

VERIFONE SYSTEMS, INC.

Form 10-Q

September 08, 2017

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2017

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

VERIFONE SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware 04-3692546

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

88 West Plumeria Drive

San Jose, CA 95134

(Address of principal executive offices with zip code)

(408) 232-7800

(Registrant's telephone number, including area code)

N/A- (Former name, former address and former fiscal year, if changed since last report)

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

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

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

Smaller reporting company Accelerated filer

Large accelerated filer

Emerging growth company

Non-accelerated filer

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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The number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on August 31, 2017

| Class | Number of shares |
|--|------------------|
| Common Stock, \$0.01 par value per share | 112,201,333 |

Table of Contents

Table of Contents

VERIFONE SYSTEMS, INC.

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

| | |
|--|-----------|
| Item 1. <u>Financial Statements:</u> | <u>3</u> |
| <u>Condensed Consolidated Statements of Operations</u> | <u>3</u> |
| <u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u> | <u>4</u> |
| <u>Condensed Consolidated Balance Sheets</u> | <u>5</u> |
| <u>Condensed Consolidated Statements of Cash Flows</u> | <u>6</u> |
| <u>Notes to Condensed Consolidated Financial Statements</u> | <u>7</u> |
| Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>26</u> |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>46</u> |
| Item 4. <u>Controls and Procedures</u> | <u>46</u> |
| PART II — OTHER INFORMATION | |
| Item 1. <u>Legal Proceedings</u> | <u>47</u> |
| Item 1A. <u>Risk Factors</u> | <u>47</u> |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>76</u> |
| Item 3. <u>Defaults Upon Senior Securities</u> | <u>76</u> |
| Item 4. <u>Mine Safety Disclosures</u> | <u>76</u> |
| Item 5. <u>Other Information</u> | <u>76</u> |
| Item 6. <u>Exhibits</u> | <u>77</u> |
| <u>Signatures</u> | <u>78</u> |
| <u>Exhibit Index</u> | <u>79</u> |

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

VERIFONE SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | Three Months Ended July 31, | | Nine Months Ended July 31, | |
|---|--|-------------|-------------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| | (Unaudited, in thousands, except per share data) | | | |
| Net revenues: | | | | |
| Systems | \$265,951 | \$292,072 | \$817,027 | \$972,107 |
| Services | 200,915 | 196,060 | 577,395 | 555,842 |
| Total net revenues | 466,866 | 488,132 | 1,394,422 | 1,527,949 |
| Cost of net revenues: | | | | |
| Systems | 177,774 | 175,690 | 520,385 | 571,039 |
| Services | 114,642 | 121,295 | 355,395 | 340,099 |
| Total cost of net revenues | 292,416 | 296,985 | 875,780 | 911,138 |
| Gross margin | 174,450 | 191,147 | 518,642 | 616,811 |
| Operating expenses: | | | | |
| Research and development | 50,731 | 52,394 | 158,454 | 158,150 |
| Sales and marketing | 46,665 | 52,830 | 146,806 | 167,289 |
| General and administrative | 44,867 | 49,753 | 142,425 | 157,040 |
| Restructuring and related charges | 65,705 | 33,629 | 135,743 | 34,196 |
| Litigation settlement and loss contingency expense | — | 600 | — | 600 |
| Amortization of purchased intangible assets | 16,696 | 24,286 | 53,873 | 65,886 |
| Goodwill impairment | — | — | 17,384 | — |
| Total operating expenses | 224,664 | 213,492 | 654,685 | 583,161 |
| Operating income (loss) | (50,214) | (22,345) | (136,043) | 33,650 |
| Interest expense, net | (8,380) | (9,023) | (24,712) | (25,870) |
| Other income (expense), net | (1,908) | 156 | 4,666 | (6,833) |
| Net income (loss) before income taxes | (60,502) | (31,212) | (156,089) | 947 |
| Income tax provision | 10,286 | 286 | 22,088 | 5,372 |
| Consolidated net loss | (70,788) | (31,498) | (178,177) | (4,425) |
| Net income (loss) attributable to noncontrolling interests | 167 | (360) | (1,332) | 313 |
| Net loss attributable to VeriFone Systems, Inc. stockholders | \$(70,955) | \$(31,138) | \$(176,845) | \$(4,738) |
| Net loss per share attributable to VeriFone Systems, Inc. stockholders: | | | | |
| Basic | \$(0.63) | \$(0.28) | \$(1.58) | \$(0.04) |
| Diluted | \$(0.63) | \$(0.28) | \$(1.58) | \$(0.04) |
| Weighted average number of shares used in computing net loss per share attributable to VeriFone Systems, Inc. stockholders: | | | | |
| Basic | 111,951 | 110,689 | 111,669 | 110,763 |
| Diluted | 111,951 | 110,689 | 111,669 | 110,763 |

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

Table of Contents

VERIFONE SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|------------|-------------------|------------|
| | July 31, | | July 31, | |
| | 2017 | 2016 | 2017 | 2016 |
| | (Unaudited, in thousands) | | | |
| Consolidated net loss | \$(70,788) | \$(31,498) | \$(178,177) | \$(4,425) |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments, net of tax | 65,202 | (46,460) | 74,563 | (24,410) |
| Unrealized gain (loss) on derivatives designated as cash flow hedges | | | | |
| Change in unrealized gain (loss) on derivatives designated as cash flow hedges | (369) | (301) | 4,003 | (3,540) |
| Amounts reclassified from Accumulated other comprehensive loss | 129 | 890 | 1,217 | 3,004 |
| Tax impact on unrealized gain (loss) on derivatives designated as cash flow hedges | 91 | — | (1,981) | — |
| Net change in unrealized gain (loss) on derivatives designated as cash flow hedges | (149) | 589 | 3,239 | (536) |
| Net change in other | 136 | 27 | 190 | 78 |
| Other comprehensive income (loss) | 65,189 | (45,844) | 77,992 | (24,868) |
| Total comprehensive loss | (5,599) | (77,342) | (100,185) | (29,293) |
| Less: Comprehensive income (loss) attributable to noncontrolling interests, net of tax | 2,352 | (360) | (8,341) | 313 |
| Comprehensive loss attributable to VeriFone Systems, Inc. stockholders | \$(7,951) | \$(76,982) | \$(91,844) | \$(29,606) |

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

Table of ContentsVERIFONE SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

| | July 31, 2017 | October 31, 2016 |
|---|--|---------------------|
| | (Unaudited, in thousands, except par value) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 158,826 | \$ 148,352 |
| Accounts receivable, net of allowances of \$14,291 and \$14,063, respectively | 326,327 | 323,447 |
| Inventories | 127,496 | 175,231 |
| Prepaid expenses and other current assets | 165,856 | 110,397 |
| Total current assets | 778,505 | 757,427 |
| Property and equipment, net | 130,454 | 202,277 |
| Purchased intangible assets, net | 257,532 | 306,298 |
| Goodwill | 1,116,752 | 1,110,493 |
| Deferred tax assets, net | 36,144 | 36,989 |
| Other long-term assets | 99,786 | 81,323 |
| Total assets | \$ 2,419,173 | \$ 2,494,807 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 157,118 | \$ 154,574 |
| Accruals and other current liabilities | 253,239 | 213,411 |
| Deferred revenue, net | 110,639 | 104,797 |
| Short-term debt | 68,216 | 66,017 |
| Total current liabilities | 589,212 | 538,799 |
| Long-term deferred revenue, net | 66,806 | 66,516 |
| Deferred tax liabilities, net | 102,401 | 99,371 |
| Long-term debt | 809,885 | 859,896 |
| Other long-term liabilities | 69,982 | 76,840 |
| Total liabilities | 1,638,286 | 1,641,422 |
| Commitments and contingencies | | |
| Redeemable noncontrolling interest in subsidiary | 1,084 | 4,980 |
| Stockholders' equity: | | |
| Preferred stock: \$0.01 par value, 10,000 shares authorized, no shares issued and outstanding | — | — |
| Common stock: \$0.01 par value, 200,000 shares authorized, 112,188 and 111,261 shares issued and outstanding as of July 31, 2017 and October 31, 2016, respectively | 1,122 | 1,113 |
| Additional paid-in capital | 1,802,204 | 1,771,951 |
| Accumulated deficit | (795,185) | (618,339) |
| Accumulated other comprehensive loss | (255,993) | (340,994) |
| Total VeriFone Systems, Inc. stockholders' equity | 752,148 | 813,731 |
| Noncontrolling interests in subsidiaries | 27,655 | 34,674 |
| Total equity | 779,803 | 848,405 |
| Total liabilities, redeemable noncontrolling interest in subsidiary and equity | \$ 2,419,173 | \$ 2,494,807 |
| The accompanying notes are an integral part of these condensed consolidated financial statements. | | |

Table of ContentsVERIFONE SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Nine Months Ended July 31, | |
|--|-------------------------------|------------|
| | 2017 | 2016 |
| | (Unaudited, in thousands) | |
| Cash flows from operating activities | | |
| Consolidated net loss | \$(178,177) | \$(4,425) |
| Adjustments to reconcile consolidated net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 116,845 | 133,795 |
| Stock-based compensation expense | 30,050 | 32,889 |
| Deferred income taxes, net | (1,164) | (7,226) |
| Non-cash restructuring and related charges | 107,535 | 29,100 |
| Goodwill impairment | 17,384 | — |
| Other | 11,471 | 5,044 |
| Net cash provided by operating activities before changes in operating assets and liabilities | 103,944 | 189,177 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (15,014) | 13,501 |
| Inventories | 30,908 | (53,300) |
| Prepaid expenses and other assets | (11,747) | (23,209) |
| Accounts payable | 3,043 | (2,294) |
| Deferred revenue, net | 5,837 | 28,398 |
| Other current and long-term liabilities | 23,132 | (21,764) |
| Net change in operating assets and liabilities | 36,159 | (58,668) |
| Net cash provided by operating activities | 140,103 | 130,509 |
| Cash flows from investing activities | | |
| Capital expenditures | (52,802) | (82,271) |
| Acquisition of businesses, net of cash and cash equivalents acquired | (4,973) | (172,219) |
| Divestiture of businesses | 1,469 | — |
| Other investing activities, net | 321 | 1,938 |
| Net cash used in investing activities | (55,985) | (252,552) |
| Cash flows from financing activities | | |
| Proceeds from debt, net of issuance costs | 215,384 | 490,378 |
| Repayments of debt | (277,700) | (333,930) |
| Proceeds from issuance of common stock through employee equity incentive plans | 849 | 3,329 |
| Stock repurchases | — | (79,866) |
| Other financing activities, net | (3,777) | (4,078) |
| Net cash provided by (used in) financing activities | (65,244) | 75,833 |
| Effect of foreign currency exchange rate changes on cash, cash equivalents and restricted cash | 6,330 | (2,119) |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 25,204 | (48,329) |
| Cash, cash equivalents and restricted cash, beginning of period | 159,181 | 215,869 |
| Cash, cash equivalents and restricted cash, end of period | \$ 184,385 | \$ 167,540 |

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

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Unaudited

Note 1. Principles of Consolidation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of VeriFone Systems, Inc. and our wholly-owned and majority-owned subsidiaries, including a variable interest entity where we are deemed to be the primary beneficiary, and have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions on Form 10-Q pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. The Condensed Consolidated Balance Sheet at October 31, 2016 has been derived from the audited Consolidated Balance Sheet at that date. All significant inter-company accounts and transactions have been eliminated. In accordance with these rules and regulations, we have omitted certain information and notes normally provided in our annual consolidated financial statements. In the opinion of management, the unaudited Condensed Consolidated Financial Statements contain all adjustments, consisting only of normal recurring items, necessary for the fair presentation of our financial position and results of operations for the interim periods. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2016. The results of operations for the three and nine months ended July 31, 2017 are not necessarily indicative of the results expected for the entire fiscal year.

We have two operating segments: Verifone Systems and Verifone Services. Verifone Systems delivers point of sale electronic payment devices that run our unique operating systems, security and encryption software and certified payment software for both payments and commerce. Verifone Services delivers device related services and maintenance, payment transaction routing and reporting, and commerce based services. Our reportable segments are the same as our operating segments.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and accompanying notes. We evaluate our estimates on an ongoing basis when updated information related to such estimates becomes available. We base our estimates on historical experience and information available to us at the time these estimates are made. Actual results could differ materially from these estimates.

Significant Accounting Policies

During the three and nine months ended July 31, 2017, there have been no changes in our significant accounting policies as described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2016, except as follows:

Equity Method Investments

Equity investments are accounted for under the equity method if we are able to exert significant influence over the investee company but do not have a controlling financial interest. Equity method investments, which are initially recorded at fair value and are adjusted for our proportionate share of the earnings and losses of the equity method investee, are included in Other long-term assets in our Consolidated Balance Sheets. Earnings and losses of equity method investments are based on the most recently available financial statements of the investee and are included in

Other income (expense), net in our Consolidated Statements of Operations. Basis differences between the cost of an equity method investment and the underlying equity in the long-lived assets are amortized over the estimated economic useful life of the underlying long-lived asset. We periodically review our equity method investments for impairment and record a reduction in the carrying value, if and when necessary.

7

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Concentrations of Credit Risk

For the three and nine months ended July 31, 2017 and 2016, no single customer accounted for more than 10% of our total Net revenues. As of July 31, 2017 and October 31, 2016, no single customer accounted for more than 10% of our total Accounts receivable, net.

Recently Adopted Accounting Pronouncements

During August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments, which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. We adopted ASU 2016-15 retrospectively, effective November 1, 2016. Adoption had no impact on our consolidated statements of cash flows in any periods presented.

During November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows - Restricted Cash, which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. We adopted ASU 2016-18 retrospectively, effective November 1, 2016. Restricted cash is now included as a component of Cash, cash equivalents and restricted cash on our Consolidated Statements of Cash Flows for all periods presented.

During January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment, which simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The standard is effective for annual or interim impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We adopted this standard in connection with the goodwill impairment assessment of our Taxi Solutions reporting unit during the three months ended April 30, 2017. See Note 7, Goodwill and Purchased Intangible Assets for additional information.

Recent Accounting Pronouncements Not Yet Adopted

During May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, as amended by ASU 2015-14, 2016-08, 2016-10, and 2016-12, which provides new guidance on the recognition of revenue and states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted as of reporting periods beginning after December 15, 2016. We expect to adopt ASU 2014-09 effective in the first interim period of our fiscal year ending October 31, 2019 and are currently evaluating the transition method we will use. We expect that this standard may impact, in some cases, the timing and amount of revenue recognized, as well as our revenue disclosures. Additionally, the direct costs to obtain and fulfill customer contracts, in some cases, may be deferred and amortized under the new standard. We are in the process of assessing the specific revenue streams impacted and quantifying the materiality of these impacts.

During January 2017, the FASB issued ASU 2017-01, Business Combinations - Clarifying the Definition of a Business, which provides new guidance to assist entities with evaluating when a set of transferred assets and activities is a business. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted in certain circumstances. We are currently in the process of evaluating our adoption timing and the impact of this new pronouncement on our consolidated financial position and results of operations.

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

During March 2017, the FASB issued ASU 2017-07, Compensation—Retirement Benefits - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which provides guidance to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on our consolidated financial position and results of operations.

During May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation - Scope of Modification Accounting, which provides guidance that clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for any interim and annual financial statements that have not yet been issued. We are currently in the process of evaluating our adoption timing and the impact of this new pronouncement on our consolidated financial position and results of operations.

During August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities, which expands and refines hedge accounting for both non-financial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted for any interim and annual financial statements that have not yet been issued. We are currently in the process of evaluating our adoption timing and the impact of this new pronouncement on our consolidated financial position and results of operations.

Note 2. Business Combinations

Fiscal year 2017 Divestiture

On June 30, 2017, we divested our controlling interest in Verifone Systems (China), Inc., the entity which operated our China business, to the former general manager of this business. In connection with this divestiture, we retained a 30% equity interest in Verifone Systems (China), Inc., in the form of non-voting preferred equity that has a \$29 million liquidation preference and is non-convertible for an initial two year period. Our 30% equity interest is accounted for as a cost method investment, and its fair value, determined using the income approach, was deemed nominal. The income approach, which we believe most appropriately measures the fair value of this income producing asset, calculates fair value by discounting estimated after-tax cash flows to a present value, using a risk-adjusted discount rate. Our investment is classified as Level 3 because we use significant unobservable inputs to determine the expected cash flows and an appropriate discount rate to calculate the fair value. The significant unobservable inputs we use to value this investment include our estimate of the future expected revenues, margins and other cash outlays, as well as expected terminal value growth rates of the China business. See Note 9, Restructuring and Related Charges, for additional information.

We have determined that the divested Verifone Systems (China), Inc. entity is a variable interest entity and that we are not the primary beneficiary. Our determination is primarily based upon our conclusions that the divested entity's equity investment at risk is not sufficient to finance its activities without additional financial support, and we do not have the power to direct the activities that most significantly impact the entity's economic performance.

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Fiscal year 2017 Exchange Transaction

On April 7, 2017, we entered into an exchange transaction with DMI Parent, DMI Holdings and Gas Media under which we contributed certain assets, consisting of customer contracts associated with our business of marketing, promoting, selling and distributing media and advertising solutions for display or use in petroleum forecourts in the United States, in exchange for a 50% equity interest in Gas Media, and DMI Parent contributed 100% of its equity interest in DMI Holdings in exchange for a 50% equity interest in Gas Media. Gas Media will be operated by DMI Parent and Verifone, but is not jointly controlled by both parties. In connection with the exchange transaction, we have agreed to guarantee, in certain circumstances, up to \$12.5 million out of a total of \$83.8 million of debt issued to Gas Media.

Our investment in Gas Media is accounted for as an equity method investment and was initially valued at \$19.2 million. The debt guarantee was deemed to have a nominal value. We have used the income approach to determine the fair value of our investment in Gas Media. The income approach, which we believe most appropriately measures the fair value of this income producing asset, calculates fair value by discounting estimated after-tax cash flows to a present value, using a risk-adjusted discount rate. Our investment is classified as Level 3 because we use significant unobservable inputs to determine the expected cash flows and an appropriate discount rate to calculate the fair value. The significant unobservable inputs we use to value the Gas Media investment include our estimate of the future expected revenues, margins and other cash outlays, as well as the terminal value growth rates of the Gas Media business. The discount rate used to determine the fair value of this investment is 18.7%.

As a result of this exchange transaction, we recorded a \$10.1 million gain that is included in Other income (expense), net in the Condensed Consolidated Statements of Operations. The gain was determined as the excess of the fair value of Verifone's 50% equity interest in Gas Media over the carrying value of the contributed assets, including allocated goodwill.

We have made the election to use a one-month lag to record our share of Gas Media results. For the three and nine month periods ended July 31, 2017, we recorded a \$1.2 million loss, which represents our portion of Gas Media earnings, and is included in Other income (expense), net in the Condensed Consolidated Statements of Operations.

Note 3. Net income (loss) per Share of Common Stock

Basic net income (loss) per share of common stock is computed by dividing net income (loss) attributable to VeriFone Systems, Inc. stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted net income (loss) per share of common stock is computed using the weighted average number of shares of common stock outstanding plus the effect of common stock equivalents, unless the common stock equivalents are anti-dilutive. The potential dilutive shares of our common stock resulting from assumed exercises of equity related instruments are determined using the treasury stock method. Under the treasury stock method, an increase in the fair market value of our common stock will result in a greater number of dilutive securities.

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents the computation of net income (loss) per share of common stock (in thousands, except per share data):

| | Three Months Ended July 31, | | Nine Months Ended July 31, | |
|---|--------------------------------|------------|-------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Basic and diluted net loss per share attributable to VeriFone Systems, Inc. stockholders: | | | | |
| Numerator: | | | | |
| Net loss attributable to VeriFone Systems, Inc. stockholders | \$(70,955) | \$(31,138) | \$(176,845) | (4,738) |
| Denominator: | | | | |
| Weighted average shares attributable to VeriFone Systems, Inc. stockholders - basic | 111,951 | 110,689 | 111,669 | 110,763 |
| Weighted average effect of dilutive stock options, RSUs and RSAs | — | — | — | — |
| Weighted average shares attributable to VeriFone Systems, Inc. stockholders - diluted | 111,951 | 110,689 | 111,669 | 110,763 |
| Net loss per share attributable to VeriFone Systems, Inc. stockholders: | | | | |
| Basic | \$(0.63) | \$(0.28) | \$(1.58) | \$(0.04) |
| Diluted | \$(0.63) | \$(0.28) | \$(1.58) | \$(0.04) |

For both the three and nine months ended July 31, 2017, equity incentive awards representing 6.8 million shares of common stock, respectively, were excluded from the calculation of weighted average shares for diluted net loss per share as they were anti-dilutive because we incurred net losses for those periods. For both the three and nine months ended July 31, 2016, equity incentive awards representing 7.1 million shares of common stock were anti-dilutive because we incurred net losses for those periods. Anti-dilutive awards, which include stock options, RSUs and RSAs, could impact future calculations of diluted net income per share if the fair market value of our common stock increases.

For the nine months ended July 31, 2016, we repurchased approximately 2.6 million shares of our common stock on the open market at an average repurchase price of \$28.02 per share pursuant to a stock repurchase program authorized by our Board of Directors in September 2015. No shares were repurchased during the nine months ended July 31, 2017.

Note 4. Income Taxes

We recorded tax provisions totaling \$10.3 million and \$0.3 million for the three months ended July 31, 2017 and 2016, respectively. The income tax provision for the three months ended July 31, 2017 was primarily attributable to foreign taxes and discrete items related to restructuring charges. The income tax provision for the three months ended July 31, 2016 was primarily related to foreign taxes, which were partially offset by the reversal of unrecognized tax benefits where statute of limitations expired or audits have been settled. We recorded tax provisions totaling \$22.1 million and \$5.4 million for the nine months ended July 31, 2017 and 2016, respectively. The income tax provision for the nine months ended July 31, 2017 was primarily attributable to foreign taxes and discrete items related to restructuring charges. The income tax provision for the nine months ended July 31, 2016 was primarily related to foreign taxes partially offset by the reversal of unrecognized tax benefits where statute of limitations expired or audits have been settled.

Our total unrecognized tax benefits were approximately \$109.2 million as of July 31, 2017. The amount of unrecognized tax benefits could be reduced upon closure of tax examinations or if the statute of limitations on certain tax filings expires without assessment from the relevant tax authorities. We believe that it is reasonably possible that there could be an immaterial reduction in unrecognized tax benefits due to statute of limitation expirations in multiple tax jurisdictions during the next 12 months. Interest and penalties accrued on these uncertain tax positions will also be released upon the expiration of the applicable statute of limitations.

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Israel Tax Audit Assessment

We are currently under audit by the Israeli Tax Authorities for fiscal years 2011 through 2015. The Israeli Tax Authorities issued a tax assessment in October 2014 for fiscal year 2009 or alternatively for fiscal year 2008 claiming there was a business restructuring that resulted in a transfer of some functions, assets and risks from VeriFone Israel Ltd. to the U.S. parent company that the Israeli Tax Authorities claim was a sale valued at 1.36 billion New Israeli Shekels (approximately \$383.8 million at the foreign exchange rate as of July 31, 2017). We filed our objection to the tax assessment in January 2015 and received the Israeli Tax Authorities decision through an Order (a second stage assessment) in January 2016. The Order increased the value of the sale to 2.20 billion New Israeli Shekels in fiscal year 2009 (approximately \$620.4 million at the foreign exchange rate as of July 31, 2017) or alternatively 2.23 billion New Israeli Shekels in fiscal year 2008 (approximately \$627.6 million at the foreign exchange rate as of July 31, 2017) and contended secondary adjustments relating to a deemed dividend and/or interest.

Based on the Order, these and other claims result in a tax liability and deficiency penalty assessment in the amount of 1.32 billion New Israeli Shekels (approximately \$371.3 million at the foreign exchange rate as of July 31, 2017), if the claim was assessed for fiscal year 2009, to 1.56 billion New Israeli Shekels (approximately \$438.2 million at the foreign exchange rate as of July 31, 2017) if the claim was assessed for fiscal year 2008, including interest, the required Israeli price index adjustments (referred to as the linkage differentials) and deficiency fines (as applicable) through July 31, 2017. The Israeli Tax Authorities' contention regarding secondary adjustments relating to deemed dividend was not quantified by them.

We continue to believe the Israeli Tax Authorities' assessment position is without merit and appealed the assessment to the district court. We have agreed with the Israeli Tax Authorities to repay our \$69.0 million intercompany loan from VeriFone Israel Ltd. to the extent of the amount of a final agreed tax assessment concerning fiscal year 2008 and fiscal year 2009 or a judgment of a district court in an appeal on the decision of the Israeli Tax Authorities in the objection, if any.

Other Audits

We have certain other foreign subsidiaries under audit by foreign tax authorities, including Brazil for 2002, Germany for 2013 to 2015, India for fiscal years 2008 to 2015 and New Zealand for fiscal years 2014 and 2015. Although we believe we have appropriately provided for income taxes for the years subject to audit, the Brazil, Germany, India, Israel and New Zealand taxing authorities may adopt different interpretations. We have not yet received any final determinations with respect to these audits. We have accrued tax liabilities associated with these audits. With few exceptions, we are no longer subject to tax examination for periods prior to 2008.

Note 5. Balance Sheet and Statement of Operations Components

Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash shown in the Condensed Consolidated Statements of Cash Flows (in thousands):

| | July 31, | October |
|---------------------------|------------|------------|
| | 2017 | 31, 2016 |
| Cash and cash equivalents | \$ 158,826 | \$ 148,352 |

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| | | |
|---|-----------|-----------|
| Restricted cash included in Prepaid expenses and other current assets | 24,114 | 9,008 |
| Restricted cash included in Other long-term assets | 1,445 | 1,821 |
| Cash, cash equivalents and restricted cash | \$184,385 | \$159,181 |

Restricted cash as of July 31, 2017 and October 31, 2016 was mainly comprised of pledged deposits.

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Inventories

Inventories consisted of the following (in thousands):

| | July 31, 2017 | October 31, 2016 |
|-------------------|------------------|---------------------|
| Raw materials | \$31,568 | \$35,453 |
| Work-in-process | 551 | 3,884 |
| Finished goods | 95,377 | 135,894 |
| Total inventories | \$127,496 | \$175,231 |

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

| | July 31, 2017 | October 31, 2016 |
|---|------------------|---------------------|
| Assets held for sale | \$50,731 | \$5,131 |
| Prepaid expenses | 53,234 | 46,240 |
| Other current assets | 61,891 | 59,026 |
| Total prepaid expenses and other current assets | \$165,856 | \$110,397 |

Assets held for sale relate to our Taxi Solutions and petroleum media businesses. See Note 9, Restructurings and Related Charges, for additional information. Other current assets were comprised primarily of prepaid taxes and restricted cash.

Property and Equipment, Net

Property and equipment, net consisted of the following (in thousands):

| | Estimated Useful Life (Years) | July 31, 2017 | October 31, 2016 |
|---|--|------------------|---------------------|
| Revenue generating assets | 5 | \$141,009 | \$209,725 |
| Computer hardware and software | 3-5 | 106,830 | 112,984 |
| Machinery and equipment | 3-10 | 49,254 | 57,020 |
| Leasehold improvements | Lesser of the term of the lease or the estimated useful life | 30,881 | 31,328 |
| Office equipment, furniture, and fixtures | 3-5 | 20,341 | 18,573 |
| Buildings | 40-50 | 6,026 | 6,011 |
| Total depreciable property and equipment, at cost | | 354,341 | 435,641 |
| Accumulated depreciation | | (232,142) | (243,127) |
| Depreciable property and equipment, net | | 122,199 | 192,514 |
| Construction in progress | | 7,081 | 8,600 |
| Land | | 1,174 | 1,163 |
| Total property and equipment, net | | \$130,454 | \$202,277 |

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Accruals and Other Current Liabilities

Accruals and other current liabilities consisted of the following (in thousands):

| | July 31, 2017 | October 31, 2016 |
|--|------------------|---------------------|
| Accrued expenses | \$55,166 | \$ 76,187 |
| Accrued compensation | 59,503 | 52,555 |
| Other current liabilities | 138,570 | 84,669 |
| Total accruals and other current liabilities | \$253,239 | \$ 213,411 |

Other current liabilities were comprised primarily of liabilities held for sale, accrued restructuring and related accruals, sales and value-added taxes payable, income taxes payable, and accrued warranty.

Accrued Warranty

Activity related to accrued warranty consisted of the following (in thousands):

| | Nine Months Ended July 31, | |
|--|-------------------------------|-----------|
| | 2017 | 2016 |
| Balance at beginning of period | \$16,656 | \$16,320 |
| Warranty charged to Cost of net revenues | 8,546 | 7,156 |
| Utilization of warranty accrual | (10,005) | (7,348) |
| Other | 385 | 124 |
| Balance at end of period | 15,582 | 16,252 |
| Less: current portion | (13,667) | (12,918) |
| Long-term portion | \$1,915 | \$3,334 |

Deferred Revenue, Net

Deferred revenue, net of related costs consisted of the following (in thousands):

| | July 31, 2017 | October 31, 2016 |
|--------------------------|------------------|---------------------|
| Deferred revenue | \$199,050 | \$185,788 |
| Deferred cost of revenue | (21,605) | (14,475) |
| Deferred revenue, net | 177,445 | 171,313 |
| Less: current portion | (110,639) | (104,797) |
| Long-term portion | \$66,806 | \$66,516 |

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Stock-Based Compensation Expense

The following table presents the stock-based compensation expense recognized in our Condensed Consolidated Statements of Operations (in thousands):

| | Three Months | | Nine Months | |
|--|----------------|----------|----------------|----------|
| | Ended July 31, | | Ended July 31, | |
| | 2017 | 2016 | 2017 | 2016 |
| Cost of net revenues | \$1,172 | \$871 | \$3,227 | 2,563 |
| Research and development | 1,776 | 1,850 | 5,175 | 5,644 |
| Sales and marketing | 2,929 | 3,204 | 8,760 | 10,303 |
| General and administrative | 3,442 | 4,925 | 12,888 | 14,379 |
| Total stock-based compensation expense | \$9,319 | \$10,850 | \$30,050 | \$32,889 |

Accumulated Other Comprehensive Loss

Activity related to Accumulated other comprehensive loss consisted of the following (in thousands):

| | Foreign currency translation adjustments (1) | Unrealized gain (loss) on derivatives designated as cash flow hedges (2) | Other (3) | Total |
|--|--|---|-------------|---------------|
| Balance at October 31, 2016 | \$ (333,280) | \$ (2,419) | \$ (5,295) | \$ (340,994) |
| Gains before reclassifications | 74,952 | 4,003 | — | 78,955 |
| Amounts reclassified from Accumulated other comprehensive loss | 7,011 | 1,217 | 190 | 8,418 |
| Tax effect | (391) | (1,981) | — | (2,372) |
| Other comprehensive income | 81,572 | 3,239 | 190 | 85,001 |
| Balance at July 31, 2017 | \$ (251,708) | \$ 820 | \$ (5,105) | \$ (255,993) |

(1) Amounts reclassified from Accumulated other comprehensive loss were recorded in Redeemable noncontrolling interest in subsidiary and Noncontrolling interests in subsidiaries in the Condensed Consolidated Balance Sheets.

(2) Amounts reclassified from Accumulated other comprehensive loss were recorded in Interest expense, net in the Condensed Consolidated Statements of Operations.

(3) Amounts reclassified from Accumulated other comprehensive loss, net of tax, were recorded in General and administrative expenses in the Condensed Consolidated Statements of Operations. The related tax impacts were insignificant.

Note 6. Financial Instruments

Fair Value Measurements

Our financial assets and liabilities consist principally of cash, accounts receivable, accounts payable, debt, foreign exchange forward contracts, interest rate swaps and contingent consideration payable. The estimated fair value of cash, accounts receivable and accounts payable approximates their carrying value. The estimated fair value of our debt approximates the carrying value because the interest rate on such debt adjusts to market rates on a periodic basis. Assets held for sale, foreign exchange forward contracts, interest rate swaps and contingent consideration payable are recorded at estimated fair value.

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

During the nine months ended July 31, 2017, there was no material change in the items we measure and record at fair value on a recurring basis. Additionally, there were no transfers between levels of the fair value hierarchy in the nine months ended July 31, 2017.

Fair Value of Contingent Consideration Payable

The fair value of contingent consideration payable totaled zero at July 31, 2017 and \$6.0 million at October 31, 2016, and is comprised of amounts payable related to acquisitions. We evaluate changes in the assumptions used to calculate the fair value of contingent consideration payable at the end of each period. The maximum liability on contingent consideration payable is indeterminate because it is based on contributions from the acquired businesses.

See Note 9, Restructurings and Related Charges, for information regarding assets measured and recorded at fair value on a non-recurring basis.

Derivative Financial Instruments

Interest Rate Swap Agreements Designated as Cash Flow Hedges

We use interest rate swap agreements to hedge the variability in cash flows related to interest payments. As of July 31, 2017, we have outstanding interest rate swap agreements to effectively convert \$450.0 million of the term A loan from a floating rate plus applicable margin to a fixed rate of 1.20% plus applicable margin through March 30, 2018. The principal amount under the term A loan covered by the interest rate swap agreements will decrease to \$400.0 million from October 1, 2017 through March 30, 2018. In addition, we have an outstanding interest rate swap agreement to effectively convert \$350.0 million of the term A loan to a fixed rate of 0.975% plus applicable margin from March 30, 2018 through June 30, 2019.

The interest rate swaps qualify for hedge accounting treatment as cash flow hedges. The notional amounts of interest rate swap agreements outstanding as of July 31, 2017 and October 31, 2016 were \$450.0 million and \$500.0 million, respectively.

Foreign Exchange Forward Contracts Not Designated as Hedging Instruments

We arrange and maintain foreign currency exchange forward contracts so as to yield gains or losses to offset changes in foreign currency denominated assets or liabilities due to changes in foreign exchange rates, with the objective to mitigate the volatility associated with foreign currency transaction gains or losses. Our foreign currency exposures are predominantly inter-company receivables and payables arising from product sales and loans from one of our entities to another. Our foreign exchange forward contracts generally mature within 90 days. The notional amounts of such contracts outstanding as of July 31, 2017 and October 31, 2016 were \$249.0 million and \$175.0 million, respectively. Gains and losses on foreign exchange forward contracts not designated as hedging instruments for the three and nine months ended July 31, 2017 were not material.

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 7. Goodwill and Purchased Intangible Assets

Goodwill

Activity related to goodwill by reportable segment consisted of the following (in thousands):

| | Verifone Systems | Verifone Services | Total |
|--|---------------------|----------------------|-------------|
| Balance at October 31, 2016 | \$497,126 | \$613,367 | \$1,110,493 |
| Additions | — | 5,647 | 5,647 |
| Goodwill impairment | — | (17,384) | (17,384) |
| Reclassification to assets held for sale | — | (28,327) | (28,327) |
| Disposals | — | (10,096) | (10,096) |
| Currency translation adjustments | 22,173 | 34,246 | 56,419 |
| Balance at July 31, 2017 | \$519,299 | \$597,453 | \$1,116,752 |

We review goodwill for impairment annually and whenever events or changes in circumstances indicate its carrying amount may not be recoverable. During the second quarter of fiscal year 2017, management concluded that the carrying amount of the goodwill related to our Taxi Solutions reporting unit may not be recoverable, and based on a quantitative assessment, considering potential sales transactions, management determined the fair value of the reporting unit and concluded that the goodwill was impaired by \$17.4 million. Also, during the second quarter of fiscal year 2017, our management committed to a plan to sell our Taxi Solutions reporting unit, and the remaining \$28.3 million of goodwill was reclassified to assets held for sale. See Note 9, Restructuring and Related Charges, for additional information.

Goodwill disposals relate to the exit from our petroleum media business during March 2017. See Note 9, Restructuring and Related Charges, for additional information.

There were no indicators of impairment for our Verifone Systems and Verifone Payment Services reporting units during the nine months ended July 31, 2017.

Purchased Intangible Assets, Net

Purchased Intangible assets, net consisted of the following (in thousands):

| | July 31, 2017 | | | October 31, 2016 | | |
|------------------------|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer relationships | \$512,812 | \$(279,020) | \$233,792 | \$521,964 | \$(249,513) | \$272,451 |
| Other | 46,179 | (22,439) | 23,740 | 73,175 | (39,328) | 33,847 |
| Total | \$558,991 | \$(301,459) | \$257,532 | \$595,139 | \$(288,841) | \$306,298 |

Other intangible assets, net, were comprised primarily of developed and core technology.

When purchased intangible assets reach the end of their useful lives, gross carrying amount and accumulated amortization are offset. During the nine months ended July 31, 2017, we offset \$40.9 million of Gross carrying

amount and Accumulated amortization of intangible assets related to customer relationships and \$27.1 million related to other intangible assets, because they reached the end of their useful lives.

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Amortization of purchased intangible assets was allocated as follows (in thousands):

| | Three Months | | Nine Months | |
|---|----------------|----------|----------------|----------|
| | Ended July 31, | | Ended July 31, | |
| | 2017 | 2016 | 2017 | 2016 |
| Included in Cost of net revenues | \$1,428 | \$3,952 | \$5,502 | \$11,761 |
| Included in Operating expenses | 16,696 | 24,286 | 53,873 | 65,886 |
| Total amortization of purchased intangible assets | \$18,124 | \$28,238 | \$59,375 | \$77,647 |

Total future amortization expense for purchased intangible assets that have finite lives, based on our existing intangible assets and their current estimated useful lives as of July 31, 2017, is estimated as follows (in thousands):

| | Cost of | Operating | Total |
|-----------------------------------|--------------|-----------|-----------|
| | Net Revenues | Expenses | |
| Fiscal Years Ending October 31: | | | |
| Remaining of fiscal year 2017 | \$ 1,504 | \$15,388 | \$16,892 |
| 2018 | 5,564 | 58,256 | 63,820 |
| 2019 | 5,441 | 52,494 | 57,935 |
| 2020 | 3,730 | 44,386 | 48,116 |
| 2021 | 2,552 | 32,258 | 34,810 |
| Thereafter | 1,101 | 34,858 | 35,959 |
| Total future amortization expense | \$ 19,892 | \$237,640 | \$257,532 |

Note 8. Debt

Amounts outstanding under our financing arrangements consisted of the following (in thousands):

| | July 31, | October 31, |
|---|-----------|-------------|
| | 2017 | 2016 |
| Credit Agreement | | |
| Term A loan | \$480,000 | \$525,000 |
| Term B loan | 194,000 | 195,500 |
| Revolving loan | 201,153 | 204,684 |
| Capital leases and other debt | 10,793 | 11,573 |
| Total principal payments due | 885,946 | 936,757 |
| Less: original issue discount and debt issuance costs | (7,845) | (10,844) |
| Total amounts outstanding | 878,101 | 925,913 |
| Less: current portion | (68,216) | (66,017) |
| Long-term portion | \$809,885 | \$859,896 |

Credit Agreement

Key terms of our credit agreement include financial maintenance covenants and certain representations, warranties, covenants and conditions that are customarily required for similar financings. We complied with all financial covenants under our credit agreement as of July 31, 2017.

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Borrowings under the credit agreement may be “Base Rate Borrowings” or “Eurodollar Borrowings” at our option. As of July 31, 2017, we have elected the Eurodollar option for all of our borrowings. Eurodollar loans bear interest at a monthly market interest rate plus a margin according to the credit agreement. As of July 31, 2017, the monthly market interest rate was 1.24% for our term A and revolver loans, and 1.24% for our term B loan, and the margins were 2.00% for our term A and revolver loans and 2.75% for our term B loan. Accordingly, as of July 31, 2017, the interest rate was 3.24% for the term A and revolving loans and 3.99% for the term B loan.

We have a number of interest rate swap agreements under which we currently pay banks a fixed rate of 1.20% and receive a monthly floating rate, which effectively converts \$450.0 million of the term A loan from a floating interest rate to a fixed interest rate as of July 31, 2017. See Note 6, Financial Instruments, for additional information.

As of July 31, 2017, the commitment fee for the unused portion of the revolving loan was 0.25% per annum, payable quarterly in arrears, and the amount available to draw under the revolving loan was \$298.7 million.

Note 9. Restructuring and Related Charges

As part of cost optimization and corporate transformation initiatives, our management has approved, committed to and initiated various restructuring plans to reduce headcount, exit under-performing businesses, and consolidate facilities and data centers.

Activity related to our restructuring and related accruals for the nine months ended July 31, 2017 consisted of the following (in thousands):

| | Restructuring Plans | | | | | |
|-----------------------------|---------------------|---|---|--------------------------|---|---------------------------|
| | Prior year Plans | Employee Involuntary Termination Benefits | Employee Involuntary Termination Benefits | Facilities Related Costs | Employee Involuntary Termination Benefits | Other Business Exit Costs |
| Balance at October 31, 2016 | \$1,700 | \$5,225 | \$2,807 | \$ — | \$— | \$9,732 |
| Charges, net of adjustments | (736) | 7,283 | (750) | 9,783 | 28,063 | 43,643 |
| Cash payments | (822) | (7,793) | (857) | (3,765) | (5,809) | (19,046) |
| Balance at July 31, 2017 | \$142 | \$4,715 | \$1,200 | \$6,018 | \$22,254 | \$34,329 |
| Cumulative costs to date | \$18,596 | \$19,190 | \$2,679 | \$9,783 | \$28,063 | |

Activities under these Restructuring Plans are expected to be substantially complete by the end of fiscal year 2017.

Restructuring and related charges were allocated as follows (in thousands):

| | Three Months Ended July 31, 2017 | | Nine Months Ended July 31, 2016 | |
|----------------------------------|----------------------------------|---------|---------------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| Included in Cost of net revenues | \$12,893 | \$2,301 | \$25,250 | \$2,212 |
| Included in Operating expenses | 65,705 | 33,629 | 135,743 | 34,196 |

Total restructuring and related charges \$78,598 \$35,930 \$160,993 \$36,408

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

During the second quarter of fiscal year 2017, our management committed to a plan to exit our petroleum media business, which was part of our Verifone Services segment. In connection with this decision, we contributed certain assets to Gas Media, terminated certain customer agreements and classified the remaining assets of this business as held for sale, resulting in a \$49.1 million write-down to reflect the assets held for sale at fair value, of which \$10.6 million is included in Cost of net revenues and \$38.5 million is included in Restructuring and related charges in the Condensed Consolidated Statements of Operations. The fair value of these assets held for sale was determined based upon the value at which the assets are being offered to customers in connection with the termination of the associated customer agreements. Additionally, during the second quarter of fiscal year 2017, we recorded a \$28.1 million accrual for future obligations associated with the terminated customer agreements.

During the second quarter of fiscal year 2017, our management committed to a plan to sell our Taxi Solutions reporting unit and we classified the net assets and liabilities of this business, including Accounts receivable, Prepaid expenses and other current assets, Fixed Assets, Goodwill and Accruals and other current liabilities, as held for sale. These assets held for sale were stated at fair value in connection with the quantitative assessment of goodwill impairment discussed in Note 7, Goodwill and Purchased Intangible Assets. Additionally, during July 2017, based upon continued negotiations of potential sales transactions, management updated the fair value of the assets held for sale, resulting in a \$43.2 million fair value adjustment, which is included in Restructuring and related charges in the Condensed Consolidated Statements of Operations. As of July 31, 2017, the gross assets held for sale are presented in Prepaid expenses and other current assets in the Condensed Consolidated Balance Sheet and the gross liabilities held for sale are presented in Accruals and other current liabilities in the Condensed Consolidated Balance Sheet.

During June 2017, we divested our controlling interest in the entity that operated our China business, including primarily Accounts receivable, Inventories, Prepaid expenses and other current assets, as well as Accounts payable, and Accruals and other current liabilities, resulting in a \$24.4 million charge, of which \$11.1 million is included in Cost of net revenues and \$13.3 million is included in Restructuring and related charges in the Condensed Consolidated Statements of Operations. The fair value of these net assets and liabilities was determined based upon the consideration received in the divestiture transaction. See Note 2, Business Combinations, for additional information.

Businesses that we have disposed or are committed to sell incurred losses totaling \$70.3 million and \$176.4 million for the three and nine months ended July 31, 2017, respectively, and \$40.6 million and \$68.7 million for the three and nine months ended July 31, 2016, respectively. The losses in the three and nine months ended July 31, 2017 include the restructuring and related charges discussed above.

Note 10. Commitments and Contingencies

Commitments

On April 3, 2017, to lock in pricing on certain components, we committed to purchase \$144 million of such components over a four year period, \$36 million per year, from one of our existing suppliers. As of July 31, 2017 our remaining non-cancelable commitment under this agreement totaled \$112.1 million. Other than this arrangement, there have been no material changes to our non-cancelable operating lease commitments and manufacturing agreements since October 31, 2016.

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Bank Guarantees

We have arranged bank guarantees with maturities ranging from two months to eight years to certain of our customers and vendors as required in some countries to support certain performance obligations under our service or other agreements with those parties. As of July 31, 2017, the maximum amount that may become payable under these guarantees was \$17.8 million, of which \$2.3 million was collateralized by restricted cash deposits.

In addition, in connection with our investment in Gas Station TV we have agreed to guarantee, in certain circumstances, up to \$12.5 million of debt issued to Gas Media. As of July 31, 2017, we have not made any payments and no amounts are accrued related to this guarantee.

Contingencies

We evaluate the circumstances regarding outstanding and potential litigation and other contingencies on a quarterly basis to determine whether there is at least a reasonable possibility that a loss exists requiring accrual or disclosure, and if so, whether an estimate of the possible loss or range of loss can be made, or whether such an estimate cannot be made. When a loss is probable and reasonably estimable, we accrue for such amount based on our estimate of the probable loss considering information available at the time. When a loss is reasonably possible, we disclose the estimated possible loss or range of loss in excess of amounts accrued, if material. Except as otherwise disclosed below, we do not believe that material losses were probable or that there was a reasonable possibility that a material loss may have been incurred with respect to the matters disclosed.

Brazilian Tax Assessments

State Value-Added Tax

The Brazilian subsidiary we acquired as part of our acquisition of Hypercom in August 2011 received an unfavorable administrative decision on a tax enforcement action against it filed by the São Paulo State Revenue Department for collection of state sales taxes related to purported sales of software for the 1998 and 1999 tax years. In 2004, an appeal against this unfavorable administrative decision was filed in a judicial proceeding. The first level decision in the judicial proceeding was issued in our favor. The São Paulo State Revenue Department filed an appeal of this decision. The second level administrative decision ordered that the case be returned to the lower court in order to allow the production of further evidence. Based on our current understanding of the underlying facts of this matter, we believe it is reasonably possible that we may receive an unfavorable decision in this proceeding. The tax assessment including estimated interest through July 31, 2017 for this matter totals approximately 9.3 million Brazilian reais (approximately \$3.0 million at the foreign exchange rate as of July 31, 2017). As of July 31, 2017, we have not accrued for this matter, but we have posted a bank bond as a guaranty.

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Municipality Services Tax Assessments

In December 2009, one of the Brazilian subsidiaries that was acquired as part of the Lipman acquisition was notified of a tax assessment regarding alleged nonpayment of tax on services rendered for the period from September 2004 to December 2004. This assessment was issued by the municipality of São Paulo (the "municipality") and asserts a services tax deficiency and related penalties totaling 875,000 Brazilian reais (approximately \$280,000 at the foreign exchange rate as of July 31, 2017), excluding interest. The municipality claims that the Brazilian subsidiary rendered certain services within the municipality of São Paulo but simulated that those services were rendered in another city. At the end of December 2010 the municipality issued further tax assessments alleging the same claims for 2005 through June 2007. These additional subsequent claims assert services tax deficiencies and related penalties totaling 5.8 million Brazilian reais (approximately \$1.8 million at the foreign exchange rate as of July 31, 2017), excluding interest. We received unfavorable decisions from the administrative courts, which ruled to maintain the tax assessments for each of these matters. No further grounds of appeal are available to us for these assessments within the administrative courts. In October 2012, as a result of the decision at the administrative level, the tax authorities filed an enforcement action in the civil courts to collect on the services tax assessments amounts awarded by the administrative court and seeking other related costs and fees. On March 6, 2013, we filed our defensive claims in the civil courts in response to the tax authorities' enforcement action. In February 2013 the tax authorities filed an additional enforcement action in the civil courts to collect on the penalties related to the services tax assessments amounts awarded by the administrative courts. Based on our understanding of the underlying facts of this matter and our evaluation of the potential outcome at the judicial level, we believe it is reasonably possible that our Brazilian subsidiary will be required to pay some amount of the alleged tax assessments and penalties related to these matters, as well as amounts of interest and certain costs and fees imposed by the court related thereto. As of July 31, 2017, the amount of the alleged tax assessments and penalties related to these matters was approximately 26.4 million Brazilian reais (approximately \$8.4 million at the foreign exchange rate as of July 31, 2017), including interest, costs and fees related thereto.

The Brazilian subsidiary we acquired as part of our acquisition of Hypercom in August 2011 received an unfavorable administrative decision on a tax enforcement action against it filed by the municipality of Curitiba for collection of alleged services tax deficiency. An appeal against this unfavorable administrative decision was filed in a judicial proceeding and currently the case is pending the municipality of Curitiba's compliance with the writ of summons. As of July 31, 2017, the underlying assessment, including estimated interest, was approximately 5.9 million Brazilian reais (approximately \$1.9 million at the foreign exchange rate as of July 31, 2017). Based on our current understanding of the underlying facts of this matter, we believe it is reasonably possible that we may receive an unfavorable decision in this proceeding.

Israel Securities Class Actions

On January 27, 2008, a class action complaint was filed against us in the Central District Court in Tel Aviv, Israel on behalf of purchasers of our stock on the Tel Aviv Stock Exchange. The complaint sought compensation for damages allegedly incurred by the class of plaintiffs due to the publication of erroneous financial reports. On April 2, 2015, the Israeli Supreme Court ruled that the applicable law is U.S. law and dismissed this action as estopped by settlement of the similar consolidated federal securities class action in the U.S. (In re VeriFone Holdings, Inc., previously reported). The plaintiff and putative class members in this Israeli action are included in the stipulated settlement of the U.S. class action unless an individual plaintiff opts out. On June 29, 2015, the plaintiff filed a motion for award of compensation and attorneys' fees based on the amount of settlement compensation received by Israelis in the U.S. class action. On

January 14, 2016, the Israeli District Court denied this motion. Plaintiff has not timely appealed, that ruling is now final, and this 2008 action is now concluded.

On May 12, 2015, a new class action complaint was filed against us in Israel alleging similar claims as the dismissed Israeli class action and alleging that Israeli shareholders were deprived of due process in the U.S. class action settlement proceedings. We are opposing the new class action and plaintiff's class certification motion on substantially the same grounds on which the previous case was dismissed. The court held a pretrial hearing on that motion on May 19, 2016, at which it requested additional information including expert reports, a position paper from the Israel Securities Authority ("ISA") and further briefing. In July 2016, the ISA submitted a position paper supporting our position regarding applicable law. Other requested information has also now been submitted, but the court has not yet ruled.

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Dolled v. Bergeron et al.

On April 19, 2013, a derivative action, Dolled v. Bergeron et al., Case No. 113-CV-245056, was filed in the Superior Court of California, County of Santa Clara in connection with our February 20, 2013 announcement of preliminary financial results for the fiscal quarter ended January 31, 2013. The action, brought derivatively on behalf of Verifone, names Verifone as a nominal defendant and brings claims for insider selling, breach of fiduciary duty and unjust enrichment variously against certain of our current and former officers and directors. The complaint seeks unspecified monetary damages, restitution and disgorgement of profits and compensation paid to defendants, injunctive relief directing us to reform its corporate governance, and payment of the plaintiff's costs and attorneys' fees. On May 30, 2013, the court entered the parties' stipulation and proposed order, which appointed plaintiff and plaintiff's counsel as lead plaintiff and lead counsel, respectively, in the consolidated action, captioned In re VeriFone Systems, Inc. Derivative Litigation. The next case management conference is scheduled for October 27, 2017.

Zoumboulakis v. McGinn et al.

On May 24, 2013, a federal derivative action, Zoumboulakis v. McGinn et al., Case No. 13-CV-02379, was filed in the U.S. District Court for the Northern District of California against certain current and former directors and officers derivatively on our behalf. The complaint, which named us as a nominal defendant, alleges breach of fiduciary duty and abuse of control and asserts claims under Section 14(a) of the Securities Exchange Act of 1934 for false or misleading financial statements and proxy statement disclosures. The original complaint sought unspecified monetary damages, including exemplary damages, restitution from defendants, injunctive relief directing us to make certain corporate governance reforms, and payment of the plaintiff's costs and attorneys' fees. On August 12, 2013, the court granted defendants' motion to relate this action to the pending shareholder class action, Sanders v. VeriFone Systems, Inc. et al. On January 21, 2014, plaintiff filed a first amended complaint, which removed one of our former officers from the action and added an additional former director as a defendant. The first amended complaint asserted claims against the defendants for breach of fiduciary duty, abuse of control, violations of Securities Exchange Act Section 14(a) and unjust enrichment. The first amended complaint also included claims for insider trading against three of the named former and current directors. On August 7, 2014, the court granted our motion to dismiss the first amended complaint with leave to amend. On October 17, 2014, plaintiff filed a second amended complaint, to which we responded by filing another motion to dismiss. On December 3, 2015, the court granted our motion to dismiss, again with leave to amend. On January 20, 2016, plaintiff filed a third amended complaint alleging demand futility with respect to the current Board. On March 1, 2016, we filed another motion to dismiss, on which the court has not yet ruled.

If either of these derivative lawsuits is resolved adversely to us, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Indian Antitrust Proceedings

The Competition Commission of India ("CCI") investigated certain complaints made against us alleging unfair practices based on certain provisions in our software development license arrangements in India. We cooperated with requests by the CCI in its investigation. In March 2014, the Director General of the CCI investigating the allegations issued a report rejecting certain of the allegations, but also finding that certain provisions of our licenses may constitute unfair business practices. VeriFone India Sales Pvt. Ltd. filed objections to that report.

In April 2015, the CCI issued rulings directing Verifone India to cease and desist from engaging in the alleged anti-competitive conduct and imposing a penalty, the amount of which is not material to our results of operations. We have deposited 10% of this penalty amount and accrued the balance while we appeal these rulings.

On June 15, 2015, we filed appeals and interim applications with the Competition Appellate Tribunal ("COMPAT") to stay the CCI orders. The appellate court granted our interim applications to stay all proceedings at least until the final appellate hearing. That appellate hearing commenced on January 19, 2016, and was next scheduled to continue on May 31, 2017, but was taken off that tribunal's calendar due to the May 26, 2017 merger of the COMPAT with the National Company Law Appellate Tribunal ("NCLAT"). These appeals will now be reheard before the NCLAT Bench starting on September 18, 2017.

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The CCI's rulings reserved the right to pursue additional proceedings against individuals that it deems responsible for the alleged conduct. We are unable to make any estimate of potential loss for any further proceedings the CCI may pursue but do not expect it to be material to our results of operations.

Other Litigation

Certain of the foregoing cases are still in the preliminary stages, and we are not able to quantify the extent of our potential liability, if any, other than as described above. Further, the outcome of litigation is inherently unpredictable and subject to significant uncertainties. If any of these matters are resolved adversely to us, this could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, defending these legal proceedings is likely to be costly, which may have a material adverse effect on our financial condition, results of operations and cash flows, and may divert management's attention from the day-to-day operations of our business. We are subject to various other legal proceedings related to commercial, customer and employment matters that have arisen during the ordinary course of business. The outcome of such legal proceedings is inherently unpredictable and subject to significant uncertainties. Although there can be no assurance as to the ultimate disposition of these matters, our management has determined, based upon the information available at the date of these financial statements, including anticipated expected availability of insurance coverage, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Income Tax Uncertainties

As of July 31, 2017, the amount payable for unrecognized tax benefits was \$36.4 million, including accrued interest and penalties, none of which is expected to be paid within one year. This amount is included in Other long-term liabilities in our Condensed Consolidated Balance Sheet as of July 31, 2017. We are unable to make a reasonably reliable estimate as to when cash settlement with a taxing authority may occur.

Note 11. Segment and Geographic Information

Net revenues and operating income (loss) of each segment reflect net revenues and expenses that are directly attributable to that segment. Net revenues and expenses not allocated to segment net revenues and segment operating income include amortization of purchased intangible assets, amortization of step-down in deferred services net revenues and associated costs of net revenues at acquisition, restructuring and related charges, goodwill impairment, stock-based compensation, as well as general and administrative and corporate research and development expense. We do not separately evaluate assets by segment and therefore assets by segment are not presented below.

The following table sets forth net revenues for our reportable segments and reconciles segment net revenues to total net revenues (in thousands):

| | Three Months Ended July 31, | | Nine Months Ended July 31, | |
|-----------------------|--------------------------------|-----------|-------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Segment net revenues: | | | | |
| Verifone Systems | \$265,951 | \$292,072 | \$817,027 | \$972,107 |
| Verifone Services | 200,915 | 200,513 | 580,388 | 566,390 |

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| | | | | |
|--|-----------|-----------|-------------|-------------|
| Total segment net revenues | 466,866 | 492,585 | 1,397,415 | 1,538,497 |
| Amortization of step down in deferred services net revenues at acquisition | — | (4,453) | (2,993) | (10,548) |
| Total net revenues | \$466,866 | \$488,132 | \$1,394,422 | \$1,527,949 |

24

Table of Contents

VERIFONE SYSTEMS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table sets forth operating income for our reportable segments and reconciles segment operating income to consolidated operating income (loss) (in thousands):

| | Three Months Ended July 31, | | Nine Months Ended July 31, | |
|--|--------------------------------|------------|-------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Operating income by segment: | | | | |
| Verifone Systems | \$43,627 | \$63,564 | \$131,368 | \$222,434 |
| Verifone Services | 56,017 | 50,400 | 144,576 | 138,975 |
| Total segment operating income | 99,644 | 113,964 | 275,944 | 361,409 |
| Items not attributable to segment operating income: | | | | |
| Amortization of step down in deferred services gross margin at acquisition | — | (3,057) | (2,385) | (7,482) |
| Restructuring and related charges | (78,598) | (38,851) | (160,993) | (39,329) |
| Amortization of purchase intangible assets | (18,124) | (28,238) | (59,375) | (77,647) |
| Stock-based compensation expense | (9,319) | (10,850) | (30,050) | (32,889) |
| Litigation settlement and loss contingency expense | — | (600) | — | (600) |
| Goodwill impairment | — | — | (17,384) | — |
| Unallocated general and administrative expenses | (41,425) | (44,828) | (129,539) | (142,663) |
| Unallocated research and development expenses | 1,470 | (5,652) | (6,456) | (15,245) |
| Other unallocated costs | (3,862) | (4,233) | (5,805) | (11,904) |
| Total operating income (loss) | \$(50,214) | \$(22,345) | \$(136,043) | \$33,650 |

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section should be read in conjunction with our consolidated financial statements and related notes included in our 2016 Annual Report on Form 10-K and the Condensed Consolidated Financial Statements and Notes included in Part I, Item I of this Quarterly Report on Form 10-Q. This section and other parts of this Quarterly Report on Form 10-Q and certain information incorporated by reference herein contain forward-looking statements that involve risks and uncertainties. In some cases, forward-looking statements can be identified by words such as "may," "should," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "potential," or "continue," the negative of such terms, or comparable terminology. Such forward-looking statements are based on current expectations, estimates, and projections about our industry and management's beliefs and assumptions, and do not reflect the potential impact of any mergers, acquisitions, or other business combinations or divestitures that have not been completed.

Forward-looking statements are not guarantees of future performance and our actual results may differ materially from the results expressed or implied in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part I, Item 1A, Risk Factors, in our 2016 Annual Report on Form 10-K and in Part II, Item 1A, Risk Factors, of this Quarterly Report on Form 10-Q, and elsewhere in these reports, including our disclosures of Critical Accounting Policies and Estimates in Part II, Item 7 in our 2016 Annual Report on Form 10-K and in Part I, Item 2 of this Quarterly Report on Form 10-Q, and our disclosures in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk in our 2016 Annual Report on Form 10-K and in Part I, Item 3, Quantitative and Qualitative Disclosures About Market Risk of this Quarterly Report on Form 10-Q, as well as in our Condensed Consolidated Financial Statements and Notes thereto. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q, each of the terms "VeriFone," "Company," "us," "we," and "our" refers to VeriFone Systems, Inc. and its consolidated subsidiaries.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations is provided in addition to our Condensed Consolidated Financial Statements and accompanying notes to assist readers in understanding our results of operations, financial condition and cash flows. This section is organized as follows:

Overview: A discussion of our business.

Results of Operations:

Consolidated Results of Operations: An analysis and discussion of our financial results comparing our consolidated results of operations for the three and nine months ended July 31, 2017 to the three and nine months ended July 31, 2016.

Segment Results of Operations: An analysis and discussion of our financial results comparing the results of operations for each of our two reportable segments, Verifone Systems and Verifone Services, for the three and nine months ended July 31, 2017 to the three and nine months ended July 31, 2016.

Financial Outlook: A discussion of our expectations regarding certain trends that may affect our financial condition and results of operations.

Liquidity and Capital Resources: An analysis of changes in our balance sheets and cash flows, and discussion of our financial condition and potential sources of liquidity.

Contractual Obligations and Off-Balance Sheet Arrangements: Disclosures related to our contractual obligations, contingent liabilities, commitments and off-balance-sheet arrangements, as of July 31, 2017.

Critical Accounting Policies and Estimates: A discussion of the accounting policies and estimates that we believe are most important to understanding the assumptions and judgments incorporated in our reported financial results and forecasts, as well as recent accounting pronouncements that have had or are expected to have a material impact on our results of operations.

Table of Contents

Overview

Our Business

We are a global leader in payments and commerce solutions. We provide expertise and solutions that add value at the retail point-of-sale (POS) and enable innovative forms of commerce. For 35 years, we have been a leader in designing, manufacturing, marketing and supplying a broad range of innovative payment solutions, including customer payments acceptance, connectivity between merchants and financial institutions, as well as security and comprehensive payment and commerce services. We focus on delivering solutions that include innovative POS payment capabilities, value-added services that increase merchant revenues and enhance the consumer experience, and solutions that enrich and improve the interaction between merchants and consumers and help merchants run their businesses more efficiently. Key industries in which we operate include financial services, retail, petroleum, restaurant, hospitality, transportation and healthcare.

The markets in which we operate are highly competitive. We compete based on various factors, including product functions and features, pricing, product quality and reliability, design innovation, interoperability with third-party systems and brand reputation. We also compete based on product availability and certifications, as well as service offerings and support. We continue to experience competition from traditional POS terminal providers as well as suppliers of electronic cash registers (ECRs) that provide built-in electronic payment capabilities and producers of software that facilitates electronic payments over the Internet, and we also see new companies entering our markets, including entrants offering various forms of mobile device based payment options. In certain geographic markets, such as Brazil, we see customers requiring a choice of lower cost offerings. This trend has increased competition and pricing pressures in those geographies.

We have two operating segments: Verifone Systems and Verifone Services. Verifone Systems delivers point of sale electronic payment devices that run our unique operating systems, security and encryption software, and certified payment software for both payments and commerce. Verifone Services delivers device related services and maintenance, payment transaction routing and reporting, and commerce based services. Our reportable segments are the same as our operating segments.

Systems

Sales of our point of sale electronic payment devices and systems comprise approximately 57.0% and 58.6% of our net revenues in the three and nine months ended July 31, 2017, respectively. Our point of sale electronic payment devices run our unique operating systems, security and encryption software, and certified payment software, and are designed to suit our clients' needs in a variety of environments, including traditional multilane and countertop implementations, self-service or unattended environments, in-vehicle and portable deployments, mobile point-of-sale solutions, as well as fully integrated POS solutions. Our systems can securely process a wide range of payment types including signature and PIN-based debit cards, credit cards, NFC/contactless/radio frequency identification cards, or RFID cards, smart cards, pre-paid gift and other stored-value cards, electronic bill payment, 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 applications to reside on the same system without requiring recertification upon the addition of new applications. During the past year we introduced Verifone Engage, the next generation of our best-selling suite of devices, which is a family of interactive, commerce-enabled payment devices that we believe offer an innovative connected payments experience. We also launched Verifone Carbon, an integrated dual-screen connected point-of-sale solution that enables merchants to run register and business applications from a tablet screen while enabling consumers to pay and interact with a consumer-facing screen. Combining our Verifone Engage and Carbon payment solutions with our mobile and value family of devices, we are able to deliver rich media and complex

commerce enablement services on our payment terminals to our merchant clients, as well as mobile solutions and products geared for price sensitive emerging markets.

Table of Contents

Services

Services are an important part of our business and revenues, accounting for approximately 43.0% and 41.4% of our net revenues in the three and nine months ended July 31, 2017, respectively. We offer a wide portfolio of services including device, payment, commerce and omni-channel services. Our traditional device services include professional services related to installation and deployment, helpdesk support, training, equipment repair and maintenance, terminal management services and software post-contract support. Our payment services include gateway solutions that enable more efficient routing of transactions, multi-channel acceptance and processing, along with end-to-end encryption to reduce the complexity and costs of Payment Card Industry (PCI), standards compliance. Our commerce services leverage our terminals to drive incremental consumer sales by engaging consumers at the point of sale through value-added applications such as loyalty and couponing applications, targeted offers and real-time reward redemptions. Our omni-channel services provide seamless interoperability between online and offline payments.

Timing of Revenue

The timing of our customer orders may cause our revenue to vary from period to period. Specifically, revenues recognized in our fiscal quarters can vary significantly when larger customers or our distributors delay orders due to regulatory and industry standards compliance, budget considerations, product feature availability, dual vendor sourcing requirements, technology refresh cycles, economic conditions or other concerns that impact their business or purchasing decisions. For example, the timing of customer orders is often impacted by the timing of technology refreshes or the timing of completed product certifications by a particular customer or in a particular market. Customer purchases have also been impacted by regulatory factors such as new or pending banking regulations and government initiatives to drive cashless transactions.

In addition, revenues can be back-end weighted when we receive sales orders and deliver a higher proportion of our systems toward the end of our fiscal quarters. This variability and back-end weighting of orders may adversely affect our results of operations in a number of ways and could negatively impact revenues and profits. First, the product mix of orders may not align with manufacturing forecasts, which could result in a shortage of the components needed for production. Second, existing manufacturing capacity may not be sufficient to deliver the desired volume of orders in a concentrated time when they are received. Third, back-end weighted demand could negatively impact gross margins through higher labor, delivery and other manufacturing and distribution costs. If, on the other hand, we were to seek to manage the fulfillment of back-end weighted orders through holding increased inventory levels, we would risk higher inventory obsolescence charges if our sales fall short of our expectations.

Because our revenue recognition depends on, among other things, the timing of product shipments, decisions we make about product shipments, particularly toward the end of a fiscal quarter, may impact our reported revenues. The timing of product shipments may depend on a number of factors, including costs of air shipments if required, the delivery date requested by customers and our operating capacity to fill orders and ship products, as well as our own long and short-term business planning and supply chain management. These factors may affect timing of shipments and consequently revenues recognized for a particular period.

Table of Contents

Significant Matters

Business Divestitures

As part of our strategic review of under-performing businesses, our management has completed several recent divestitures.

China Business

During June 2017, we completed the divestiture of a controlling interest in Verifone Systems (China), Inc., the entity which operated our China business. In connection with this divestiture, we retained a 30% preferred equity interest in form of non-voting equity that has a liquidation preference of \$29.0 million and is non-convertible for an initial two year period. We recorded a \$24.4 million loss in connection with the sale of this business.

Petroleum Media Business

During March 2017, we committed to a plan to exit our petroleum media business. In connection with this decision, we are in the process of terminating certain customer agreements and have contributed certain assets to a newly formed business, Gas Media, in exchange for a 50% ownership interest in that business. We recorded a net \$67.6 million net charge in connection with the divestiture and planned contract terminations, and have classified the remaining net assets and liabilities of this business as held for sale.

Taxi Solutions Business

During March 2017, we committed to a plan to sell our Taxi Solutions reporting unit. During the second quarter of fiscal year 2017 we recorded a \$17.4 million goodwill impairment, considering potential sales transactions and the then fair market value of the reporting unit. During July 2017, based on continued negotiations, we recognized a \$43.2 million additional write down of the net assets to fair market value, considering ongoing negotiations of potential sales transactions. The net assets and liabilities of this business are classified as held for sale.

Revenue from these businesses that we have disposed or are committed to sell totaled \$30.5 million and \$96.2 million for the three and nine months ended July 31, 2017, respectively, as well as \$41.1 million and \$115.3 million for the three and nine months ended July 31, 2016, respectively. Operating losses from these businesses totaled \$70.3 million and \$176.4 million for the three and nine months ended July 31, 2017, respectively, and \$40.6 million and \$68.7 million for the three and nine months ended July 31, 2016, respectively, including the charges discussed above.

Restructuring Plans

Additionally, as part of cost optimization and corporate transformation initiatives, our management has approved, committed to and initiated various restructuring plans to reduce headcount, exit under-performing businesses, and consolidate facilities and data centers over the past two years. During June 2017, our management committed to a new plan under which we have spent \$9.8 million primarily related to headcount reductions. This plan is expected to be substantially complete by the end of fiscal year 2017. During June 2016, our management committed to a restructuring plan that is substantially complete and under which we have incurred charges totaling \$21.9 million.

Table of Contents

Results of Operations

Consolidated Results of Operations

Three Months Ended July 31, 2017 compared to July 31, 2016

| | Three Months Ended July 31, 2017 | | Three Months Ended July 31, 2016 | |
|--|-------------------------------------|----------------------------------|-------------------------------------|----------------------------------|
| | | % of Net revenues ⁽¹⁾ | | % of Net revenues ⁽¹⁾ |
| | (in thousands, except percentages) | | | |
| Net revenues: | | | | |
| Systems | \$265,951 | 57.0% | \$292,072 | 59.8% |
| Services | 200,915 | 43.0% | 196,060 | 40.2% |
| Total net revenues | 466,866 | 100.0% | 488,132 | 100.0% |
| Gross margin: | | | | |
| Systems | 88,177 | 33.2% | 116,382 | 39.8% |
| Services | 86,273 | 42.9% | 74,765 | 38.1% |
| Gross margin | 174,450 | 37.4% | 191,147 | 39.2% |
| Operating expenses: | | | | |
| Research and development | 50,731 | 10.9% | 52,394 | 10.7% |
| Sales and marketing | 46,665 | 10.0% | 52,830 | 10.8% |
| General and administrative | 44,867 | 9.6% | 49,753 | 10.2% |
| Restructuring and related charges | 65,705 | 14.1% | 33,629 | 6.9% |
| Litigation settlement and loss contingency expense | — | —% | 600 | 0.1% |
| Amortization of purchased intangible assets | 16,696 | 3.5% | 24,286 | 5.0% |
| Total operating expenses | 224,664 | 48.1% | 213,492 | 43.7% |
| Operating loss | (50,214) | (10.8)% | (22,345) | (4.6)% |
| Interest expense, net | (8,380) | (1.8)% | (9,023) | (1.8)% |
| Other income (expense), net | (1,908) | (0.4)% | 156 | —% |
| Net loss before income taxes | (60,502) | (13.0)% | (31,212) | (6.4)% |
| Income tax provision | 10,286 | 2.2% | 286 | 0.1% |
| Consolidated net loss | \$(70,788) | (15.2)% | \$(31,498) | (6.5)% |

(1) Systems and Services gross margin as a percentage of net revenues is computed as a percentage of the corresponding Systems and Services net revenues.

Net revenues for the three months ended July 31, 2017 were \$466.9 million, compared to \$488.1 million for the three months ended July 31, 2016, down \$21.2 million or 4.3%. Net revenues decreased primarily in North America due to decreased demand for EMV enabled devices where there had been higher than usual demand in the petroleum market during the prior year. This decrease was partially offset by increased revenue in Latin America. See further discussion of net revenues by segment and geography below.

Table of Contents

Net Revenues by Geography

| Three Months Ended July 31, | | | |
|------------------------------------|-------------------|-----------|-------------------|
| 2017 | % of Net revenues | 2016 | % of Net revenues |
| (in thousands, except percentages) | | | |
| Net Revenues | | | |
| North America | \$152,866 32.7% | \$191,509 | 39.2% |
| Latin America | 71,266 15.3% | 55,069 | 11.3% |
| EMEA | 193,483 41.4% | 190,045 | 38.9% |
| Asia-Pacific | 49,125 10.6% | 51,509 | 10.6% |
| Total | \$466,866 100.0% | \$488,132 | 100.0% |

North America net revenues decreased \$38.6 million, due primarily to reduced demand for our EMV capable terminals by customers, particularly in the petroleum market, that had upgraded to products that support EMV requirements in the prior year associated with the expected EMV liability deadline that has since been extended.

Latin America net revenues increased \$16.2 million, due primarily to changes in timing of purchase decisions by large customers, which were influenced by factors such as macroeconomic conditions and compliance with various government e-payment initiatives. This increase includes a \$5.9 million increase in services net revenues due to new service contracts with customers.

EMEA net revenues increased \$3.4 million, primarily due to growth in services revenues and as a result of changes in timing of purchase decisions by large customers in Russia and Germany and increased systems sales in Greece to comply with government fiscalization requirements, partially offset by lower sales in other European countries.

Asia-Pacific net revenues decreased \$2.3 million, due primarily to decreased revenue in Australia as a result of reduced demand from some of our large banking customers that were upgrading and expanding terminals at their merchant customers in the prior year. The decrease was partially offset by increased revenue in India as a result of government demonetization initiatives.

Gross margin for the three months ended July 31, 2017 was \$174.5 million or 37.4% of total net revenues, compared to \$191.1 million or 39.2% of total net revenues, for the three months ended July 31, 2016, down \$16.6 million or 1.8 percentage points. Gross margin in dollars decreased due primarily to the decrease in net revenues and also due to an \$11.1 million charge related to the divestiture of our China business. Gross margin as a percentage of net revenues decreased due primarily to changes in geographic and product mix, such as the decrease in net revenues from North America, which generally have higher gross margins compared to other geographies, and due to the \$11.1 million charge associated with the China business divestiture.

Research and development for the three months ended July 31, 2017 was \$50.7 million compared to \$52.4 million for the three months ended July 31, 2016, down \$1.7 million or 3.2%, due to higher costs in the prior year associated with additional personnel and outside resources that were hired to develop and bring next generation products and solutions to market, such as our recently announced Verifone Engage and Carbon payment solutions.

Sales and marketing for the three months ended July 31, 2017 was \$46.7 million, compared to \$52.8 million for the three months ended July 31, 2016, down \$6.1 million or 11.6%, due primarily to reduced variable costs associated with lower revenues and decreased spend associated with cost savings initiatives.

General and administrative for the three months ended July 31, 2017 was \$44.9 million, compared to \$49.8 million for the three months ended July 31, 2016, down \$4.9 million or 9.9%, due primarily to decreased spend associated with cost savings initiatives.

Table of Contents

Restructuring and related charges for the three months ended July 31, 2017 was \$65.7 million, compared to \$33.6 million for the three months ended July 31, 2016, up \$32.1 million primarily as a result of increased restructuring activities and divestitures. The \$65.7 million charge in the three months ended July 31, 2017 is mainly comprised of a \$56.5 million fair market value write-downs associated with assets held for sale and an \$8.9 million employee and facility related restructuring charge. The \$33.6 million charge in the three months ended July 31, 2016 is comprised of a \$20.4 million fair market value write-down associated with assets held for sale, \$7.4 million of employee and facility related restructuring charges, and a \$5.8 million charge related to a contract cancellation.

Amortization of purchased intangible assets for the three months ended July 31, 2017 was \$16.7 million, compared to \$24.3 million for the three months ended July 31, 2016, down \$7.6 million or 31.3%, primarily because a portion of our purchased intangible assets were fully amortized in the prior year.

Income tax provision for the three months ended July 31, 2017 was \$10.3 million, compared to \$0.3 million for the three months ended July 31, 2016, up \$10.0 million. The income tax provision for three months ended July 31, 2017 was primarily attributable to foreign taxes and discrete items related to restructuring charges. The income tax provision for the three months ended July 31, 2016 was primarily related to foreign taxes that were substantially offset by the reversal of unrecognized tax benefits where statutes of limitations expired or audits have been settled.

Table of Contents

Nine Months Ended July 31, 2017 compared to July 31, 2016

| | Nine Months Ended July 31, | | | |
|--|------------------------------------|----------------------------------|------------|----------------------------------|
| | 2017 | % of Net revenues ⁽¹⁾ | 2016 | % of Net revenues ⁽¹⁾ |
| | (in thousands, except percentages) | | | |
| Net revenues: | | | | |
| Systems | \$817,027 | 58.6% | \$972,107 | 63.6% |
| Services | 577,395 | 41.4% | 555,842 | 36.4% |
| Total net revenues | 1,394,422 | 100.0% | 1,527,949 | 100.0% |
| Gross margin: | | | | |
| Systems | 296,642 | 36.3% | 401,068 | 41.3% |
| Services | 222,000 | 38.4% | 215,743 | 38.8% |
| Total gross margin | 518,642 | 37.2% | 616,811 | 40.4% |
| Operating expenses: | | | | |
| Research and development | 158,454 | 11.4% | 158,150 | 10.4% |
| Sales and marketing | 146,806 | 10.5% | 167,289 | 10.9% |
| General and administrative | 142,425 | 10.2% | 157,040 | 10.3% |
| Restructuring and related charges | 135,743 | 9.7% | 34,196 | 2.2% |
| Litigation settlement and loss contingency expense | — | —% | 600 | —% |
| Amortization of purchased intangible assets | 53,873 | 3.9% | 65,886 | 4.3% |
| Goodwill impairment | 17,384 | 1.2% | — | —% |
| Total operating expenses | 654,685 | 46.9% | 583,161 | 38.2% |
| Operating income (loss) | (136,043) | (9.8)% | 33,650 | 2.2% |
| Interest expense, net | (24,712) | (1.8)% | (25,870) | (1.7)% |
| Other income (expense), net | 4,666 | 0.3% | (6,833) | (0.4)% |
| Income (loss) before income taxes | (156,089) | (11.2)% | 947 | 0.1% |
| Income tax provision | 22,088 | 1.6% | 5,372 | 0.4% |
| Consolidated net loss | \$(178,177) | (12.8)% | \$(4,425) | (0.3)% |

(1) Systems and Services gross margin as a percentage of net revenues is computed as a percentage of the corresponding Systems and Services net revenues.

Net revenues for the nine months ended July 31, 2017 were \$1.39 billion, compared to \$1.53 billion for the nine months ended July 31, 2016, down \$133.5 million or 8.7%. Net revenues decreased primarily in North America due to decreased demand for EMV enabled devices and in other geographies primarily due to the timing of certain large customer purchases. These decreases were partially offset by increased revenues due to India demonetization initiatives. See further discussion of revenues by segment and geography below.

Table of Contents

Net Revenues by Geography

| | Nine Months Ended July 31, | | | |
|---------------|------------------------------------|-------------------|-------------|-------------------|
| | 2017 | % of net revenues | 2016 | % of net revenues |
| | (in thousands, except percentages) | | | |
| Net Revenues | | | | |
| North America | \$476,107 | 34.2% | \$636,543 | 41.7% |
| Latin America | 190,806 | 13.7% | 179,637 | 11.8% |
| EMEA | 539,318 | 38.6% | 557,415 | 36.4% |
| Asia-Pacific | 188,191 | 13.5% | 154,354 | 10.1% |
| Total | \$1,394,422 | 100.0% | \$1,527,949 | 100.0% |

North America net revenues decreased \$160.4 million, due primarily to reduced demand for our EMV capable terminals by customers that had upgraded to products that support EMV requirements in the prior year.

Latin America net revenues increased \$11.2 million, due primarily to changes in timing of purchase decisions by large customers, which were influenced by factors such as macroeconomic conditions and compliance with various government e-payment initiatives.

EMEA net revenues decreased \$18.1 million, as a result of changes in timing of purchase decisions, which were influenced by factors such as macroeconomic conditions, government fiscalization programs, timing of customer technology refreshes, and ongoing competitive pricing. Also, EMEA net revenues increased \$9.9 million due to our acquisition of InterCard in December 2015.

Asia-Pacific net revenues increased \$33.8 million, due primarily to increases in India as a result of government demonetization initiatives.

Gross margin for the nine months ended July 31, 2017 was \$518.6 million or 37.2% of net revenues, compared to \$616.8 million, or 40.4% of net revenues, for the nine months ended July 31, 2016, down \$98.2 million or 3.2 percentage points. Gross margin in dollars decreased due primarily to the decrease in net revenues, a \$10.6 million charge related to the divestiture of our petroleum media business and an \$11.1 million charge related to our China business divestiture. Gross margin as a percentage of net revenues decreased due primarily to changes in geographic and product mix, such as decreases in net revenues from North America, which generally have higher gross margins compared to other geographies, as well as the charges associated with our petroleum media and China business divestitures.

Research and development for the nine months ended July 31, 2017 was \$158.5 million compared to \$158.2 million for the nine months ended July 31, 2016, up \$0.3 million or 0.2%, due primarily to a \$9.1 million write-down of capitalized costs associated with development projects that will not be completed, which was partially offset by a net \$8.3 million decrease in spend due to higher costs in the prior year associated with additional personnel and outside resources that were hired to develop and bring next generation products and solutions to market, such as our recently announced Engage and Carbon payment solutions.

Sales and marketing for the nine months ended July 31, 2017 was \$146.8 million, compared to \$167.3 million for the nine months ended July 31, 2016, down \$20.5 million or 12.3%, due primarily to reduced variable costs associated with lower revenues and decreased spend associated with cost savings initiatives.

General and administrative for the nine months ended July 31, 2017 was \$142.4 million compared to \$157.0 million for the nine months ended July 31, 2016, down \$14.6 million or 9.3%, due primarily to decreased spend associated with cost savings initiatives, partially offset by additional costs associated with acquired businesses.

Table of Contents

Restructuring and related charges for the nine months ended July 31, 2017 was \$135.7 million compared to \$34.2 million for the nine months ended July 31, 2016, up \$101.5 million, primarily as a result of increased restructuring activities and divestitures. The \$135.7 million charge in the nine months ended July 31, 2017 is comprised of a \$94.5 million fair market value write-down associated with assets held for sale, a \$28.1 million charge related to contract cancellation obligations and a \$12.9 million employee and facility related restructuring charge. The \$34.2 million charge in the nine months ended July 31, 2016 is comprised of a \$20.4 million fair market value write-down associated with assets held for sale, a \$8.0 million employee and facility related restructuring charge, and a \$5.8 million charge related to a contract cancellation.

Amortization of purchased intangible assets for the nine months ended July 31, 2017 was \$53.9 million compared to \$65.9 million for the nine months ended July 31, 2016, down \$12.0 million or 18.2%, primarily because a portion of our purchased intangible assets were fully amortized in the prior year, partially offset by an increase in amortization for purchased intangible assets associated with acquired businesses.

Goodwill impairment for the nine months ended July 31, 2017 was \$17.4 million related to our Taxi Solutions reporting unit based on a quantitative assessment and potential sales transactions.

Other income (expense), net for the nine months ended July 31, 2017 was \$4.7 million of net income compared to net expense of \$6.8 million for the nine months ended July 31, 2016, an \$11.5 million change. This change is due primarily to a \$10.1 million gain recognized in connection with our investment in Gas Media.

Income tax provision for the nine months ended July 31, 2017 was \$22.1 million, compared to \$5.4 million for the nine months ended July 31, 2016, up \$16.7 million or 309.3%. The income tax provision for the nine months ended July 31, 2017 was primarily attributable to foreign taxes and discrete items related to restructuring charges. The income tax provision for the nine months ended July 31, 2016 was primarily related to foreign taxes partially offset by the reversal of unrecognized tax benefits where statutes of limitations expired or audits have been settled.

Table of Contents

Segment Results of Operations

Net revenues and operating income of each segment reflect net revenues and expenses that are directly attributable to that segment. Net revenues and expenses not allocated to segment net revenues and segment operating income include amortization of purchased intangible assets, amortization of step-down in deferred services net revenues and associated costs of net revenues at acquisition, restructuring and related charges, goodwill impairment, stock-based compensation, as well as general and administrative and corporate research and development expense.

Verifone Systems Net Revenues and Operating Income

Our Verifone Systems business delivers point of sale electronic payment devices that run our unique operating systems, security and encryption software, and certified payment software globally, for both payments and commerce.

Three Months Ended July 31, 2017 compared to July 31, 2016

| | Three Months Ended July 31, | | | |
|------------------|------------------------------------|----------------------|-----------|----------------------|
| | 2017 | % of Net revenues | 2016 | % of Net revenues |
| | (in thousands, except percentages) | | | |
| Net revenues | \$265,951 | 57.0 % | \$292,072 | 59.3 % |
| Operating income | \$43,627 | 16.4 % | \$63,564 | 21.8 % |

Net revenues for the three months ended July 31, 2017 were \$266.0 million, compared to \$292.1 million for the three months ended July 31, 2016, down \$26.1 million or 8.9%. due primarily to EMV liability deadline extensions for the petroleum market and reduced demand as customers upgraded to products that support EMV requirements in the prior year. Net revenues from the sale of petroleum and multimedia products decreased \$24.0 million and \$11.3 million, respectively. These declines were offset by increases due to the timing of customer demand, which was influenced by factors such as timing of equipment upgrades, government initiatives and macroeconomic conditions.

Operating income for the three months ended July 31, 2017 was \$43.6 million or 16.4% of net revenues, compared to \$63.6 million or 21.8% of net revenues for the three months ended July 31, 2016, down \$19.9 million or 5.5 percentage points. Operating income in dollars decreased due primarily to reduced net revenues. Operating income as a percentage of net revenues decreased due primarily to changes in geographic and product mix, such as the shift away from North America, which generally has higher margins compared to other geographies.

Table of Contents

Nine Months Ended July 31, 2017 compared to July 31, 2016

| | Nine Months Ended July 31, | | | |
|------------------|------------------------------------|----------------------|-----------|----------------------|
| | 2017 | % of Net revenues | 2016 | % of Net revenues |
| | (in thousands, except percentages) | | | |
| Net revenues | \$817,027 | 58.5 % | \$972,107 | 63.2 % |
| Operating income | \$131,368 | 16.1 % | \$222,434 | 22.9 % |

Net revenues for the nine months ended July 31, 2017 were \$817.0 million, compared to \$972.1 million for the nine months ended July 31, 2016, down \$155.1 million or 16.0%. Net revenues from our EMV capable devices decreased by \$178.7 million due primarily to reduced demand by customers that had upgraded to products that support EMV requirements in the prior year and EMV liability deadline extensions for the petroleum market. Net revenues from the sale of unattended, portable and mobile devices increased by \$22.9 million due primarily to increased demand in India related to the government demonetization initiatives, which was partially offset by decreased demand in Europe related to the timing of customer tenders.

Operating income for the nine months ended July 31, 2017 was \$131.4 million or 16.1% of net revenues, compared to \$222.4 million or 22.9% of net revenues for the nine months ended July 31, 2016, down \$91.1 million or 6.9 percentage points. Operating income in dollars decreased due primarily to reduced net revenues and higher costs associated with the recent launch of our new Verifone Engage and Carbon payment solutions. Operating income as a percentage of net revenues decreased due primarily to changes in geographic and product mix, such as the shift away from North America, which generally has higher margins compared to other geographies.

Table of Contents

Verifone Services Net Revenues and Operating Income

Verifone Services delivers a variety of service-based solutions that are designed to be complementary to our systems. These solutions ensure secure electronic payment transactions, provide value-added services to our merchants and enhance the consumer experience. Our device related services include professional services related to installation and deployment, helpdesk support, training, equipment repair and maintenance, terminal management services and software post-contract support. Our payment services include gateway solutions that enable more efficient routing of transactions, multi-channel acceptance and processing, along with end-to-end encryption to reduce the complexity and costs of Payment Card Industry, or PCI, standards compliance. Our commerce services leverage our terminals to drive incremental consumer sales by engaging customers at the point of sale through value-added applications such as loyalty and couponing applications, targeted offers and real-time reward redemptions. Our omni-channel services provide seamless interoperability between online and offline payments.

Three Months Ended July 31, 2017 compared to July 31, 2016

| | Three Months Ended July 31, | | | |
|------------------|------------------------------------|----------|-----------|----------|
| | 2017 | % of Net | 2016 | % of Net |
| | | revenues | | revenues |
| | (in thousands, except percentages) | | | |
| Net revenues | \$200,915 | 43.0 % | \$200,513 | 40.7 % |
| Operating income | \$56,017 | 27.9 % | \$50,400 | 25.1 % |

Net revenues for the three months ended July 31, 2017 were \$200.9 million compared to \$200.5 million for the three months ended July 31, 2016, relatively flat because increased demand for device-related and payment-related services solutions was substantially offset by decreases due to our exit from the petroleum media business in April 2017, which had \$7.5 million of revenues during the three months ended July 31, 2016 and a \$3.0 million decrease in revenues from our Taxi Solutions business year over year.

Operating income for the three months ended July 31, 2017 was \$56.0 million or 27.9% of net revenues, compared to \$50.4 million or 25.1% of net revenues for the three months ended July 31, 2016, up \$5.6 million or 2.7 percentage points. Operating income in dollars increased due primarily to the geographic mix of operating margins as service revenues increased in higher margin markets within Europe. Operating income as a percentage of net revenues increased due primarily to changes in geographic and product mix, including the absence of the lower petro media product margins, as well as decreases in operating expenses.

Table of Contents

Nine Months Ended July 31, 2017 compared to July 31, 2016

| | Nine Months Ended July 31, | | | |
|------------------|------------------------------------|----------------------|-----------|----------------------|
| | 2017 | % of Net revenues | 2016 | % of Net revenues |
| | (in thousands, except percentages) | | | |
| Net revenues | \$580,388 | 41.5 % | \$566,390 | 36.8 % |
| Operating income | \$144,576 | 24.9 % | \$138,975 | 24.5 % |

Net revenues for the nine months ended July 31, 2017 were \$580.4 million compared to \$566.4 million for the nine months ended July 31, 2016, up \$14.0 million or 2.5%, due primarily to increased demand for device-related and payment-related services solutions. Payment services net revenues also increased \$9.9 million due to our acquisition of InterCard in December 2015. These increases were partially offset by a \$12.1 million decrease in revenues from our Taxi Solutions business, as well as the impact of exiting our petroleum media business in April 2017, which had revenues totaling \$7.5 million during the three months ended July 31, 2016.

Operating income for the nine months ended July 31, 2017 was \$144.6 million or 24.9% of net revenues, compared to \$139.0 million or 24.5% of net revenues for the nine months ended July 31, 2016, up \$5.6 million or 0.4 percentage points. Operating income in dollars increased due primarily to increases in net revenues and decreases in operating expenses, as well as due to our exit from the petroleum media business in April 2017 that incurred operating losses in the prior year. Operating income as a percentage of net revenues increased due primarily to changes in geographic and product mix, decreases in operating expenses and the absence of the lower petro media product margins.

Table of Contents

Financial Outlook

Overview

We expect the timing and amount of revenue to continue to be impacted by factors such as our recent and planned divestitures, the timing of our customers' technology refresh cycles, changes in distribution and distributor inventory levels, the timing of new product releases and certifications, macroeconomic conditions, increased competition and pricing pressures, and uncertain political conditions in certain markets.

Recent and Planned Divestitures

During fiscal year 2017, as part of our strategic review of under-performing businesses, we have divested and closed several businesses, including our China and petroleum media businesses, and we intend to divest our Taxi Solutions business. Revenue from these businesses totaled \$30.5 million and \$96.2 million for the three and nine months ended July 31, 2017, respectively. We also continue to evaluate other potentially under-performing businesses. We expect our revenues to decrease in the future as a result of these divestitures, but expect the divestitures to have a positive effect on operating margins.

Technology and Industry Standards

We expect the timing of new product releases and industry standards to continue to have a significant impact on our net revenues. Net revenues can vary significantly when larger customers or distributors cancel or delay orders due to changes in regulatory and industry standards, budget considerations, product feature availability, dual vendor sourcing requirements, technology refresh cycles, economic conditions or other concerns that impact their business or purchasing decisions. Also, demand for electronic payment systems may eventually reach a saturation point, at which time customers might slow or end expansion projects. We expect to generate additional net revenues in the U.S. related to the continued adoption of EMV standards in the future, particularly by the petroleum market and small and medium businesses, and increased desire for mobile payment devices, although the timing of any related revenues will depend on the timing of decisions by merchants. We expect that timing of merchant decisions will continue to depend on when EMV certifications are completed as well as payments industry-mandated compliance timelines. We expect growth in emerging markets as economic conditions improve and those markets make efforts to modernize to cashless payment systems.

Global Markets and Competition

As a result of our global customer base, we expect that our net revenues will continue to be impacted by macroeconomic conditions such as foreign currency fluctuations, economic sanctions and other trade restrictions, and changing global oil prices, particularly in certain markets such as Argentina, Brazil, Russia, the Middle East and Africa, as well as electronics payment initiatives, such as the demonetization initiatives in India. We expect that prolonged economic weakness in Latin America and uncertain political conditions in certain other markets, such as Turkey, may have a continued negative impact on our ability to do business or operate at a desired level.

We expect that the markets in which we conduct our business will remain highly competitive, characterized by changing technologies, evolving industry standards and government regulations that may favor one product or technology over others, and increased demand for new functionality, premium services, mobility and security. In particular, we expect that there will be continued demand for lower priced products in certain emerging markets, such as Brazil. We expect the ongoing competitive pricing pressures that we have seen in recent periods may continue to adversely impact our net revenues in the future. Market disruptions caused by new technologies, the entry of new competitors, mobile order and pay, the presence of strong local competition, consolidations among our customers and

competitors, changes in regulatory requirements, timing of electronic payments initiatives that create demand for our products in emerging markets, new technology entrants, and other factors, can also introduce volatility into our business.

Table of Contents

Our Business and Focus

We continue to focus on expanding our Services offerings globally. We are investing in select markets in order to expand our payment services into new countries and to improve the functionality of our payment services in existing markets. We also continue to invest in commerce enablement solutions, using our consumer-facing point of sale terminals to offer services complementary to our payment solutions that facilitate commerce between merchants and consumers. We expect continued growth in Services net revenues as a result of these efforts. As we transition to more service oriented arrangements, we may experience a shift in the timing of Systems net revenues as revenue recognition will depend on when all of our performance obligations are complete.

As part of our transformation initiatives, we continue to focus on research and development activities and expect to continue at current spend levels as we focus on system and service solutions, as well as continue to advance our platform development efforts in order to increase standardization, shorten our product development life-cycle and time to market, and also ensure timely certification of our products in each market.

We also plan to continue efforts to improve our cost structure and streamline all aspects of our business, including a continued strategic review of under-performing products and businesses, as well as evaluating internally developed technology and consolidating and upgrading some of our global suppliers. In connection with our transformation efforts, we have approved restructuring plans under which we have reduced headcount, closed facilities and committed to exit under-performing businesses, such as our petroleum media and Taxi Solutions businesses. We expect to incur additional costs under the previously approved plans and expect to approve additional plans and make strategic changes in the future. Our existing and future restructuring plans may generate ongoing savings, some of which will continue to be reinvested into growth initiatives as part of our transformation program. Overall, spending may increase further depending on the costs of any future restructuring plans, costs associated with new acquisitions or ongoing integration of past acquisitions, costs to exit under-performing businesses, as well as costs related to resolving legal and tax matters.

Table of Contents

Liquidity and Capital Resources

Our primary liquidity and capital resource needs are to finance working capital, pay for contractual commitments, service our debt and make capital expenditures and investments. As of July 31, 2017, our primary sources of liquidity were \$158.8 million of cash and cash equivalents, as well as amounts available to us under the revolving loan that is part of our Credit Agreement.

Cash and cash equivalents as of July 31, 2017 included \$156.8 million held by our foreign subsidiaries. If we decide to distribute or use the cash and cash equivalents held by our foreign subsidiaries outside those foreign jurisdictions, including a distribution to the U.S., we may be subject to additional taxes or costs, or face regulatory restrictions on the amount of cash that can be distributed out of some countries.

We also held \$25.6 million in restricted cash as of July 31, 2017, which was mainly comprised of pledged deposits.

As of July 31, 2017, our outstanding borrowings consisted of a \$480.0 million term A loan, \$194.0 million term B loan, \$201.2 million drawn against a revolving loan commitment and \$10.8 million under capital leases and other debt. In addition, \$298.7 million was available for draw on the revolving loan commitment, subject to covenant requirements. See Note 8, Debt, in the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q for additional information regarding our borrowings. We were in compliance with all financial covenants under our credit agreement as of July 31, 2017.

As of July 31, 2017, we had outstanding interest rate swap agreements to effectively convert \$450.0 million of the term A loan from a floating rate plus applicable margin to a 1.20% fixed rate plus applicable margin.

As part of our cost optimization and corporate transformation initiatives, we have approved restructuring plans under which we made cash payments totaling \$13.0 million during the nine months ended July 31, 2017. We expect to make additional cash payments totaling approximately \$10.0 million under these plans in the remainder of fiscal year 2017 and may approve additional restructuring plans as our transformation initiatives continue. We are also obligated to spend approximately \$22.3 million pursuant to canceled customer contracts.

As of July 31, 2017, we are authorized to repurchase shares of our common stock with an aggregate value of up to \$50.0 million. The timing and actual amount of the share repurchases will depend on several factors including price, capital availability, regulatory requirements, alternative investment opportunities, including mergers and acquisitions, market conditions and other factors. We are not obligated to repurchase any specific number of shares under the program and the repurchase program may be modified, suspended or discontinued at any time.

Our future capital requirements may vary significantly from prior periods as well as from those capital requirements we have currently planned. These requirements will depend on a number of factors, including operating factors such as our terms and payment experience with customers, the timing of annual recurring billings in some markets, the resolution of any legal proceedings against us or settlement of litigation in an amount in excess of our insurance coverage, costs related to acquisitions, restructuring expenses, stock repurchases and investments we may make in infrastructure, product or market development, or to expand our revenue generating asset base as well as timing and availability of financing. Based upon our current level of operations, we believe that we have the financial resources to meet our business requirements for the next year, including capital expenditures, working capital requirements, future strategic investments and debt servicing costs, stock repurchases and to maintain compliance with our financial covenants.

Table of Contents

Bank Guarantees

We have issued bank guarantees with maturities ranging from two months to eight years to certain of our customers and vendors as required in some countries to support certain performance obligations under our service or other agreements with those parties. As of July 31, 2017, the maximum amount that may become payable under these guarantees was \$17.8 million, of which \$2.3 million was collateralized by restricted cash deposits.

In addition, in connection with our investment in Gas Station TV we have agreed to guarantee, in certain circumstances, up to \$12.5 million of debt issued to Gas Media. As of July 31, 2017, we have not provided any funding under this guarantee.

Statement of Cash Flows

The net increase (decrease) in cash, cash equivalents and restricted cash are summarized in the following table (in thousands):

| | Nine Months Ended July 31, | | |
|--|----------------------------|-------------|-----------|
| | 2017 | 2016 | Change |
| Net cash provided by (used in): | | | |
| Operating activities | \$140,104 | \$130,509 | \$9,595 |
| Investing activities | (55,985) | (252,552) | 196,567 |
| Financing activities | (65,244) | 75,833 | (141,077) |
| Effect of foreign currency exchange rate changes on cash, cash equivalents and restricted cash | 6,330 | (2,119) | 8,449 |
| Net increase (decrease) in cash, cash equivalents and restricted cash | \$25,205 | \$(48,329) | \$73,534 |

Operating Activities

Net cash provided by operating activities for the nine months ended July 31, 2017 was \$140.1 million, up \$9.6 million from \$130.5 million in cash provided during the nine months ended July 31, 2016. Cash provided by changes in operating assets and liabilities increased \$94.8 million, due primarily to our focus on better working capital management. This increase was substantially offset by a \$85.2 million decrease in cash provided by operations before changes in operating assets and liabilities, which is primarily due to our increased operating loss, which included \$53.5 million of cash restructure charges, compared to \$7.3 million in the prior year period.

Investing Activities

Net cash used in investing activities for the nine months ended July 31, 2017 was \$56.0 million, compared to \$252.6 million for the nine months ended July 31, 2016, down \$196.6 million, due primarily to \$172.2 million in payments for acquired businesses during the nine months ended July 31, 2016, compared to \$4.9 million during the nine months ended July 31, 2017. Additionally, capital expenditures decreased \$29.6 million year over year due primarily to cost savings initiatives and the divestiture of some capital intensive businesses.

Financing Activities

Net cash used in financing activities for the nine months ended July 31, 2017 was \$65.2 million compared to \$75.8 million in cash provided during the nine months ended July 31, 2016, a \$141.1 million change, due primarily to additional borrowings for business acquisitions in the prior year. Cash flows from operating activities have been used to pay down \$62.3 million of debt in the nine months ended July 31, 2017. We had no stock repurchases during the nine months ended July 31, 2017.

Table of Contents

Contractual Obligations

As of July 31, 2017, our contractual obligations consist of obligations under debt, capital leases, operating leases, purchase commitments and other contractual obligations. On April 3, 2017, we committed to purchase \$144 million of components over a four year period, a total of \$36 million each year, to lock in pricing from one of our existing suppliers. As of July 31, 2017, our remaining non-cancelable commitment under this agreement totaled \$112.1 million. Other than this arrangement, there have been no material changes to our non-cancelable operating lease commitments and manufacturing agreements outside the ordinary course of business during the nine months ended July 31, 2017.

As of July 31, 2017, the amount payable for unrecognized tax benefits was \$36.4 million, including accrued interest and penalties, none of which is expected to be paid within one year. This amount is included in Other long-term liabilities in our Consolidated Balance Sheets as of July 31, 2017. We are unable to make a reasonably reliable estimate as to when cash settlement with the applicable taxing authorities may occur.

As of July 31, 2017 we have agreed to guarantee, in certain circumstances, up to \$12.5 million of debt that was issued to Gas Media.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Critical Accounting Policies and Estimates

General

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our Condensed Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP. Our significant accounting policies are more fully described in Note 1, Principles of Consolidation and Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements of our 2016 Annual Report on Form 10-K. There were no changes to our significant accounting policies during the nine months ended July 31, 2017 other than those mentioned in Note 1, Principles of Consolidation and Summary of Significant Accounting Policies, in the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our Condensed Consolidated Financial Statements. Our critical accounting policies include our more significant estimates and assumptions used in the preparation of our Condensed Consolidated Financial Statements. Our critical accounting policies are described in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of our 2016 Annual Report on Form 10-K.

On an ongoing basis, we evaluate our critical accounting policies and estimates, including those related to revenue recognition, inventory valuation, allowance for doubtful accounts, warranty reserves, contingencies and litigation, income taxes, accounting for goodwill and long-lived assets, stock-based compensation, business combinations, restructuring and contingent consideration. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results for the nine months ended July 31, 2017 are discussed below.

44

Table of Contents

Assets held for sale

We are required to estimate the fair values of assets held for sale. Critical estimates in valuing assets held for sale include, but are not limited to, expected consideration from potential sales transactions, costs to complete potential sales transactions and estimated future cash flows from the associated assets or businesses. Future expected cash flows are estimated based on the current financial performance of the assets or associated business, adjusted by expected future growth rates and discount rates. Discount rates reflect the nature of the assets held for sale and the perceived risk of the underlying cash flows.

During the third quarter of fiscal year 2017, we assessed the fair value of the taxi assets held for sale, considering potential sale transactions and expected future cash flows, and recorded charges totaling \$43.2 million to write those assets down to their fair market value as of July 31, 2017.

Goodwill

We review the goodwill allocated to each of our reporting units for possible impairment annually on August 1 and whenever events or changes in circumstances indicate its carrying amount may not be recoverable. When assessing goodwill for impairment, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then we perform an impairment test. If, we conclude otherwise, then no further action is taken. We also have the option to bypass the qualitative assessment and only perform a quantitative assessment. We measure the recoverability of goodwill by comparing a reporting unit's carrying amount, including goodwill, to the estimated fair value of the reporting unit.

In assessing the qualitative factors, we assess relevant events and circumstances that may impact the fair value and the carrying amount of the reporting unit. The identification of relevant events and circumstances, and how these may impact a reporting unit's fair value or carrying amount involve significant judgments and assumptions. The judgment and assumptions include the identification of macroeconomic conditions, industry, and market considerations, cost factors, overall financial performance, Verifone-specific events, and share price trends, and making the assessment as to whether each relevant factor will impact the impairment test positively or negatively and the magnitude of any such impact.

During the second quarter of fiscal year 2017, there were circumstances which indicated that the carrying amount of the goodwill related to our Taxi Solutions reporting unit may not be recoverable. Based on a quantitative assessment, considering potential sale transactions, we concluded that the goodwill was impaired, and recorded a \$17.4 million impairment charge during the nine months ended July 31, 2017.

Recent Accounting Pronouncements

Information with respect to recent accounting pronouncements may be found in Note 1, Principles of Consolidation and Summary of Significant Accounting Policies, in the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk related to changes in interest rates and foreign currency exchange rates. These exposures may change over time as business practices evolve and could have a material adverse impact on our financial results. Our exposures to market risk have not changed materially since October 31, 2016.

As of July 31, 2017, we have outstanding interest rate swap agreements to effectively convert \$450.0 million of the term A loan from a floating rate plus applicable margin to a 1.20% fixed rate plus applicable margin through March 30, 2018. The principal amount under the term A loan covered by the interest rate swap agreements will decrease to \$400.0 million from October 1, 2017 through March 30, 2018. In addition, we have an outstanding interest rate swap agreement to effectively convert \$350.0 million of the term A loan to a fixed rate of 0.975% plus applicable margin from March 30, 2018 through June 30, 2019.

For quantitative and qualitative disclosures about market risk, see Part II Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the fiscal year ended October 31, 2016.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), are designed to and are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including the CEO and the CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods

specified in Securities and Exchange Commission rules and forms, and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Table of Contents

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

The risks set forth below include risks related to our business, including operations, market, economic and political conditions, our legal and regulatory environment and our capital structure, and may adversely affect our business, financial condition, results of operations 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 or become material.

Risks Related to Our Business

If we do not continually enhance our existing solutions and develop and market comprehensive new solutions and services 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 perceive as having better functions and features, and alternative payment solutions, such as mobile payments and processing and digital services, at the POS; and
- rapidly changing customer and end user preferences or requirements.

In addition, our competitors have been increasingly aggressive in introducing products and lowering prices. 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, all of which have become increasingly challenging as competition intensifies. If we cannot develop new solutions or enhancements to our existing solutions that satisfy customer or end user demand, or if our new solutions or enhancements do not meet local certification requirements or we experience delays in the certification process or meet resistance from clients or merchants or are inhibited by third parties' intellectual property rights, 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 systems, and ultimately may not be successful. 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, continues to, and may in the future be adversely affected by our failure to timely obtain local certifications or develop software in some markets for certain of our products. In particular, our business would be adversely affected if we are unable to timely obtain certifications or develop software, including for our recently introduced Verifone Engage or

Carbon lines of products.

47

Table of Contents

We cannot be sure that we will successfully and timely complete the development, delivery and introduction of new solutions or enhancements or that our new solutions will satisfy customer or end user demand or be accepted in the marketplace. If we fail, 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.

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

The markets for our systems 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. We compete with companies that are more established, benefit from greater name recognition in particular countries, and have greater resources within those countries than we do. In addition, some of these competitors compete with aggressive pricing. At the same time, we also compete with new and emerging companies that are disrupting traditional markets and sectors. For example, as ridesharing companies and other taxi alternative companies expand and gain market share, the market for our taxi products could be negatively impacted. We face downward pressures on prices in many emerging markets, including high growth emerging markets. For example, price competition is increasingly intense for us in countries such as India, Brazil, Mexico, Southeast Asia and Russia from both global and local competitors. In addition, pricing is increasingly an important factor in our ability to penetrate new markets. Any decrease in our selling prices in order to become and remain competitive in these markets could negatively impact our net revenues, gross margins and results of operations.

We also face competition from alternative payment solutions, such as mobile device-based card payment and processing solutions that offer customers the ability to pay on mobile devices through a variety of payment methods. 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. Competition from these alternative solutions, particularly as they are deployed globally could reduce demand for our traditional payment terminals and our services offerings and have an adverse effect on our results of operations.

As discussed in “If we are unsuccessful in executing on our implementation of payment-related services offerings in new markets and obtaining and maintaining customer acceptance of our service offerings, our net revenues, income and profitability will be adversely affected”, 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. Some of our competitors also control other products and services that are important to our success, including platforms required for our planned expansion of payment-related services, or may acquire or develop exclusive strategic relationships with key distributors upon whom we previously relied.

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 and cost-effective 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. Furthermore, as we respond to changes in the competitive environment,

we may, from time to time, make pricing, product offering or service decisions or acquisitions that may lead to dissatisfaction among our customers and partners and harm our revenues and/or profitability.

Table of Contents

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

We operate in an industry that makes us a target of cyber- attacks on our systems and payment solutions. Our business involves the collection, transmission, storage and use of proprietary data or personally-identifying information of our customers, business partners and employees, as well as, in certain cases, end-users of our products or services. We rely on electronic networks, computers, systems, including our gateways, programs to run our business and operations, our employees and third party technology and IT infrastructure providers and, as a result, are potentially exposed to third-party security breaches, computer or other malware, viruses, social engineering or general hacking, industrial espionage, employee or third party error or malfeasance, or other irregularities or compromises on our systems which could result in the loss or misappropriation of sensitive data, corruption of business data or other disruption to our operations. Outside parties may also attempt to fraudulently induce our employees, customers, business partners, service providers and other users of our solutions to disclose information in order to gain access to sensitive data and our solutions. As we expand our solutions and services and handle increasing volumes and types of sensitive data, we may increasingly become a target of security breach attempts. We have devoted significant resources to security measures, processes and technologies to protect and secure our networks and systems, but they cannot provide absolute security, especially in light of rapid advances in computer capabilities and cryptography. For example, an increasing number of companies have disclosed breaches of their security systems, some of which have involved sophisticated and highly targeted attacks on their network infrastructure. Because the techniques used to breach security safeguards change frequently, such techniques may be difficult to detect for a long period of time and often are not recognized until launched against a target. Certain efforts may also be state sponsored and supported by significant financial and technological resources, potentially making them even more difficult to detect. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures.

In addition, cybercrime hackers have specifically targeted point-of-sale credit card payment systems. Overall payment network security depends upon a number of factors outside our control, including the merchant or service provider network environment in which our systems are installed, the merchant's or service provider's adherence to security protocols in the installation, use and operation of our solutions and implementation of and adherence to compliant security processes and practices for its network. Even if there is no compromise to our solutions, any security breach or compromise in any part of a merchant's or service provider's network could result in negative media and/or reputational harm to us, or other costs or damages to us, all of which could have a material adverse impact on our results of operations.

We have in the past experienced and may in the future experience security breaches 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. We may also be subject to damages claims, lost sales, fines, investigations or lawsuits, which could lead to restrictions imposed on our business and otherwise adversely affect our results of operations. Furthermore, the costs associated with preventing breaches in the security of our solutions, such as investment in technology and related personnel and costs associated with the testing and verification of the security of our solutions, could adversely impact our financial condition and results of operations. Additionally, our insurance policies carry low coverage limits, which may not be adequate to reimburse us for losses caused by security breaches and we may not be able to fully collect, if at all, under these insurance policies.

Table of Contents

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, and amount, of 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 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;
- timing of or completion of divestitures;
- decisions by our distributors and other customers relating to the overall channel inventories of our products held in a particular quarter;
- excess inventory;
- concentration in certain of our customer bases;
- changes in economic or market conditions, such as fluctuations in foreign currency exchange rates;
- variations in product and service mix and cost during any period;
- development of new customer and distributor relationships or new types of customers, penetration of new markets and
- maintenance and enhancement of existing relationships with customers, distributors 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, EMV liability deadline extensions, or the pace of EMV adoption in the U.S. or elsewhere;
- the introduction, modification or termination of government initiatives relating to cashless payments;
- the relative geographic mix of net revenues;
- the fixed nature of many of our expenses;
- the timing, effectiveness and efficiency of our restructuring activities;
- 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 product offerings, including transaction services and in-taxi payments solutions;
- the introduction of new or stricter laws and regulations in jurisdictions where we operate, such as data protection and privacy laws and regulations, laws and regulations covering hazardous substances, or employment laws and regulations, that may cause us to incur additional compliance or implementation costs and/or costs to alter our business operations;
- the introduction of new laws and regulations, or changes in implementation of existing laws and regulations, in jurisdictions where we operate that may create uncertainty regarding the business operations of our customers or distributors, which may in turn lead to deferred or reduced orders from our customers or distributors; and
- business and operational disruptions or delays caused by political, social or economic instability and unrest, such as the ongoing significant civil, political and economic disturbances in Russia, Syria, Turkey, Ukraine and their spillover effect on surrounding areas as well as the political and military conditions in Israel and the Palestinian territories.

No single factor above is dominant, and any of the foregoing factors could have an adverse effect on our operating results.

Table of Contents

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 emerging markets tend to carry lower margins. Furthermore, revenue increases due to the adoption of standards such as EMV in the United States have in the past slowed and declined and may in the future slow or decline or not be sustained. In addition, the pace of EMV adoption in the U.S. will impact our revenues and operating results. In Latin America and some other markets, continued overall economic weakness and the contraction of certain economies in the region could cause our revenues to decline as customers delay or reduce orders. 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.

We may suffer losses due to fraudulent activities.

We are expanding our service solutions offerings. Some of our service solutions offerings include our gateway services for credit card transactions. We may be subject to losses in the provision of such services in the event of fraudulent activities or errors in connection with such transactions. As we expand such service solutions offerings, we may increasingly become a target of fraudulent activities and our exposure to the risk of losses from such activities may increase, which may adversely impact our business, results of operations and financial condition. 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 impair our ability to retain or attract users of our solutions.

A majority of our net revenues are generated outside the U.S.; accordingly, 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 United States. A portion of the net revenues we receive from such sales is denominated in currencies other than the U.S. dollar, primarily the Euro, the Brazilian real, the British Pound and the Swedish Krona. 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, the Brazilian real, the British Pound, and the Swedish Krona. 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 U.S. dollar-denominated products in the local currencies of the foreign markets we serve, making our products relatively more expensive than products that are denominated in local currencies, which could lead to a reduction in our sales and profitability in those markets. In recent periods, the U.S. dollar has strengthened, in some cases significantly, against certain major currencies in which we transact, such as the Euro, the Brazilian real, and the Argentina Peso, impacting negatively our results of operations. Additionally, the 2016 referendum vote in the U.K. to exit the European Union, commonly known as “Brexit,” caused significant short term volatility in global stock markets as well as currency exchange rate fluctuations, resulting in further strengthening of the U.S. dollar, including against the British Pound. 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 entered into foreign exchange forward contracts intended to hedge a portion of our balance sheet exposure to adverse fluctuations in exchange rates. These hedging arrangements can be costly and may not always be effective, particularly in the event of imprecise forecasts of non-U.S. dollar denominated assets and liabilities. In addition, we may be unable to hedge currency risk for some transactions due to cost or because of a high level of uncertainty or the inability to reasonably estimate our foreign exchange exposures. For some currencies in which we do business,

hedging instruments may not be available on any terms.

Table of Contents

We have also effectively priced our systems and services solutions in U.S. dollars in certain countries. 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 global market conditions has 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.

We intend to expand our operations internationally, and our results of operations could suffer if we are unable to manage our international expansion effectively.

The percentage of our net revenues generated outside of the U.S. is significant and may increase over time. In particular, our acquisition of InterCard significantly increased our business in Germany and our acquisition of Panaroma is intended to increase our business in Turkey. Part of our strategy is to expand our penetration in existing foreign markets and to enter new foreign markets, particularly high growth 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. For example, we divested our controlling interest in the entity that operated our China business, in order to potentially enable the entity to better provide products and solutions that meet the requirements of the China market. Expansion of our international operations will require significant management attention and financial resources. Certain emerging markets, including 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.

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.

Table of Contents

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, including the imposition of new or enforcement of existing import restrictions in jurisdictions in which we do business;
- higher costs and complexities of compliance with international and U.S. laws and regulations such as import and trade regulations and embargoes, boycotts, trade agreements, trade sanctions, export requirements and local tax laws;
- laws and business practices that may favor local competitors;
- changes in trade relations and trade policy as a result of the 2016 U.S. presidential election, including implementation of or changes to trade sanctions, tariffs and embargoes;
- restrictions on the repatriation of funds, including remittance of dividends by foreign subsidiaries, foreign currency exchange restrictions, and currency exchange rate fluctuations;
- pricing sensitivities, 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;
- the introduction, modification or termination of government initiatives relating to cashless payments;
- antitrust and competition regulations;
- infrastructure challenges;
- supply chain challenges and product delivery delays;
- changes or instability in a specific country's or region's political or economic conditions; and
- greater difficulty in safeguarding intellectual property, including 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 Latin America countries and volatility in global financial markets, or disruptive events such as natural or man-made disasters or military or terrorist actions. The occurrence or persistence 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 as a result of 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. The uncertainty with respect to the ability of certain European countries to continue to service their sovereign debt obligations, related European financial restructuring efforts and the eventual exit of the U.K. from the European Union as a result of the Brexit referendum may cause the value of the Euro and the British pound to decline. The current political situation in Ukraine, the sanctions imposed against Russia by certain European nations and the U.S., Russia's response to these sanctions, and any changes in U.S. policy as a result of the 2016 U.S. presidential election may further increase the economic uncertainty in the affected regions and lead to further fluctuation in the value of foreign currencies, such as the Euro and Russian ruble, used in these regions. Similarly, an economic downturn in China or a further decrease in economic growth in China could lead to currency fluctuations that impact us. See "A majority of our net revenues are generated outside the U.S.; accordingly,

fluctuations in currency exchange rates may adversely affect our results of operations” and Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk--Foreign Currency Transaction Risk in our Annual Report on Form 10-K for the fiscal year ended October 31, 2016.

Table of Contents

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. 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 our Annual Report on Form 10-K filed with the SEC for the fiscal year ended October 31, 2013, in early 2013, we submitted a voluntary disclosure to the U.S. Department of Treasury's Office of Foreign Assets Control 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 and our business, and negatively impact our operating results.

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

Our international sales of systems tend to carry lower average selling prices and therefore have lower gross margins than our sales in the United States. We also face increasing downward pressure on prices in certain international markets such as Southeast Asia, where competition from local low-cost and global competitors has increased significantly, Brazil, where competition has intensified, and India where we continue to work to expand our business. In these and certain other markets, some customers increasingly seek lower-cost solutions suited to their markets that may have similar, different, and in some cases, better features and functionality. 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 international expansion will likely not be as favorable or profitable as an expansion of similar magnitude in the United States. In addition, if we are unable to accurately predict for any future period our proportion of net revenues that will result from international sales versus sales in the U.S., variations from period to period may lead to volatility in our results of operations and may adversely impact future growth in our earnings.

Table of Contents

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 global and regional 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 has adversely impacted our business, financial condition and results of operations. 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 and adversely affected our 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. More recently, the volatility in oil prices has resulted in, and may continue to result in, decline in demand and overall weaker market conditions in countries and regions heavily dependent on oil revenues, such as Russia, Venezuela, Mexico, and the Middle East. 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. 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 and Latin America, to continue to experience weakened or uncertain economic conditions in the near term, and some of our customers, prospective customers, suppliers, distributors 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 and regional 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 that any such actions will have positive or lasting impacts. Existing stimulus measures may also be withdrawn or reduced, introducing greater economic uncertainty or volatility. Further, conditions such as political situations or terrorist actions in other parts of the world, such as Europe and parts of Asia-Pacific, the continued uncertainty related to economic conditions in the U.S., any potential, additional congressional actions regarding the national debt ceiling and federal budget deficit, changes to the federal income tax code and related policies, the potential effect of any future federal government shutdown, and additional costs related to changes in or repeal of the Affordable Care Act, as well as high unemployment rates in certain 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, make 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.

The United Kingdom's vote to exit from the European Union could adversely impact us.

On June 23, 2016, in a referendum vote commonly referred to as "Brexit," a majority of British voters voted to exit the European Union. In March 2017, the U.K. government officially triggered the process to formally initiate negotiations for the terms of separation from the European Union. In June 2017, the U.K. government began negotiations to leave the European Union. A withdrawal could potentially disrupt the free movement of goods, services and people between the U.K. and the European Union, undermine bilateral cooperation in key geographic areas and significantly disrupt trade between the U.K. and the European Union or other nations as the U.K. pursues independent trade relations. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which European Union laws to replace or replicate. The effects of Brexit will depend on any agreements the U.K. makes to retain access to European Union or other markets either during a transitional period or more

permanently. Because this is an unprecedented event, it is unclear what long-term economic, financial, trade and legal implications the withdrawal of the U.K. from the European Union would have and how such withdrawal would affect our business globally and in the region. In addition, Brexit may lead other European Union member countries to consider referendums regarding their European Union membership. Any of these events, along with any political, economic and regulatory changes that may occur, could cause political and economic uncertainty in Europe and internationally and harm our business and financial results.

Table of Contents

Sanctions against Russia, and Russia's response to those sanctions, including the imposition of sanctions by Russia, could materially adversely affect our business, results of operations and financial condition.

In March 2014, the Crimean region of Ukraine was annexed by Russia. In response, other nations, including the U.S., have imposed or are considering imposing, economic sanctions on Russia. Recently, concerns related to the political and military conditions in the region have prompted stringent restrictions by the U.S. and European Union, and increasing levels of economic sanctions, targeting certain Russian companies in the finance, energy and defense industries and additional Russian nationals, as well as imposing restrictions on trading and access to capital markets. In response, Russia announced its own trading sanctions against nations that implemented or supported the anti-Russia sanctions, including the U.S. and some European Union nations. Russia has also announced potential sanctions against Turkey in response to a military incident between Turkey and Russia in November 2015. A portion of our net revenues are from Russia and its surrounding areas, including Ukraine and Turkey. Economic sanctions imposed by the U.S., the European Union, Russia, Turkey or the world community may result in serious economic challenges in Ukraine, Turkey, Russia and the surrounding areas, and imposition of trade restrictions may delay or prevent shipment of products to or services performed in those countries, which could have an adverse effect on our results of operations. In addition, to the extent it is more difficult for some of our customers to obtain financing or access U.S. dollar currency, due to restrictions on access to international capital markets as a result of the sanctions, our customers' ability to pay could be adversely affected, which could have a material adverse impact on our business, cash flows, results of operations and financial condition. Further, current and any future retaliatory measures by Russia in response to anti-Russia sanctions could adversely affect European and Middle East economic conditions, which could in turn affect our business in Europe, Turkey and elsewhere. Accordingly, sanctions against or by Russia and the responses to sanctions, including potential responses by Turkey to sanctions imposed by Russia, could have a material adverse effect on our business, results of operation and financial condition. Further, it is unclear whether any changes in U.S. policy regarding sanctions against Russia will be forthcoming as a result of the new U.S. presidential administration and how those potential changes may impact the U.S., Russia and world economies and our business.

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 or enhancements are released, or at any time during their lifecycle. Despite our testing procedures and controls over manufacturing quality, errors may 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, wireless modules or battery cells. Our customers may also run third-party software applications on our electronic payment systems. Errors in such third-party applications could adversely affect the performance of our solutions or cause the loss of data. Any product recalls or delays in implementation of our products as a result of, or perceived to be resulting from, our errors or failures could result in the loss of customers, fines incurred by our customers due to failure to comply with payment system rules for which we may be obligated to compensate our 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 credibility and 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 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.

Identifying and correcting defects can be time-consuming, costly and in some circumstances extremely difficult. It may take several months to correct software errors, and even longer for hardware defects. The delays in correcting product defects could exacerbate the adverse impact product defects or failures may have on our business, results of operations, financial condition and reputation.

Table of Contents

Disruptions in our solutions could reduce our revenues, increase costs, harm our reputation, result in loss of customers and materially impact our results of operations and financial condition.

Our solutions may experience service interruptions, degradation or other failures because of hardware and software defects or malfunctions, computer denial-of-service and other cyberattacks, human error, earthquakes, hurricanes, floods, fires, natural disasters, power losses, disruptions in telecommunications services, fraud, military or political conflicts, terrorist attacks, computer or other malware, viruses, social engineering, general hacking, or other events. Our solutions also may be subject to break-ins, sabotage and intentional acts of vandalism. Some of our solutions are not fully redundant, and our disaster recovery planning may not be sufficient for all eventualities.

Disruptions in our solutions may result in our customers' inability to process transactions using our terminals or gateways, lead to loss of revenues for us and materially impact our results of operations and financial condition. We may have to spend resources to detect and fix defects that caused such disruptions, and we cannot guarantee that we will be able to detect and fix all such defects. Moreover, to the extent that any disruption results in damages to our customers or their businesses, these customers could seek significant compensation or contractual penalties from us for their losses and those claims, even if unsuccessful, would likely be time-consuming and costly for us to address. Our brand may be permanently harmed by disruptions in our solutions and we may lose customers to our competitors, which could result in financial or reputational harm to our business. Disruptions in our solutions may also cause potential customers to believe that our systems are unreliable, leading them to avoid our solutions.

Changes to our management and strategic business plan and restructuring activities may cause uncertainty regarding the future of our business, and may adversely impact employee hiring and retention, our stock price, our customer relationships, and our results of operations and financial condition.

We have experienced, and may experience in the future, changes in our management team. In 2013, the Board appointed Mr. Paul Galant as our CEO and Mr. Marc E. Rothman as our new CFO. Further, since Mr. Galant's appointment, we have announced certain other sales, technology, marketing, human resources, and operations management changes. During this time of transition, our new executive leadership and our continuing executives have been designing and implementing changes to our strategic business plans, in order to better position the company for strategic growth and long-term profitability. In addition, we have initiated certain restructuring activities in accordance with our approved restructuring plans, reducing the number of employees and contractors in certain areas and reassigning certain employee duties, and consolidating excess facilities. Our management changes, changes to our strategic business plan, and restructuring activities, as well as the potential for additional changes or activities in the future, may introduce uncertainty regarding our business prospects and may result in disruption of our business and our customer relationships. In addition, these changes and measures could distract our employees, decrease employee morale, result in failure in meeting operational targets due to the loss of employees and make it more difficult to retain and hire new talent, increase our expenses in terms of severance payments and facility exit costs, both of which could be significant, expose us to increased risk of legal claims by terminated employees, and harm our reputation. These changes and activities could also increase the volatility of our stock price. If we are unable to mitigate these or other similar risks, our business, results of operations, and financial condition may be adversely affected.

Table of Contents

We may not successfully implement our transformation initiatives or fully realize the anticipated benefits from our restructuring efforts.

We are in the process of implementing a number of strategic, transformation initiatives intended to redefine our global product management process and portfolio, re-engineer our research and development function and improve our cost structure. As part of these transformation initiatives, during recent fiscal years our management approved restructuring plans to better align our business organization, operations and product lines to achieve long-term sustainable growth and value, including through workforce reduction and facility consolidations. We cannot assure you that we will be able to successfully implement our transformation initiatives. Further, our ability to achieve the anticipated benefits, including the anticipated levels of cost savings and efficiency, of such transformation initiatives and the restructuring plans within expected timeframes is subject to many estimates and assumptions, which are, in turn, subject to significant economic, market, competitive and other uncertainties, some of which are beyond our control. Further restructuring or reorganization activities may also be required in the future beyond what is currently planned, which could further enhance the risks associated with these activities. There is no assurance that we will successfully implement, or fully realize the anticipated positive impact of, our transformation initiatives and the restructuring plans or execute successfully on our transformation strategy, in the timeframes we desire or at all.

If we are unsuccessful in executing on our implementation of payment-related services offerings in new markets and obtaining and maintaining 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. Following our acquisition of Point, we have been implementing their payment-related services offerings 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. Markets may take longer to adopt a payment processing model than we anticipate or may choose not to adopt this model at all. 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 payment-related services offerings within the time frames we desire and to achieve the benefits we anticipate. If we are unsuccessful in executing on our implementation of payment-related services offerings and obtaining and maintaining customer acceptance of our service offerings or are unable to implement the model while also maintaining focus on other key areas of our business or if we are unable to maintain the expected level of margins associated with these service offerings, we may not be able to generate sufficient returns on our investments in the services business and our net revenues, income and profitability will be adversely affected.

We have experienced 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 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-related 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.

58

Table of Contents

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 any of 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 occurrence of multiple product lines or services offerings as a result of acquisitions, that are offered, priced or supported differently, potentially leading to integration delays and customer impact;
- 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, human resources and administrative activities for the combined company, all in a scalable, 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 failure to retain employees from 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 and the potential stress on our existing controls, particularly in integrating multiple acquired companies;
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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;

59

Table of Contents

the failure to adequately 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.

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. We similarly may be subject to continuing liability associated with businesses that we have disposed of. 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. If we are not successful in our integration efforts and cannot realize the expected benefits of our acquisitions, we may incur substantial eventual additional expenses and expend resources in connection with divestitures of non-performing businesses.

These risks are heightened and more prevalent in acquisitions of larger businesses, in the event of multiple concurrent acquisitions and integrations, 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 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, supply chain, and other specialized personnel, many of whom would be difficult to replace. In addition, our future success depends on our ability to attract, integrate, manage, and retain highly skilled employees throughout our business. Competition for some of these personnel is intense in certain markets, especially in the Silicon Valley where our corporate headquarters are located, and competitive pressures in such markets can drive up wages, impacting our profitability. In addition, shifts in U.S. immigration policy, including as a result of the 2016 U.S. presidential election, could negatively impact our ability to attract, hire and retain highly skilled employees who are from outside the United States. In the past we have had difficulty hiring, in our desired time frame and in our desired markets, employees that have the specific qualifications required for a particular position. In particular, we may be unsuccessful in attracting and retaining personnel as a result of the workforce reduction measures we have implemented or may implement in the future. To help attract, retain and motivate qualified personnel, we use share-based incentive awards, such as employee stock options and restricted stock units as well as cash-based incentive awards tied to our performance. If the Company's overall performance is poor, the value of our stock awards does not appreciate as measured by the performance of the price of our common stock, or if our share-based compensation otherwise ceases to be viewed as a valuable benefit, employee incentive awards and morale could be negatively impacted and our ability to attract, retain and motivate personnel could be weakened. 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, and our business and profitability may suffer.

Table of Contents

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 operations 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. These resellers also provide critical services of developing and supporting the 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 in part 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. In addition, we may offer similar services as those offered by certain of our resellers as we introduce payment-related services offerings in new markets. If one or more of our major resellers terminate their relationship with us, are acquired by one of our competitors or one of our competitor's resellers, or otherwise adversely change their 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 applications developed by these resellers.

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 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. 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. 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.

Table of Contents

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 in the last month 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.

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 either excess or insufficient inventory to satisfy demand. This problem is exacerbated because our products are offered in a number of different configurations and with a variety of optional features, and 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, as discussed under "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." 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 lead to increased expenses associated with writing off excessive or obsolete inventory, additional shipping costs to meet immediate demand and a corresponding decline in gross margins, or lost sales. 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, 2016, the amount of purchase commitments issued to contract manufacturers and component suppliers totaled

approximately \$110.9 million. Of this amount, \$11.2 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. On April 3, 2017, to lock in pricing on certain components, we committed to purchase \$144 million of such components over a four year period, \$36 million per year, from one of our existing suppliers. As of July 31, 2017, our remaining non-cancelable commitment under this agreement totaled \$112.1 million.

Table of Contents

For additional information regarding our commitments to third-party manufacturers and suppliers, see Note 12, Commitments and Contingencies, in the Notes to Consolidated Financial Statements of our Annual Report on Form 10-K filed with the SEC for the fiscal year ended October 31, 2016 and Note 10, Commitments and Contingencies, in this Quarterly Report on Form 10-Q.

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.

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, during the fiscal year ended October 31, 2013 we incurred costs totaling \$26.5 million for obsolete inventory, scrap, and purchase commitments for excess components at contract manufacturers, an increase of \$13.7 million compared to those for the prior fiscal year, due to lower-than-anticipated systems sales volumes and potential obsolescence because of the then upcoming April 2014 PCI 1.3 standard expiration.

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 longer in some international markets due to local customs or conditions. In the past, there have been bankruptcies among our customer base. Credit risks may be higher and 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 and Nigeria and other countries whose economies are significantly impacted by the price of oil, 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, instability or uncertainty in global or regional economic, political or military conditions may make it more difficult for some customers to obtain financing or access U.S. dollar currency, and their 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.

63

Table of Contents

We depend upon third parties to manufacture our systems and to supply the components necessary to manufacture our products, and in some cases we are dependent upon sole source suppliers to manufacture our systems.

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, or to the distribution and transportation of our products may also impact the availability of components to us in the quantities or within the timeframe we require. 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 due to shortages or other factors 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 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.

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.

We may be subject to future 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, Point in December 2011, as well as acquisitions related to our Taxi Solutions, 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.

Table of Contents

During the first quarter of 2016, we realigned our organizational structure and changed our reportable segments to be Verifone Systems and Verifone Services. As a result of this change, we have realigned our reporting units to be Verifone Systems, Taxi Solutions, and Verifone Payment Services. During the second quarter of 2017, we concluded that the carrying amount of the goodwill related to our Taxi Solutions reporting unit may not be recoverable. Based on a quantitative assessment, considering potential sales transactions, we concluded that the goodwill was impaired by \$17.4 million. There were no indicators of impairment for our Verifone Systems and Verifone Payment Services reporting units during the nine months ended July 31, 2017.

Our evaluation of potential impairment of goodwill is subjective, requires significant judgment and 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 structure or business strategies. 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. See Note 7, Goodwill and Purchased Intangible Assets, in the Notes to Condensed Consolidated Financial Statements and Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates -- Goodwill, of this Quarterly Report on Form 10-Q for additional information related to impairment of goodwill and intangible assets.

We have 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 outcome of peace efforts between Israel and its Arab neighbors remains uncertain. Any armed conflicts, such as ongoing military conflict in the Gaza Strip, 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, Israeli companies and companies with significant Israeli operations. 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.

We have operations and business in Turkey that may be adversely affected by political and economic instability in the country and military operations in the region.

In July 2016, there was an attempted military coup in Turkey. In the aftermath of the coup, some of our partners and customers delayed shipments and orders, impacting our revenues. While the current government was able to stay in power, the country continues to experience political turmoil and the Turkish government is operating under a state of emergency. This evolving situation could further negatively impact our results and business opportunities in the country, including our ability to market certain solutions in the region. For example, the Turkish government has delayed implementation of a fiscalization mandate to January 2018. This may further impact or delay our business opportunities and revenue expectations in the country for the next fiscal year.

Table of Contents

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 impact our operations, our customers and otherwise 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. See also "Sanctions against Russia, and Russia's response to those sanctions, including the imposition of sanctions by Russia, could materially adversely affect our business, results of operations and financial condition", "We have 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" and "We have operations and business in Turkey that may be adversely affected by political and economic instability in the country and military operations in the region."

Natural or man-made disasters, business interruptions and health epidemics could delay our ability to receive or ship our products or provide our services, 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, all of which could impact our ability to conduct vital business operations, including the ability of our employees to access work sites or customer sites where urgent or time critical repairs are needed. 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 or our manufacturers' facilities are damaged or destroyed, we would be unable to distribute our products or provide our services 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 as well as a shared services center are located in Florida, which has in the past experienced major hurricanes and similar extreme weather. Any disruption of our operations in these areas could materially affect our operations and harm our business. In addition, we increasingly rely on our computer systems and servers to conduct our business. For example, much of our order fulfillment process is automated and the order information is stored on our servers. If our computer systems and servers are impaired or cease functioning, even for a short period, our ability to serve our customers and fulfill orders would be disrupted, our reputation could be damaged and our net revenues could be materially and adversely affected. 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. Although we have established and tested back-up systems and facilities to run our critical business operations in case of a business interruption, some of our systems and facilities are not yet fully redundant or fully tested. We are still in the process of finalizing a comprehensive disaster recovery plan and continue to rely on regional disaster recovery plans in some cases. In addition, our back-up operations may be inadequate under certain circumstances and our business interruption insurance may not be enough to compensate us for any losses that we may incur, which could adversely affect our business, results of operations and financial condition, as well as harm our reputation, and could cause our stock price to decline significantly.

Table of Contents

Risks Related to Our Legal and Regulatory Environment

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 systems 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 and regulations 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 in the various jurisdictions we operate in. At the same time, as ridesharing companies and other taxi alternative companies expand and gain market share, depending on regulatory outcomes and developments, the market for our taxi products could be negatively impacted. Various aspects of our services business also are or may be subject to additional regulations and licensing requirements as we expand into new areas. 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, as well as our reputation and market share, 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 also benefits from changes in industry standards and government regulations as well as technological changes, which are large drivers of customer upgrade cycles. For example, as EMV standards were implemented in the U.S., our business benefited as customers upgraded their systems. Nevertheless, if standards are not implemented on the timeline we expect, or at all, if they are implemented but we cannot deliver products that comply with standards in a timely manner or at all, or if the pace of adoption of EMV or other standards slows, 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.

Table of Contents

Changes in laws and regulations of privacy and protection of user data could adversely affect our business.

We are subject to data privacy and protection laws and regulations that apply to the collection, transmission, storage and use of proprietary information and personally-identifying information. The regulatory environment surrounding information security and data privacy varies from jurisdiction to jurisdiction and is constantly evolving and increasingly demanding. The restrictions imposed by such laws continue to develop and may require us to incur substantial costs, adopt additional compliance measures, such as notification requirements and corrective actions in the event of a security breach, and/or change our current or planned business models. For example, in the U.S., legislation has in recent years been proposed regarding restrictions on the use of geolocation information collected by mobile devices without consumer consent. If ultimately adopted, such legislation or any other 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, we are already subject to strict data privacy laws in the European Union and other jurisdictions governing the collection, transmission, storage and use of employee data and personally-identifying information. The General Data Protection Regulation, coming into effect in Europe in May 2018, creates a range of new compliance obligations and increases financial penalties for non-compliance. Such regulations increase our compliance and administrative burden significantly.

If our current security measures and data protection policies and controls are found to be non-compliant with relevant laws or regulations in any jurisdiction where we conduct business, we may be subject to penalties and fines, and may need to expend significant resources to implement additional data protection measures. In addition, we may be required to modify the features and functionality of our system offerings in a way that is less attractive to customers.

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 our Annual Report on Form 10-K for the fiscal year ended October 31, 2014, we settled with the plaintiffs in the securities class action case captioned *In re VeriFone Holdings, Inc. Securities Litigation* for a total of \$95.0 million.

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, and in Israel, where we are currently under audit by the Israel Tax Authority for fiscal years 2011 through 2015 and are subject to a substantial potential tax liability and deficiency penalty assessment in the range of several hundred million dollars for 2008 or 2009. While we continue to believe the Israel Tax Authority assessment is without merit and have appealed the assessment, we cannot be sure of the outcome and our ultimate aggregate exposure. See Note 4, Income Taxes and Note 10, Commitments and Contingencies, in the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q for additional information related to tax assessment matters.

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.

68

Table of Contents

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 intended 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, and in the future may be, involved in various litigation and regulatory matters, such as commercial disputes and labor and employment claims, that arise in the ordinary course of business.

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 devoted 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 or the amount of our liability could exceed the accrual. For a description of our material pending litigation, see Part II, Item 1, Legal Proceedings, of this Quarterly Report on Form 10-Q.

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, whether directly or as a result of indemnification obligations. 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.

Table of Contents

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. 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 could result in a significant judgment of damages against us, which could materially and adversely impact our operating results, financial condition and cash flows. See Note 10, Commitments and Contingencies, in the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

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 United States. 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.

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 our 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 European Union directive on WEEE, the European Union's REACH, and the environmental regulations under 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 European Union 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.

Table of Contents

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. We filed our most recent report under the disclosure requirement in May 2017 for the 2016 calendar year. Because our supply chain is complex, in preparation of such report, we were dependent on the implementation of diligence procedures we put in place to determine the sources of conflict minerals that may be used or are necessary to the production of our products and, if applicable, potential changes to products, processes or sources of supply in response to the findings resulting from such verification activities, as well as information provided by many of our suppliers. To the extent the information we received from our suppliers is inaccurate or inadequate or our processes in obtaining such information do not satisfy the SEC's diligence requirements, we may be unable to sufficiently verify the origins of conflict minerals used in our products and could face reputational risks. In addition, we have incurred and expect to continue to incur costs associated with complying with these disclosure requirements, including for conducting diligence procedures. Moreover, these rules could adversely affect the sourcing, supply and pricing of materials used in our products, particularly if the number of suppliers offering minerals identified as "conflict minerals" that are sourced from locations other than the Democratic Republic of Congo and adjoining countries is limited. We may also suffer reputational harm if we determine that certain of our products contain minerals not determined to be conflict-free yet are unable to alter our products, processes or sources of supply to avoid such materials.

Changes in our effective tax rate could adversely affect our 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 benefits, our ability to generate tax credits, our ability to utilize net operating loss carryforwards, the tax impact of nondeductible compensation, and changes in accounting rules, tax laws and regulations, and related interpretations, in the jurisdictions in which we operate. The U.S., countries in the European Union and other countries where we do business have been considering changes in tax laws applicable to multinational corporations. These potential changes in tax laws could have an adverse effect on our effective tax rate. For example, both the new U.S. presidential administration and the new congress have offered plans to reform the federal income tax code, along with other significant policy initiatives, some of which could have a material impact on us.

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. Any changes to these factors could have an adverse effect on our results of operations.

We have previously received tax benefits related to our operations in Israel and Singapore. Our subsidiary in Israel (formerly Lipman) previously received tax benefits under Israeli law for capital investments that were designated as "Approved Enterprises" through October 31, 2009. To the extent that these prior year earnings are distributed or deemed distributed, our Israeli subsidiary could be required to remit corporate income tax on these earnings at the applicable rate, between 12.5% and 36.25%. In addition, our subsidiary in Singapore previously received tax benefits under the Singapore Pioneer Tax Holiday provision (the "Tax Holiday") which expired on October 31, 2012. Our effective tax rate could be adversely affected to the extent that tax authorities in Singapore challenge our Tax Holiday.

Table of Contents

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. 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 raised uncertainty about the likelihood of realization of those deferred tax assets. If U.S. tax rates are reduced, the value of our U.S. deferred tax asset would decrease and the associated valuation allowance would also decrease. For further information regarding this valuation allowance, see Note 6, Income Taxes, in the Notes to Consolidated Financial Statements of our Annual Report on Form 10-K for the fiscal year ended October 31, 2016. There is no assurance that we will not record a valuation allowance in future periods against previously-booked deferred tax assets. 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.

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.

Our business could be adversely impacted if we have deficiencies in our disclosure controls and procedures or internal control over financial reporting.

The design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While management continually reviews the effectiveness of our disclosure controls and procedures and internal control over financial reporting, there can be no guarantee that our internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, including any material weakness, in our internal control over financial reporting that may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, a decline in the price of our securities, or otherwise materially adversely affect our business, reputation, results of

operations, financial condition or liquidity.

72

Table of Contents

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.

We have senior secured credit facilities pursuant to a credit agreement as described in Note 8, Debt, in the Notes to Condensed Consolidated Financial Statements to this Quarterly Report on Form 10-Q, with outstanding loan balances of \$875.2 million as of July 31, 2017.

The 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 its interest coverage ratio at or above specified thresholds. In addition, we have, in order to secure our repayment obligations under the Credit Agreement, 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 secured assets or engage in other transactions that may be beneficial to us.

If we are unable to comply with the covenants in the Credit Agreement, we will be in default, which could result in the acceleration of our outstanding indebtedness. 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 Credit Agreement, increases in our leverage ratio could result in increased interest rates and, therefore, higher debt service costs. If we were to default in performance under the 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.

See Note 8, Debt, in the Notes to Condensed Consolidated Financial Statements to this Quarterly Report on Form 10-Q for additional information regarding the Credit Agreement.

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

Our outstanding indebtedness and debt service obligations are substantial. As of July 31, 2017, we had total indebtedness outstanding of \$875.2 million related to the Credit Agreement, payable in quarterly installments through July 8, 2021. Outstanding amounts may be subject to mandatory prepayment with the proceeds of certain asset sales and debt issuances and, for certain of the loan balances, from a portion of annual excess cash flows (as determined in the Credit Agreement) depending on our total net leverage ratio. See Note 10, Debt, in the Notes to Consolidated Financial Statements of our Annual Report on Form 10-K for the fiscal year ended October 31, 2016 for a schedule of the principal payments due under our credit facilities.

Table of Contents

We intend to fulfill our debt service obligations from existing cash and cash from 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 and reduce the amount of expected cash flow available for other purposes, including capital expenditures, investments, acquisitions and dividends. 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 Credit Agreement which could result in the termination of commitments under the 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 the Credit Agreement has a floating interest rate. Although we have entered into a swap arrangement that converts the floating interest rate to a fixed interest rate for a substantial portion of the principal amount under the Credit Agreement through June 2019, 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 the portion of our debt not covered by such swap arrangement and during periods after the expiration of such swap arrangement, which could negatively impact our net income and cash flows.

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

- 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.

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. If financial institutions that have extended credit commitments to us, including under the 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.

Table of Contents

Our share price has been highly 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 of certain financial statements in December 2007, during the turmoil in the worldwide financial markets in 2008 and 2009, and more recently following the reporting of certain of our results in 2013 and 2016. In addition to fluctuations related to company-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 or regional economic conditions;
- changes in the market valuations of other companies operating in our industry or in the technology sector;
- the rate at which we return capital to our shareholders;
- announcements by us or our competitors related to acquisitions, strategic partnerships, or divestitures;
- business disruptions, costs and future events related to shareholder activism;
- additions or departures of key personnel;
- sales or purchases of our stock, including sales or purchases of our stock by our directors and officers or by significant stockholders; and
- repurchases of our stock by us pursuant to our share repurchase program.

Table of Contents

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

76

Table of Contents

ITEM 6.EXHIBITS

The following documents are filed as Exhibits to this report:

| Exhibit Number | Description |
|-------------------|---|
| <u>31.1*</u> | <u>Certification of the Chief Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>31.2*</u> | <u>Certification of the Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| <u>32.1*</u> | <u>Certification of the Chief Executive Officer and the Chief Financial Officer as required by Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 101.INS ** | XBRL Instance Document |
| 101.SCH ** | XBRL Taxonomy Extension Schema Document |
| 101.CAL ** | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF ** | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB ** | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE ** | XBRL Taxonomy Extension Presentation Linkbase Document |

*Filed herewith.

XBRL (eXtensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Table of Contents

SIGNATURES

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

VERIFONE SYSTEMS, INC.

By: /S/ PAUL S. GALANT

Paul S. Galant

Chief Executive Officer

By: /S/ MARC E. ROTHMAN

Marc E. Rothman

Executive Vice President and Chief Financial Officer

Date: September 7, 2017

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