, the U.K. and Latvia. In addition to these material locations, we also have smaller offices globally.

We own the office buildings at two of our locations, while the rest of our locations are leased. We are using substantially all of our currently available productive space to develop, store, market, sell, and distribute our products and services. We believe our facilities are in good operating condition, suitable for their respective uses, and adequate for our current needs.

Location	Approximate Square Footage
Americas	727,799
EMEA	575,870
ASPAC	275,052
Total	1,578,721

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ITEM 3. LEGAL PROCEEDINGS

Information with respect to legal proceedings may be found in Note 10, Commitments and Contingencies, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K, which section is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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## PART II

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

Our common stock has been quoted on the New York Stock Exchange ("NYSE") under the symbol "PAY" since April 29, 2005. Prior to that time, there was no public market for our stock.

The following table sets forth for the indicated periods, the high and low sale prices of our common stock.

	Fiscal Year 2013 Quarter Ended				Fiscal Year 2012 Quarter Ended			
	Oct. 31 2013	Jul. 31 2013	Apr. 30 2013	Jan. 31 2013	Oct. 31 2012	Jul. 31 2012	Apr. 30 2012	Jan. 31 2012
High	\$23.82	\$23.72	\$35.24	\$35.94	\$38.80	\$49.59	\$54.45	\$44.44
Low	\$18.89	\$15.75	\$18.24	\$28.45	\$27.85	\$30.35	\$44.14	\$34.79

The closing sale price of our common stock on the NYSE was \$25.61 and \$22.66 on November 30, 2013 and October 31, 2013, respectively. As of November 30, 2013, there were approximately 113 stockholders of record.

Because many shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these holders of record.

**Dividend Policy**

We have not declared or paid cash dividends on our capital stock since our common stock has been listed on the NYSE. We do not expect to pay any cash dividends for the foreseeable future. We currently intend to retain any future earnings to finance our operations, growth, and to repay our debt. Any future determination to pay cash dividends will be at the discretion of our Board of Directors, and will be dependent on earnings, financial condition, operating results, capital requirements, any contractual restrictions, and other factors that our Board of Directors deems relevant. In addition, our 2011 Credit Agreement contains limitations on the ability of our principal operating subsidiary, VeriFone, Inc., to declare and pay cash dividends. Because we conduct our business through our subsidiaries, as a practical matter these restrictions similarly limit our ability to pay dividends on our common stock.

**Securities Authorized for Issuance Under Equity Compensation Plans**

Information with respect to Securities Authorized for Issuance Under Equity Compensation may be found in Item 12, Security Ownership of Certain Beneficial Owners and Management, and Related Stockholder Matters — Equity Compensation Plan Information, of this Annual Report on Form 10-K, which section is incorporated herein by reference.

**Performance Graph**

The following graph and table compares the performance of an investment in our common stock over the period of November 1, 2008 through October 31, 2013, beginning with an investment at the closing market price on October 31, 2008, and thereafter, based on the closing price of our common stock on the market, with the S&P 500 Index and the S&P North American Technology Index ("SPGSTI"). The graph and table assume \$100 was invested on the start date at the price indicated, and that dividends, if any, were reinvested on the date of payment without payment of any commissions. The performance shown in the graph and table represents past performance, and should not be considered an indication of future performance.



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	October 31, 2008	October 31, 2009	October 31, 2010	October 31, 2011	October 31, 2012	October 31, 2013
VeriFone Systems, Inc.	\$100.00	\$117.08	\$297.80	\$371.57	\$260.92	\$199.47
S&P 500 Index	\$100.00	\$106.96	\$122.14	\$129.37	\$145.77	\$181.32
S&P North American Technology Index	\$100.00	\$130.78	\$155.77	\$166.22	\$175.52	\$223.00

The information provided above under the heading “Performance Graph” shall not be considered “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

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## ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and the accompanying notes appearing in Item 8, Financial Statements and Supplementary Data, and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this Annual Report on Form 10-K. The selected data in this section is not intended to replace our Consolidated Statements of Operations and Consolidated Balance Sheets.

	Years Ended October 31,				
	2013 (1)(2)	2012 (3)	2011 (4)	2010	2009 (5)
	(In thousands, except per share data)				
Consolidated Statement of Operations Data:					
Net revenues	\$1,702,221	\$1,865,971	\$1,303,866	\$1,001,537	\$844,714
Operating income (loss)	\$(66,354 )	\$147,545	\$105,710	\$102,424	\$(128,966 )
Net income (loss) attributable to VeriFone Systems, Inc. stockholders	\$(296,055 )	\$65,033	\$282,404	\$98,827	\$(157,455 )
Net income (loss) per share attributable to VeriFone Systems, Inc. stockholders:					
Basic	\$(2.73 )	\$0.61	\$3.06	\$1.16	\$(1.86 )
Diluted	\$(2.73 )	\$0.59	\$2.92	\$1.13	\$(1.86 )
	As of October 31,				
	2013 (2)	2012 (3)	2011 (4)	2010	2009
	(In thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$268,220	\$454,072	\$594,562	\$445,137	\$324,996
Total assets	\$2,993,720	\$3,490,607	\$2,313,561	\$1,075,326	\$917,290
Current and long-term debt and capital leases	\$1,035,861	\$1,307,617	\$483,811	\$473,511	\$468,864

(1) In fiscal year 2013 we recorded a \$64.4 million litigation loss contingency expense primarily related to the pending securities class action captioned, *In re VeriFone Holdings, Inc. Securities Litigation*, and the related Israel class action. For further information, see Note 10, Commitments and Contingencies, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

(2) In fiscal year 2013 we recorded a \$245.0 million valuation allowance against a significant portion of our deferred tax assets. For further information, see Note 5,