

# Section 1: 10-K (10-K)

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended October 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

(State or Other Jurisdiction of  
Incorporation or Organization)

04-3692546

(I.R.S. Employer  
Identification No.)

88 West Plumeria Drive,  
San Jose, CA

(Address of Principal Executive Offices)

95134

(Zip Code)

(408) 232-7800

(Registrant's Telephone Number, Including Area Code)

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$0.01 par value	New York Stock Exchange

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

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company

(Do not check if a smaller reporting company)

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

As of April 30, 2017, the aggregate market value of the common stock of the registrant held by non-affiliates was approximately \$1.4 billion based on the closing sale price as reported on the New York Stock Exchange.

The number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on November 30, 2017:

Class	Number of shares
Common Stock, \$0.01 par value per share	112,378,176

#### DOCUMENTS INCORPORATED BY REFERENCE

As noted herein, the information called for by Part III is incorporated by reference to specified portions of the Registrant's definitive proxy statement to be filed in conjunction with the Registrant's 2017 Annual Meeting of Stockholders, which is expected to be filed not later than 120 days after the Registrant's fiscal year ended October 31, 2017.

**VERIFONE SYSTEMS, INC.**  
**2017 ANNUAL REPORT ON FORM 10-K**

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## FORWARD LOOKING STATEMENTS

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

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

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

## PART I

### ITEM 1. BUSINESS

#### Our Company

Verifone is a global leader in payments and commerce solutions at the point of sale (“POS”). For over 35 years, we have designed, manufactured, marketed and supplied a broad range of innovative payment solutions and complementary services. Our solutions enable merchants and the institutions that serve them to securely accept electronic forms of payment and ensure regulatory and industry standards compliance; enable value-added exchange between merchants and consumers; and enhance payment security. Key industries in which we operate include financial services, retail, petroleum, restaurant, hospitality, transportation, and healthcare.

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

Our business has grown through a combination of organic growth and strategic acquisitions. For instance, in December 2015, we acquired InterCard AG, a leading payment service provider in Germany, and in February 2016, we acquired AJB Software Design, a provider of payment gateway and switching solutions for large merchants in the U.S. and Canada.

We are headquartered in San Jose, California and sell into more than 150 countries worldwide, with a direct presence in approximately 40 countries.

#### Our Business Strategy

Verifone’s strategy is to deliver payment solutions that combine next-generation devices that are connected to our services network to enable the future of payments and commerce. We seek to provide innovative payment and value-added commerce solutions globally to merchants and the institutions that serve them, such as financial institutions, merchant acquirers and point-of-sale integrators, on a worldwide basis. Our solutions enable payment and commerce in a variety of environments, including traditional multiline and countertop implementations, self-service or unattended environments, portable deployments, mobile point-of-sale solutions, as well as fully integrated point of sale solutions. Our solutions include electronic payment devices; field services such as installation, repair and warranty; and software such as estate management, security and gateway services. We recently introduced Verifone Engage, our new family of interactive, commerce-enabled payment devices that we believe offer a new and innovative connected payments experience. We have also recently launched Verifone Carbon 8 and 10, an integrated dual-screen cloud-based point-of-sale solution, that enables merchants to run register and business applications from a tablet-sized screen while enabling consumers to pay and interact with a smaller consumer-facing screen. We believe we have one of the leading electronic payment solutions brands and are one of the largest providers of electronic payment and commerce solutions worldwide.

Services continue to be important to our business strategy. During fiscal year 2018, we intend to expand our footprint of connected network endpoints and extend the payment and commerce services into additional devices. In order to provide a broader range of services as part of our solutions, we also seek to connect our terminal systems back to our network, which enables us to leverage a connected network of terminals in our services offerings. We offer a wide portfolio of services, ranging from traditional terminal-related support services and value-added transaction payment services to commerce enablement solutions that are designed to

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facilitate commerce opportunities for merchants. Our traditional terminal-related support services include professional services related to installation and deployment, helpdesk support, training, equipment repair and maintenance, and software post-contract support. Our value-added transaction services include terminal management services and 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 enablement solutions leverage our terminals to engage consumers at the point of sale through value-added applications such as loyalty and couponing applications, targeted offers and real-time reward redemptions. We believe that consumer engagement at the point of sale provides opportunities to increase brand awareness and potential for merchants to grow sales. We intend to provide applications to merchants who have connected to our gateways that improve the efficiency in the way that they run their businesses. We also intend to launch a commerce enablement platform that links smart terminals and technology gateways in order to provide our clients with integrated tools to enhance and enrich the commerce experience at the point of sale, as well as improve their back office efficiency.

We believe continued innovation in terminal solutions, strategic expansion of our value-added services in key markets, including both developed and emerging markets, and investment in our payments and commerce enablement solutions are important components of our business strategy. We intend to focus on our solutions as a key driver of growth globally, including emphasis on growing the number of devices connected to our gateways. We also intend to focus our efforts on expanding our business in new geographic markets for us such as Japan and expanding our presence in emerging markets such as India and Indonesia and in new market segments such as hospitality, quick-service restaurant and pay-at-the-table in the United States.

### **Our Business Organization**

During fiscal year 2017, we managed our business as a single business unit, Verifone Solutions, which is focused on delivering seamless and simple-to-implement solutions that are integrated with our services offerings, including our device, payment, commerce and security-related services offerings. Within Verifone Solutions, we have two global product lines: 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 leasing and maintenance, payment transaction routing and reporting, and commerce-based services such as advertising on digital screens. For segment and geographic information, see Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations - Segment Results of Operations*, Note 1, *Principles of Consolidation and Summary of Significant Accounting Policies* and Note 14, *Segment and Geographic Information*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

### **Our Industry Trends**

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

***The global payments industry continues to move towards electronic payment transactions.*** Consumer habits continue to shift to higher volumes of non-cash transactions with demand for additional payment options. In developed markets, such as the U.S., the continued shift to electronic payments is characterized by an increasing volume of transactions, including an increase in volume of low value card transactions, through multiple payment forms. Our industry continues to move toward advanced payment technologies and methods, and has also seen the emergence of new market entrants, including outside the traditional point of sale providers. Certain regions, such as parts of Europe, Latin America, and Asia-Pacific, currently have relatively low rates of electronic payments, but are experiencing a growing number of such transactions. The adoption of electronic payments in emerging markets is driven primarily by economic growth, infrastructure development, expanding presence of Internet and wireless connectivity and support from governments seeking to modernize their economies and to encourage electronic payment transactions as a means of driving commerce and improving tax collection. In some emerging markets, the trend toward non-cash transactions is driving

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the need for innovative solutions to address access barriers to large populations of consumers who are not using or able to use the banking and financial systems.

***Security continues to be a driving factor in our industry.*** Payment transaction security needs to become increasingly sophisticated as security threats become more sophisticated, as new payment methods, especially mobile payments, are introduced, and as payment transaction volumes increase. Further, new payment types and platforms make payment transactions more operationally complex and thus exacerbate security concerns and increase the need for security solutions. In the last few years, a number of retailers and banks reported customer or client data breaches and other fraudulent activities, which heightened awareness of data security and increased demand for security solutions in payments systems, including accelerating the adoption of EMV, a Europay, MasterCard and Visa chip based card acceptance payment method, which became the payment standard in other countries. In addition to offering products that are independently certified to meet security standards, we provide secure commerce architecture as well as transaction encryption and tokenization services to facilitate an end-to-end security solution for payments. Our security solutions must continue to evolve to meet changing needs and threats.

***We anticipate that the industry will see growing demand for mobile and portable point of sale solutions.*** In recent years, the increased use of wireless Internet connectivity driven by expanded network coverage, faster communication speeds and reduced costs has driven demand for compact, easy-to-use, and reliable mobile point of sale, or mPOS, payment solutions. We expect rising demand for mPOS devices, including increasing utilization of smartphones and tablets based on the Apple iOS, Google Android, and Microsoft Windows operating systems to conduct payment transactions and to enable new mobile retailing solutions for merchants. Wireless portable devices and mobile devices, such as smartphones and tablets, are also increasingly being used as multi-purpose hardware and integrated software platforms that are being adopted for commerce, payments, and complementary applications, and tablet-based point of sale systems are becoming more common as all-in-one merchant management systems.

Portable and mobile devices may have shorter technology refresh cycles than traditional electronic payment devices. In particular, major telecommunications carriers around the world are phasing out their 2G/GPRS networks in favor of faster and more advanced technologies, such as 3G or later-generation networks.

***We expect continued advancement in payment technologies driven by demand for payment solutions that accommodate different payment methods, such as EMV and near field communications, or NFC, and across multiple channels while maintaining a consistent consumer experience.*** Technological innovation in the payments industry continues to advance as indicated by the emergence and adoption of new payment methods, such as contactless, NFC, and mobile cloud-based payments, including card not present options. We believe that security concerns driven by a number of recent high-profile security breaches at major retailers and banks continues to drive demand for EMV solutions in the United States. Electronic payment methods such as, Apple Pay, whereby consumers are able to use their smartphones to make payments by tapping their phones on a point of sale terminal, such as ours, have increased visibility into NFC which may spur more adoption of NFC, particularly as NFC transactions are considered EMV compliant. We are also working with PayPal, Google, Samsung and other partners to increase the acceptance of digital wallets at large retailers across the U.S. through our NFC-enabled devices. We also believe the potential adoption of EMV in Japan may create new opportunities for us.

Overall, merchants are striving to enrich the consumer experience and to accommodate consumer expectations for payment flexibility by offering a variety of payment options and other value-added services at the point of sale. Merchants increasingly seek more sophisticated tools integrated with payment systems that enable a consistent and seamless experience for consumers across multiple delivery channels, both online and offline. We expect this trend to create a need for a single platform that can support different payment options and delivery channels, and that is offered on a managed service basis to reduce risk and time to market. With the continued emergence of new and innovative technologies, our markets have become increasingly complex, which has in turn driven increasing interest by merchants to outsource managed services solutions such as terminal estate management, gateway transaction services, and payment systems implementation and management.

***We expect merchants to increasingly seek to have rich and dynamic interactions with consumers.*** Customized relevant content at the point of sale, such as promotions, offers, coupons, merchandise suggestions and loyalty programs, offer a means to enrich the consumer experience, particularly in retail and hospitality environments. The time between the initiation and completion of a

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transaction on a media-enabled payment solution provides merchants the opportunity to engage with consumers. Furthermore, incorporation of emerging technologies, such as Bluetooth low energy, or BLE, and beacons into payment solutions provides consumers with a more personalized experience, while merchants benefit from enhanced ways to engage customers in the store and to streamline the consumer shopping experience across channels.

***We expect clients in more price sensitive markets to demand more options for lower cost payments solutions.*** In price sensitive markets, which include many higher growth markets in Asia, more clients have sought lower cost payment solution options, in many cases including the flexibility for the client to forgo certain features and enhancements but nevertheless have a leading edge payment solution. This trend has increased competition in these markets as clients place less emphasis on branding and added features and enhancements that may otherwise differentiate competing products, and rely primarily on pricing for purchase decisions. While pricing has become a key factor, clients nevertheless seek payment solutions with certain innovative technological features, such as contactless or portability options, and mobile payment solutions that leverage the connectivity of smartphones and tablets, and therefore solutions providers must continue to innovate to address specific market needs while maintaining lower costs.

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

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

## **Products and Services**

### ***Our System Solutions***

Our system solutions consist of point of sale electronic payment devices that run both our unique operating system and Android, security and encryption software, and certified payment software. Verifone's systems solutions are designed to suit our clients' needs in a variety of environments, including traditional multiline and countertop implementations, self-service and unattended environments, in-vehicle and portable deployments, mobile point-of-sale solutions, as well as fully integrated iPOS solutions. These solutions 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. Verifone's unique architecture enables multiple value-added applications, including third-party applications, such as gift card and loyalty card programs, healthcare insurance eligibility, and time and attendance tracking, and allows these services to reside on the same system without requiring recertification upon the addition of new applications. We recently launched payment system solutions that enable us to deliver richer media and more complex commerce enablement services on our payment terminals to our merchant clients. Verifone Engage transforms the point of sale into more meaningful interactions, and Verifone Carbon powerfully integrates payment and applications into a single system.



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### Countertop and PIN pads

Designed with merchant and consumer needs in mind, our suite of countertop solutions incorporate compact design, easy installation and consumer-friendly features. Our countertop solutions accept a wide variety of payment options, including contactless, NFC, mobile wallets, and EMV, and support a range of applications, such as pre-paid products, including gift cards and loyalty programs. We also supply secure PIN pads that support credit and debit card, EBT, EMV, and other PIN-based transactions, and include multiple connectivity options and NFC capability. Our countertop solutions support a wide range of certified applications that are either built into electronic payment systems or connect to electronic cash registers, or ECRs, and point of sale systems.

### Multilane

Our multilane consumer facing commerce devices are designed to allow merchants, particularly in the multi-lane retail environment, to engage in direct consumer interaction through customized multimedia content, in-store promotions, digital offers, and other value-added services using a point of sale device. With these devices, the merchant is able to enrich the customer experience while enabling new merchant revenue opportunities. These products offer features that are important to servicing customers in a multi-lane retail environment, such as user-friendly interfaces, ECR compatibility, durable key pads, multimedia displays and signature capture functionality. Our solutions also support these same features in self-service market segments such as taxis, parking lots/garages, ticketing machines, vending machines, gas pumps, self-checkouts, and quick service restaurants.

### Portable and Mobile

Our portable payment devices consist of small, portable, handheld devices that enable merchants to accept electronic payments wherever wireless connectivity is available, and our mobile solutions offer secure mobile payment capabilities for all segments of the mobile point of sale, or mPOS, environment, from large retailers to small merchants, and include devices that attach to, and interface with, iOS, or Android-based smartphones and tablets, enabling these devices to be used as a secure payment device by merchants. Increasingly, clients look for portable options whether to enable electronic payments in new environments or to augment traditional point of sale or ECR environments. Our portable and mobile devices are designed to meet these needs, offering PCI compliant solutions that securely accept a variety of payment types, and providing merchants with increased flexibility to enrich the overall consumer experience whether in or out of the traditional bricks and mortar store location. We expect that market demand for portable and mobile options will continue to grow, particularly in developing countries where wireless and mobile telecommunications networks are being deployed at a much faster rate than wireline networks. We have deployed our portable and mobile solutions in a number of merchant environments, including for retail, restaurant, hospitality, transportation, and delivery businesses where merchants and consumers desire portability but demand secure payment systems to reduce fraud and identity theft.

### Petroleum

Our family of products for petroleum companies consists of integrated electronic payment systems that combine electronic transaction processing, fuel dispensing, and ECR functions, as well as secure payment systems that integrate with leading petroleum pump controllers. These products, which include our Secure PumpPay devices and related software, are designed to meet the needs of petroleum company operations, where rapid consumer turnaround, easy pump control, and accurate record keeping are imperative. Our products allow our petroleum clients to manage fuel dispensing and control, and enable “pay at the pump” functionality, cashiering, store management, inventory management, and accounting for goods and services at the point of sale.

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### Unattended and Self-Service

Our unattended and self-service payment solutions are designed to enable payment transactions in self-service, high-transaction volume environments, such as vending machines, on-street parking meters, petroleum pumps, ticketing machines and store kiosks, as well as public transportation environments, including buses and rail lines. Our public transportation solutions enable contactless and NFC-enabled fare payments, while other unattended and self-service solutions include versions to accept a range of payment options, including mobile wallets, magnetic stripe, EMV chipcard or NFC or other contactless payment schemes.

### Network Access Solutions

Our network access solutions are designed and customized to support the unique requirements of the electronic payments industry by providing the networking hardware technology and communications infrastructure necessary to achieve connectivity within the point of sale environment. Our Integrated Enterprise Networks are designed to reduce operating costs, protect investments in current legacy networks and work on a wide range of standard network technologies and protocols.

### ***Our Services***

We continue to invest in developing a broad portfolio of services complementary to our systems solutions and designed to meet a wide range of merchant and partner needs, including removing complexity from commerce and payments, increasing ease of use, adding value by enriching the consumer experience at the point of sale and helping our clients grow their businesses and strengthen their relationships with consumers. Services are an important part of our business and revenues, accounting for approximately 42.0% of our total net revenues in our fiscal year ended October 31, 2017. We offer a wide portfolio of services, ranging from traditional device related support services, transaction payment services, cloud-based payment services, and commerce enablement offerings that are designed to facilitate commerce and payment opportunities for merchants. Our services offerings include our transaction payment services, managed services and terminal management solutions, security solutions, cloud services, and other value-added services at the point of sale. We also offer a host of support services, including software development, installation and deployment, warranty, post-sale support, repairs, and training.

### Device Related Support Services

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

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

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

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### *Transaction Payment Services*

Our transaction payment services are hosted and managed by us and offered as a subscription-based model that provide clients with the flexibility to outsource a select set of payment operation services and solutions to be managed by us. Our range of services and solutions includes terminal services such as terminal rental and related installation, deployment, on-site terminal servicing, and hardware repair services, as well as gateway transaction payment services such as transaction routing, transaction acceptance processing, transaction reporting, remote device management, and payment value-added services using the client's choice of processor. Our solutions serve as a platform for deployment of additional value-added programs. Further, our hosted transaction payment service covers 24x7 support, encrypted transactions, integration of new payment methods, ongoing EMV maintenance, merchant support, and PCI compliance, with the aim of reducing operational complexity and costs for clients. Clients also have the option to enable processing of payment types across different channels of a merchant's business, including credit and debit card payments, online payments for e-commerce applications and mobile platforms. Clients can select full service or other options that meet their immediate business needs, and adjust their subscription service packages to more advanced features and functions as their businesses grow or as the payment industry evolves. We anticipate that outsourcing of payment operations may become more attractive to clients as payment complexity and cost of payment operations increase.

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

### *Commerce Services*

#### ***Omnicommerce***

Verifone intends to expand its omnichannel commerce solutions to its global payments and commerce clients who are moving away from single or silo channeled commerce solutions. Omni-channel commerce requires the integration and inter-operability of all card-present and card-not-present solutions. Verifone helps our clients navigate this complexity by integrating Verifone's next-generation devices with our payment gateways, tokenization engine, and reporting capabilities into a single solution. Clients can then take advantage of our ability to provide a single payments and commerce solution across all sales channels, including mobile, PIN, point of sale, and online transactions. By processing customer transactions through our gateway network, clients gain visibility across sales channels and can provide enhanced and integrated customer experiences. Our tokenization engine, which replaces sensitive card data with a unique digital identifier (a "token"), can be used to generate or retrieve tokens to match transactions with a common card. These tokens can retrieve, access, and analyze purchase data for customers repeatedly using a common payment instrument.

#### ***Cloud-Based Managed Services***

Verifone offers a wide range of cloud-based managed services that connect our clients with tools that accommodate their business needs and plans. Our cloud-based managed services connect our clients to secure cloud-based transaction processing that is consolidated across payment types. Verifone's cloud-connected software services include remote loading of supported devices with updates for base files and firmware, software and applications. Our cloud-based estate management services provides remote key loading, capabilities to remotely activate contactless, NFC and EMV payment methods, and consolidated reporting and analytics. PAYware Connect, our cloud-based hosted payment solution, consolidates all payment transactions through our payment gateway and enables merchants to process from any internet-connected PC through a single portal. PAYware Connect uses our

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proprietary VeriShield Total Protect for end-to-end transaction encryption and tokenization and is certified by all of the major payment processing networks. In addition, Verifone intends to offer a cloud-based, commerce app marketplace called Merchant Marketplace to certain merchants who are connected through Verifone's terminal management solutions. With the Merchant Marketplace, merchants and acquirers can customize the point of sale by downloading third-party or proprietary apps. Commerce enablers can use these apps to improve business operations with enhanced functionality, such as inventory and reporting features, or to personalize the shopping experience with loyalty rewards and product recommendations. These cloud-based solutions are offered globally to retailers, acquirers and merchants in the restaurant and hospitality markets who can host the solution on their own servers, but are also available as part of an omni-channel payments solution hosted by us.

### ***Terminal Management Solutions***

Verifone connects our next-generation of devices to the cloud and enables omnicommerce through our proprietary terminal management solution, VHQ. VHQ both connects our devices to our expanded services and enables efficient management of an entire estate of devices with minimal on-site intervention. These estate management services are targeted to retailers, financial institutions, processors with helpdesk operations, and device maintenance companies, and are available for a variety of environments, including retail, healthcare, transit, quick service restaurants and financial services. VHQ connects the devices within a merchant's estate to back office operations, enabling secure and remote deployment of software to point of sale terminals, centralized estate tracking, monitoring and diagnostics, and consolidated information collection and management reports. These integrated device services broaden and enhance Verifone's service relationship with its clients by enabling rapid device deployment and improved device uptime through remote and predictive maintenance.

### ***Libraries and Development Tools***

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

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

We believe that this growing portfolio of value-added applications increases the attractiveness of our solutions to global financial institutions and payment processors by adding services beyond payment transaction processing. We seek to encourage innovation on our terminal platform and intend to encourage continued development of applications for our system solutions.

### **Customers**

Globally, our clients consist primarily of financial institutions, payment processors, large retailers, petroleum companies, transportation companies, government organizations, healthcare companies and quick service restaurants. We also sell payment processing services directly to smaller merchants and retailers. We also sell through third party partners, such as banks and acquirers, system integrators, and independent sales organizations, and channel partners that distribute and resell our products.

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

	Years Ended October 31,		
	2017	2016	2015
Percentage of net revenues from our ten largest clients	19.4%	19.9%	20.2%

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

### **Sales and Marketing**

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

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

As of October 31, 2017, we had 939 sales and marketing employees, representing approximately 16.8% of our total workforce.

### **Competition**

The markets for our solutions are highly competitive. We compete based on various factors, including product functions and features, product availability and certifications, product quality and reliability, design innovation, interoperability with third-party systems, service offerings, support, brand reputation and pricing. We continue to experience intense competition from traditional point of sale terminal providers for both systems solutions and services. In addition, we have seen some competitors introduce increasingly aggressive pricing for terminal solutions, particularly in certain emerging markets. We also see new companies entering our markets, including entrants offering some form of mobile-device based payment solution as well as low-cost entrants. Some of our competitors may be more established, benefit from greater local recognition in particular countries, and have greater resources within those countries than we do. Finally, certain of our distributor partners may also offer similar services that we strive to offer to our end merchants.

Competition from manufacturers, distributors, or providers of products and services similar to or competitive with our system solutions or services could result in lower market share, price reductions, reduced margins, or could render our solutions obsolete. Some smaller local electronic payment terminal vendors, particularly in Asia-Pacific and Latin America, have also introduced pricing pressures in their markets by offering substantially lower prices. In addition, a number of the financial institutions and payment processors to whom we market our products typically adopt a dual vendor approach for the supply of their point of sale terminals.

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We expect to continue to experience significant competition in the future. We compete globally with suppliers, manufacturers, and distributors of electronic payment systems and services as well as suppliers of ECRs that provide built-in electronic payment capabilities and producers of software that facilitates electronic payments over the Internet. Our primary competitors in these markets for point of sale terminals and services include Ingenico S.A., PAX Technology, Ltd., Fujian Newland, Square, SZST Electronics Co. Ltd., Shenzhen Xinguodu, Equinox Payments, CyberNet Inc., and Spire Payments Ltd. We also compete with NCR Corporation and Oracle Corporation. In addition, we face vigorous competition from smaller companies that have been able to develop strong local or regional customer bases.

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

Most of our clients are large, sophisticated organizations that have significant purchasing power and seek innovative solutions from trusted brands. We believe that we benefit from a number of competitive advantages gained through our more than 35-year history. These advantages include our globally trusted brand name, large installed base, significant involvement in the development of industry standards, security infrastructure, global operating scale, customizable platforms, and investment in research and development. Additionally, we compete primarily on the basis of the following key factors: end-to-end system solutions, industry leading security, product certifications, value-added applications and advanced product features, advanced communications modularity, reliability, supply chain scale and flexibility, and low total cost of ownership.

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

### **Research and Development**

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

As of October 31, 2017, we had 1,768 R&D employees, representing approximately 31.6% of our total workforce. For the total amounts of our R&D expenses for the fiscal years ended October 31, 2017, 2016, and 2015, see our Consolidated Statements of Operations of this Annual Report on Form 10-K.

## **Industry Standards and Government Regulations**

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

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

### ***Security Standards***

Compliance with industry and government security standards are implemented to ensure the integrity of the electronic payment process and protect the privacy of consumers using electronic payment systems. We design our product security architecture to meet the applicable *Payment Card Industry Security Standards Council* (PCI SSC) established requirements.

### ***Card Association Standards***

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

- Payment Card Industry Data Security Standard (PCI DSS) provides a specifications framework for the payment card data environment security including, but not limited to, the policies and processes providing the framework for the prevention, detection, and appropriate reaction to security incidents.
- Payment Card Industry Personal Identification Number (PCI PIN) - provides requirements for the secure management, processing and transmission of Personal Identification Number (PIN) during payment card transaction processing at point-of-sale (POS) terminals, encrypting PIN pads, and unattended payment terminals. PCI PIN requirements apply to organizations involved with handling of PIN data including processing, PIN translation, and/or key management.
- Payment Card Industry PIN Transaction Security (PTS) provides vendors and manufacturers with the requirements for PIN terminals, including point of sale devices, encrypting PIN pads, and unattended payment terminals.
- Payment Application Data Security Standard provides a set of standards to help software vendors and others develop secure payment applications.
- Point-to-Point Encryption (P2PE) provides a set of requirements for vendors, assessors, and point-to-point encryption solution providers to validate their solutions. P2PE certified solutions may help a merchant reduce the scope of their PCI DSS assessments when using a validated P2PE solution for account data acceptance and processing.

*EMV Standards*. EMV standards are intended to address the growing need for transaction security and interoperability, and are designed to ensure global smart card interoperability across all electronic payment systems. To ensure adherence to this standard, specific certifications are required for all electronic payment systems and their application software. We maintain EMV certifications across our applicable product lines. EMV has already been adopted in many countries outside the U.S., and the adoption of EMV in the U.S. commenced in 2015. EMV is also expected to be adopted in additional countries in the near-term, such as Japan.

*Contactless and NFC System Standards*. The major card associations have each established a brand around contactless payment, for example, PayPass for MasterCard, Visa payWave and Visa Wave for Visa, ExpressPay for American Express, ZIP for Discover Financial Services, and J/speedy for JCB. Each contactless payment brand has a complete set of specifications, certification requirements and a highly controlled testing and approval process. In addition to EMVCo standards, there are also regional

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specification and certification and other payment scheme requirements for contactless such as Geldkarte in Germany, and Carte Bancaire in France.

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

### ***Payment Processor/Financial Institution Requirements***

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

### ***Other Regulatory Authorities***

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

We are also subject to various other legal and regulatory requirements related to the manufacture and sale of our products, such as the U.S. regulations which require us to implement a management system to evaluate and report on the existence of conflict minerals originating in the Democratic Republic of the Congo in our supply chain, the European Union (EU) directive that places restrictions on the use of hazardous substances (RoHS and RoHS2) in electronic equipment, the EU directive on Waste Electrical and Electronic Equipment (WEEE), and the EU's Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). RoHS and RoHS2 set a framework for producers' obligations in relation to manufacturing (including the amounts of named hazardous substances contained in products sold) and WEEE sets a framework for treatment, labeling, recovery, and recycling of electronic products in the European Union. REACH imposes chemicals regulation and controls including requirements for registration of chemicals on the EU market.

### **Foreign Operations**

For our fiscal years ended October 31, 2017 and 2016, our international net revenues accounted for 66.4% and 59.5%, respectively, of our total net revenues. Margins on our sales of products in foreign countries and on sales of our products generally, which



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

We outsource our product manufacturing to various suppliers in the Electronic Manufacturing Services (EMS) industry. Our primary EMS providers are located in China, Singapore, Malaysia, Brazil, and Germany. For several of our product lines, we directly ship from our EMS providers to our clients in various countries around the world. Substantially all of our products contain key components that are obtained from foreign sources. These concentrations in external and foreign sources of supply present risks of interruption for reasons beyond our control, including political and other uncertainties. See “Manufacturing Agreements” in Note 13, *Commitments and Contingencies*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

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

### **Proprietary Rights**

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

As of October 31, 2017, we held 295 patents and 73 patent applications filed with various patent offices throughout the world, including the U.S., China, France, Germany, and the United Kingdom, among other countries. These patents and patent applications include utility patents, utility models and designs acquired in connection with our acquisitions. We believe that the duration of our patents is adequate relative to the expected lives of our products which generally are expected to be shorter than the terms of our patents due to continual technical innovations in our industry.

We use the Verifone name and logo globally as an important part of the branding of our company and our products, and we register these trademarks in the key jurisdictions where we do business, including the U.S. and the EU. As of October 31, 2017, we held trademark registration in 24 jurisdictions (including registration in the European Union that covers a number of country level registrations we had previously filed) for the “VERIFONE” trademark and in 31 jurisdictions (including registration in the EU that covers a number of country level registrations we had previously filed) for the VERIFONE trademark including our ribbon logo. A new VERIFONE logo was filed in the U.S. and was recently granted (on July 16, 2016). We currently hold trademark registration in the U.S. and a variety of other countries for our product names and other marks.

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

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

## Employees

As of October 31, 2017, we had approximately 5,600 employees worldwide. We have collective bargaining agreements with our employees in France, Spain, Italy, Norway, Sweden, and Brazil and with some in Germany. Our employees in France, Norway, Sweden, and some in Germany are represented by works councils that have the right to certain information and to participate in certain operational decisions affecting the represented employees, such as relocation of office facilities, compensation and benefits, and working hours. We have not experienced any work stoppages, and we believe that we have good employee relations and relationships with the collective bargaining groups and works councils.

## Executive Officers

Our executive officers and their ages as of December 18, 2017 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Paul Galant	49	Chief Executive Officer
Vin D'Agostino	54	Executive Vice President and Chief Strategy Officer
Albert Liu	45	Executive Vice President, Corporate Development and General Counsel
Glen Robson	49	Executive Vice President, Global Head of Solutions
Marc Rothman	53	Executive Vice President and Chief Financial Officer

*Paul Galant.* Mr. Galant joined Verifone in October 2013 and serves as our Chief Executive Officer and as a director. Prior to joining Verifone, Mr. Galant served as the Chief Executive Officer of Citigroup Inc.'s Enterprise Payments business since 2010. In this role, Mr. Galant oversaw the design, marketing and implementation of global business-to-consumer and consumer-to-business digital payments solutions. From 2009, Mr. Galant served as Chief Executive Officer of Citi Cards, heading Citigroup's North American and International Credit Cards business. From 2007 to 2009, Mr. Galant served as Chief Executive Officer of Citi Transaction Services, a division of Citi's Institutional Clients Group. From 2002 to 2007, Mr. Galant was the Global Head of the Cash Management business, one of the largest processors of payments globally. Mr. Galant joined Citigroup, a multinational financial services corporation, in 2000. Prior to joining Citigroup, Mr. Galant held positions at Donaldson, Lufkin & Jenrette, Smith Barney, and Credit Suisse. Mr. Galant holds a Bachelor's degree from Cornell University where he graduated a Phillip Merrill Scholar. Mr. Galant currently serves on the board of directors of APX Group Holdings, Inc., a home automation services provider, and Conduent, a business process services provider.

*Vin D'Agostino.* Mr. D'Agostino joined Verifone in January 2014 and serves as our EVP and Chief Strategy Officer. Mr. D'Agostino is responsible for developing, communicating and executing Verifone's strategy with our Chief Executive Officer, as well as sustaining corporate strategic initiatives. Additionally, Mr. D'Agostino leads business development activities related to large-scale partnerships and Verifone's omni-channel work stream. Prior to joining Verifone, Mr. D'Agostino was an executive at JP Morgan Chase since 1985. Most recently, he was responsible for the payment business' enterprise strategy, corporate development activities and the payment steering committee. Prior to his role at JP Morgan Chase, he was a leader at LabMorgan, with responsibility for the incubation and formation of a real-time e-payment platform, evaluating payment investments and providing payment domain expertise. Prior to these roles, he served in various leadership positions in finance, product management, and operations management in Chase's securities and payments businesses. Mr. D'Agostino holds a Bachelor of Science degree and MBA in Finance from St. John's University.

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*Albert Liu.* Mr. Liu serves as our Executive Vice President, Corporate Development and General Counsel. Mr. Liu joined Verifone in October 2008, as Senior Vice President, General Counsel and Corporate Secretary, and was named Executive Vice President, Corporate Development in August 2011. Mr. Liu is responsible for overseeing corporate development and legal. He also serves as the Company's corporate secretary and chief compliance officer. Prior to joining Verifone, he was Vice President, Legal and Corporate Development, and Company Secretary for NETGEAR, Inc., a provider of networking solutions, since October 2004. Mr. Liu also previously served as General Counsel, Director of Human Resources and Secretary of Turnstone Systems, Inc., a supplier of digital subscriber line testing equipment and General Counsel and Secretary for Yipes Enterprise Services, a provider of Ethernet connectivity services. Mr. Liu began practicing law with the firm of Sullivan & Cromwell. Before entering the legal field, he was a software engineer at Tandem Computers. He holds dual degrees in Computer Science and Political Science from Stanford University, and a J.D. (*magna cum laude*) from the University of California, Hastings College of the Law. He is a member of the State Bar of California.

*Glen Robson.* Mr. Robson joined Verifone in January 2015 and serves as our Executive Vice President, Global Solutions. Mr. Robson is responsible for delivering innovative solutions built around world-class security products, payment and commerce solutions, differentiated value-added services, and a portfolio of payment systems. Mr. Robson is responsible for overseeing our global engineering, product management and marketing organizations. Prior to joining Verifone, Mr. Robson spent 10 years in engineering management positions with Dell, Inc., served as General Manager and Vice President for Dell's SMB and Consumer Product Group and most recently as Chief Technology Officer for Dell's Client's Product Group. Prior to Dell, Mr. Robson held various engineering management positions at Sun Microsystems. Mr. Robson holds a Master's of Science in Computer Science from the University of Kent.

*Marc Rothman.* Mr. Rothman serves as our Executive Vice President and Chief Financial Officer, a position he has held since February 2013 and is responsible for finance, information technology and real estate operations. Before joining VeriFone, Mr. Rothman served as Senior Vice President and Chief Financial Officer of Motorola Mobility Inc. from 2010 to 2012, and also played a central role in Motorola Mobility's spinoff from its former parent company, Motorola Inc., as well as its sale to Google in 2012. He also served in a number of executive finance positions at Motorola throughout his tenure, beginning in January 2000, including Chief Financial Officer of its Broadband Communications, Public Safety, Networks and Enterprise and Mobile Devices global business segments, as well as Motorola's Senior Vice President, Corporate Controller and Chief Accounting Officer. From 1995 to 2000, Mr. Rothman served in a number of leadership finance roles at General Instrument, which developed integrated and interactive broadband access solutions, including as its Vice President and Corporate Controller. Prior to that, he was employed for eight years at Deloitte & Touche, Audit Advisory Services. Mr. Rothman is a member of the board of directors of Quantum Corporation, a leading expert in scale-out tiered storage, archive and data protection, and providing solutions for capturing, sharing and preserving digital assets over the entire data lifecycle, and he is also a member of the board of directors of Premier Food Concepts, LLC, an operator and owner of fast-casual Mediterranean restaurants, a privately held company. He holds a Bachelor's degree in Business from Stockton University, where he graduated with Distinction and is a Certified Public Accountant in California (inactive).

### **Available Information**

Our website is located at [www.verifone.com](http://www.verifone.com). Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge on our website as soon as reasonably practicable after such reports are filed with or furnished to the Securities and Exchange Commission. The reports are also available on the SEC's website at [www.sec.gov](http://www.sec.gov). Information contained on our website is not incorporated into this Annual Report on Form 10-K, and any references to our website are intended to be inactive textual references only.

## 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.

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 point of sale 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. Failure to anticipate, adapt or keep pace with new technologies could harm our business and impact our future growth. For example, new technologies such as crypto-currencies and distributed ledgers and new authentication technologies (such as biometrics) may result in the introduction of new services and products, and it may be difficult to predict which technological developments or innovations will become widely adopted, how these technologies may be regulated, and how they will impact our offerings and business.

We face downward pressures on prices in many emerging markets, including high growth emerging markets. For example, price competition is typically 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 point of sale 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 point of sale 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.

***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 the risk of 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 or those of third parties 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 may not be sufficient to protect against threats to our systems and solutions.

The techniques used to obtain unauthorized access to, or to disable or degrade, electronic networks, computers, systems and solutions are rapidly evolving and have become increasingly complex and sophisticated. An increasing number of companies have disclosed security breaches of their IT systems and networks, some of which have involved sophisticated and highly targeted attacks. We believe such incidents are likely to continue, and we are unable to predict the direct or indirect impact of these future attacks to our business. The techniques used to breach security safeguards evolve rapidly, and they may be difficult to detect for an extended period of time or until launched against a target. Even when a security breach is detected, the full extent of the breach may not be determined for some time. Security threats 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, as these threats continue to evolve and increase, we may be required to devote significant additional resources to enhance our security measures, processes and technologies and to identify and remediate security vulnerabilities.

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.

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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. Also, any reputational damage resulting from a data security breach or system failure at one or more of our clients, merchants or other third parties could decrease the use and acceptance of our products, which could harm our payments volume, revenues and future growth prospects. In addition to the risks relating to general confidential information described above, we may also be subject to specific obligations relating to payment card data. Under payment card rules and obligations, if cardholder information is potentially compromised, we could be liable for associated investigatory expenses and could also incur significant fees or fines if we were to fail to follow payment card industry data security standards. In addition, if we do fail to follow payment card industry data security standards, our ability to market and sell our solutions could suffer, which could materially adversely affect our reputation, financial condition and operating results. 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 also adversely impact our financial condition and results of operations. While we maintain insurance coverage that is intended to address certain aspects of the data security risks to which we are exposed, our insurance policies carry low coverage limits, and may not be adequate to reimburse us for losses caused by security breaches.

*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 payment 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.



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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.

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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.

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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 this Annual Report on Form 10-K for the fiscal year ended October 31, 2017.

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In addition, compliance with foreign and U.S. laws and regulations, including changes and additions to such laws and regulations, that are applicable to our international operations is complex and may increase our cost of doing business in international jurisdictions. 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 downward pressure on prices in certain international markets such as Southeast Asia, where competition from local low-cost and global competitors has intensified, 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.

***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.

***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.

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***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.

***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.



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

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

The integration of our acquisitions, particularly those that are international in scope, is complex, time-consuming and expensive, and has disrupted, and may continue to disrupt, our business or divert the attention of our management. Achieving the expected benefits of our acquisitions depends in large part on our successful integration of the acquired businesses' operations and personnel with our own in a timely and efficient manner. We cannot ensure that all of our integration efforts will be completed as quickly as expected or that our past or future acquisitions will achieve 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;
- the risk that increasing complexity inherent in operating a larger global business and managing a broader range of solutions and service offerings may impact the effectiveness of our internal controls and adversely affect our financial reporting processes;

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- the failure 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.

***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.

***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, 2017, the amount of purchase commitments issued to contract manufacturers and component suppliers totaled approximately \$113.5 million. Of this amount, \$8.3 million was recorded in Accruals and other current liabilities in our Consolidated Balance Sheets because these commitments were 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 October 31, 2017, our remaining non-cancelable commitment under this agreement totaled \$103.9 million.

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For additional information regarding our commitments to third-party manufacturers and suppliers, see Note 13, *Commitments and Contingencies*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

During times of economic uncertainty, such as the global economic recession that continues to impact certain parts of Europe, it becomes more difficult to accurately forecast demand and manage our inventory levels. Deteriorating market conditions have in the past and can in future periods cause us to incur additional costs associated with excess and obsolete inventory, scrap, and excess inventory held by our contract manufacturers.

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

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

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

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.

***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.

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***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.

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 realigned our reporting units to be Verifone Systems, Taxi Solutions, and Verifone Services. During the second quarter of 2017, we concluded that the carrying amount of the goodwill related to our former 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 Services reporting units during the fiscal year ended October 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 10, *Goodwill and Purchased Intangible Assets*, in the Notes to Consolidated Financial Statements and Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates -- Goodwill*, of this Annual Report on Form 10-K 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.

***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.



## **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, Intermecc 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 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.

***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 (GDPR), coming into effect in Europe in May 2018, creates a range of new compliance obligations and increases financial penalties for non-compliance and extends the scope of the European Union data protection law to all companies processing data of European Union residents, regardless of the company's location. The GDPR and other privacy and data protection laws may be interpreted and applied differently from country to country and may create inconsistent or conflicting requirements. 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 caption *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 our fiscal years 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 6, *Income Taxes* and Note 13, *Commitments and Contingencies*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K 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.

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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 I, Item 3, *Legal Proceedings*, of this Annual Report on Form 10-K.

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

Third parties have in the past asserted and may in the future assert claims that our products and services infringe their proprietary rights. Such infringement claims, even if meritless, may cause us to incur significant costs in defending against or settling those claims, 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.

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We have received, and have currently pending, third-party infringement claims and may receive additional notices of claims of infringement in the future. As we expand into other payment technologies and as competition in this area increases, it is possible that the rate at which third parties bring claims will increase. Infringement claims may cause us to incur significant costs in defending against those claims or to settle claims to avoid costly or protracted litigation even if we believe those claims are without merit. 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 13, *Commitments and Contingencies*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

***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.

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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, the recent proposals for fundamental U.S. and international tax reform and any changes in laws resulting from the Base Erosion and Profit Shifting project being conducted by the Organization for Economic Cooperation and Development, along with other significant policy initiatives, 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.

***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 this Annual Report on Form 10-K. 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.

## 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 11, *Financing*, in the Notes to Consolidated Financial Statements to this Annual Report on Form 10-K, with outstanding loan balances of \$826.9 million as of October 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 11, *Financing*, in the Notes to Consolidated Financial Statements to this Annual Report on Form 10-K 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 October 31, 2017, we had total indebtedness outstanding of \$826.9 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 11, *Financing*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K for a schedule of the principal payments due under our credit facilities.

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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.



*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.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

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

In the U.S., we maintain material sales and administrative offices and research facilities in Clearwater, Florida; Rocklin, California; Alpharetta, Georgia; and Long Island City, New York. Outside the U.S., we maintain material sales and administrative offices and research facilities in India, France, Germany, the United Kingdom, Israel, Canada, Brazil, China, Taiwan, New Zealand, Philippines, Poland, Denmark, Sweden, Finland, Singapore, and Norway. In addition to these material locations, we also have smaller offices globally.

We own the office buildings at two of our locations, while the rest of our locations are leased. We are using substantially all of our currently available productive space to develop, store, market, sell, and distribute our products and services. We believe our facilities, which are used by both of our operating segments, are in good operating condition, suitable for their respective uses, and adequate for our current needs. The following table summarizes the approximate square footage of our leased space around the world.

<b>Location</b>	<b>Approximate Square Footage</b>
North America	587,049
Latin America	128,440
EMEA	598,128
Asia-Pacific	293,786
Total	<u>1,607,403</u>

**ITEM 3. LEGAL PROCEEDINGS**

Information with respect to legal proceedings may be found in Note 13, *Commitments and Contingencies*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K, which section is incorporated herein by reference.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

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

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

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

	Fiscal Year 2017 Quarter Ended				Fiscal Year 2016 Quarter Ended			
	Oct 31, 2017	Jul 31, 2017	Apr 30, 2017	Jan 31, 2017	Oct 31, 2016	Jul 31, 2016	Apr 30, 2016	Jan 31, 2016
High	\$ 21.48	\$ 20.22	\$ 20.98	\$ 19.09	\$ 20.10	\$ 28.38	\$ 29.60	\$ 31.11
Low	\$ 17.60	\$ 16.92	\$ 17.23	\$ 15.10	\$ 15.04	\$ 17.06	\$ 20.65	\$ 22.32

The closing sale price of our common stock on the NYSE was \$17.34 and \$19.08 on November 30, 2017 and October 31, 2017, respectively. As of November 30, 2017, there were 71 stockholders of record. Because many shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these holders of record.

#### Dividend Policy

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

#### Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In September 2015, the Company's Board of Directors authorized a program to repurchase up to \$200.0 million of the Company's common stock, with no expiration from the date of authorization. In December 2017, the Company's Board of Directors expanded the program to include an additional \$100.0 million of the Company's common stock, with no expiration from the date of authorization, for a total of up to \$300.0 million. We have repurchased a total of \$150.0 million shares of our common stock under this program. Shares may be repurchased from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise. Certain of our share repurchases have been and may from time to time be effected through Exchange Act Rule 10b5-1 repurchase plans. Under the Company's stock repurchase program, shares repurchased are recorded as an adjustment of par value and Accumulated Deficit. 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. For further information, see Note 5, *Stock Repurchase Program*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

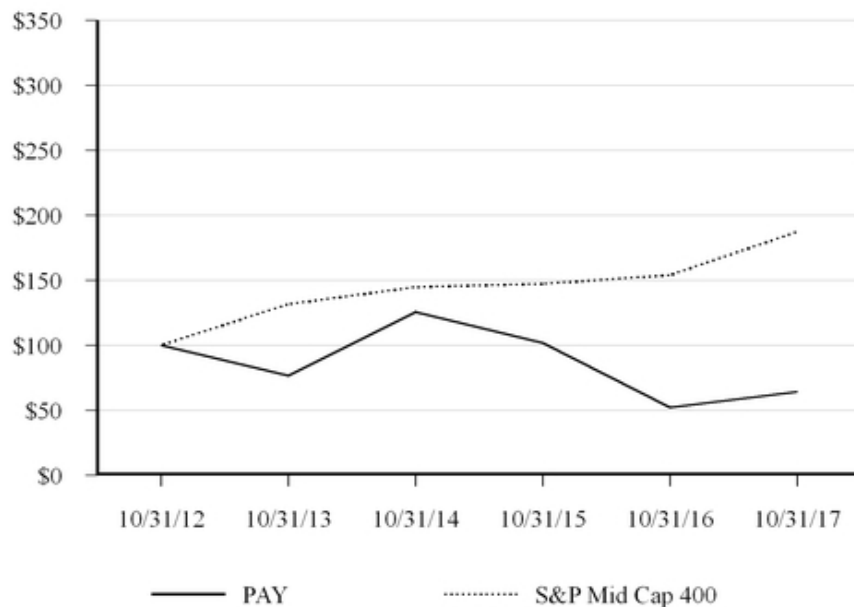
No shares were repurchased in the fourth quarter of fiscal year 2017.

## Securities Authorized for Issuance Under Equity Compensation Plans

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

### Performance Graph

The following graph and table compares the performance of an investment in our common stock over the period of November 1, 2012 through October 31, 2017, beginning with an investment at the closing market price on October 31, 2012, and thereafter, based on the closing price of our common stock on the market, with the S&P Mid Cap 400 Index. The graph and table assume \$100 was invested on the start date at the price indicated, and that dividends, if any, were reinvested on the date of payment without payment of any commissions. The performance shown in the graph and table represents past performance, and should not be considered an indication of future performance.



	October 31, 2012	October 31, 2013	October 31, 2014	October 31, 2015	October 31, 2016	October 31, 2017
<b>VeriFone Systems, Inc.</b>	100.00	76.45	125.71	101.69	52.23	64.37
<b>S&amp;P Mid Cap 400 Index</b>	100.00	131.49	144.70	147.36	153.96	187.17

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

**ITEM 6. SELECTED FINANCIAL DATA**

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

	Years Ended October 31,				
	2017 <sup>(1)</sup>	2016 <sup>(1)(2)</sup>	2015 <sup>(1)(3)</sup>	2014 <sup>(1)(4)</sup>	2013 <sup>(6)(7)</sup>
(In thousands, except per share data)					
<b>Consolidated Statements of Operations Data:</b>					
Net revenues	\$ 1,870,976	\$ 1,992,149	\$ 2,000,457	\$ 1,868,874	\$ 1,702,221
Operating income (loss)	\$ (112,378)	\$ 32,779	\$ 106,991	\$ 5,885	\$ (66,354)
Net income (loss) attributable to VeriFone Systems, Inc. stockholders	\$ (173,829)	\$ (9,281)	\$ 79,097	\$ (38,130)	\$ (296,055)
Net income (loss) per share attributable to VeriFone Systems, Inc. stockholders:					
Basic	\$ (1.55)	\$ (0.08)	\$ 0.69	\$ (0.34)	\$ (2.73)
Diluted	\$ (1.55)	\$ (0.08)	\$ 0.68	\$ (0.34)	\$ (2.73)

	As of October 31,				
	2017	2016	2015 <sup>(3)</sup>	2014 <sup>(5)(6)</sup>	2013 <sup>(7)</sup>
(In thousands)					
<b>Consolidated Balance Sheets Data:</b>					
Cash and cash equivalents	\$ 131,029	\$ 148,352	\$ 208,870	\$ 250,187	\$ 268,220
Total assets	\$ 2,322,170	\$ 2,494,807	\$ 2,473,062	\$ 2,681,514	\$ 2,965,295
Current and long-term debt and capital leases	\$ 830,814	\$ 925,913	\$ 799,329	\$ 868,415	\$ 1,011,756

- (1) In fiscal year 2017, 2016, 2015, and 2014 we recorded restructuring and related charges totaling \$168.9 million, \$46.4 million, \$8.8 million and \$18.1 million, respectively, as part of cost optimization and corporate transformation initiatives including losses from certain disposals. For further information, see Note 12, *Restructuring and related charges*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.
- (2) In fiscal year 2016 we recorded \$12.0 million in Other income (expense), net, for fair value adjustments associated with contingent consideration. For further information, see Note 8, *Financial Instruments*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.
- (3) In fiscal year 2015 we recorded a \$16.1 million tax benefit as a result of releasing a portion of our valuation allowance against certain non-U.S. foreign deferred tax assets. For further information, see Note 6, *Income Taxes*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.
- (4) In fiscal year 2014 we released a \$19.9 million litigation loss contingency expense, plus estimated potential ongoing royalties and interest, related to a favorable ruling in a patent infringement litigation matter.
- (5) In fiscal year 2014 we made early payments against, and then amended and restated the 2011 Credit Agreement. As part of the amendment and restatement, amounts borrowed, together with cash on hand, were used to repay the \$938.6 million outstanding balance on the credit agreement as well as the costs associated with the amendment and restatement. For further information, see Note 11, *Financing*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.
- (6) In fiscal year 2013 we recorded a \$64.4 million litigation loss contingency expense primarily related to a securities class action and in fiscal year 2014 we paid \$61.2 million into an escrow account to fund the uninsured portion of the settlement in this matter.
- (7) In fiscal year 2013 we recorded a \$245.0 million valuation allowance against a significant portion of our deferred tax assets.

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

*This section and other parts of this Annual Report on Form 10-K 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 Item 1A, Risk Factors, and elsewhere in this report, including our disclosures of Critical Accounting Policies and Estimates in Item 7, our disclosures in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, as well as in our Consolidated Financial Statements and accompanying notes included elsewhere in this Form 10-K. We are under no duty to update any of the forward-looking statements after the date of this Annual Report on Form 10-K to conform such statements to actual results or to changes in expectations. We assume no obligation to revise or update any forward-looking statements for any reason, except as required by law.*

Our Management's Discussion and Analysis of Financial Condition and Results of Operations is provided in addition to our 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, significant matters, and financial results highlights for the periods presented.

### **Results of Operations:**

**Consolidated Results of Operations:** An analysis and discussion of our financial results comparing our consolidated results of operations for the fiscal year ended October 31, 2017 to the fiscal year ended October 31, 2016, and the fiscal year ended October 31, 2016 to the fiscal year ended October 31, 2015.

**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 fiscal year ended October 31, 2017 to the fiscal year ended October 31, 2016, and the fiscal year ended October 31, 2016 to the fiscal year ended October 31, 2015.

**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 October 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.

## 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 and enable innovative forms of commerce. For over 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 point of sale 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 point of sale 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 58.0%, 62.1% and 65.5% of our net revenues in the fiscal years ended October 31, 2017, 2016 and 2015, respectively. Our point of sale electronic payment devices run our unique operating systems, security and encryption software, and certified payment software. Our systems solutions are designed to suit our clients' needs in a variety of environments, including traditional multiline and countertop implementations, self-service or unattended environments, in-vehicle and portable deployments, mobile point-of-sale solutions, as well as fully integrated point of sale solutions. Our solutions 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 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.

## ***Services***

Services are an important part of our business and revenues, accounting for approximately 42.0%, 37.9% and 34.5% of our net revenues in the fiscal years ended October 31, 2017, 2016 and 2015, respectively. We offer a wide portfolio of services, ranging from traditional device related support services, transaction payment services and commerce enablement offerings that are designed to facilitate commerce and payment opportunities for merchants, to cloud-based services. Our services offerings include transaction services, managed services and terminal management solutions, security solutions, cloud services, and other value-added services at the point of sale. We also offer a host of support services, including software development, installation and deployment, warranty, post-sale support, repairs, and training.

## ***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.



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### ***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 the 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. Revenues from this business totaled \$11.2 million, \$16.4 million, and \$40.1 million for the fiscal years ended October 31, 2017, 2016, and 2015 respectively. Historical operating losses from this business totaled \$7.2 million, \$15.3 million, and \$7.0 million for the fiscal years ended October 31, 2017, 2016, and 2015 respectively.

##### *Petroleum Media Business*

During April 2017, we exited our petroleum media business by terminating certain customer agreements and contributing 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 charge in connection with the divestiture and planned contract terminations.

##### *Taxi Solutions Business*

During March 2017, we committed to a plan to sell our former Taxi Solutions reporting unit, which was sold on December 11, 2017. During the second quarter of fiscal year 2017 we recorded a \$17.4 million goodwill impairment, considering potential sales transactions and the then fair value of the 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, Purchased intangible assets, net and Accruals and other current liabilities, as held for sale. Additionally, during fiscal year 2017, based upon continued negotiations of potential sales transactions, management updated the fair value of the assets held for sale, resulting in charges totaling \$50.2 million. Revenues from this business totaled \$106.5 million, \$123.3 million, and \$119.9 million for the fiscal years ended October 31, 2017, 2016, and 2015 respectively. Operating losses from this business totaled \$4.5 million and \$0.9 million for the fiscal years ended October 31, 2017, and 2015 respectively, and operating income of \$4.4 million for the fiscal year ended October 31, 2016.

#### ***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 \$11.8 million primarily related to headcount reductions. This plan is expected to be substantially complete by the end of fiscal year 2018. During June 2016, our management committed to a restructuring plan that is substantially complete and under which we have incurred charges totaling \$20.7 million.

***Financial Results Highlights***

***Overall***

- Services net revenues for the fiscal year ended October 31, 2017 increased by \$18.8 million or 2.4% compared to the prior year, and grew to 42% of total net revenues from 38% of total net revenues, year over year, reflecting our progress executing our strategy to transform Verifone from primarily a terminal sales company to a platform services company.
- Total research and development, sales and marketing, and general and administrative expenses for the fiscal year ended October 31, 2017 decreased by \$33.9 million to \$595.2 million from \$629.1 million in the prior year, reflecting our focus on restructuring and efficiency initiatives including divesting non-strategic and capital intensive businesses, operating system consolidations and streamlining back office operations.
- Net cash provided by operating activities for the fiscal year ended October 31, 2017 was \$166.0 million reflecting our continued emphasis on working capital management.

**Results of Operations**

*Consolidated Results of Operations*

	<b>Years Ended October 31,</b>					
	<b>2017</b>	<b>% of Net revenues <sup>(1)</sup></b>	<b>2016</b>	<b>% of Net revenues <sup>(1)</sup></b>	<b>2015</b>	<b>% of Net revenues <sup>(1)</sup></b>
(in thousands, except percentages)						
<b>Net revenues:</b>						
Systems	\$ 1,085,478	58.0%	\$ 1,236,361	62.1%	\$ 1,309,628	65.5%
Services	785,498	42.0%	755,788	37.9%	690,829	34.5%
Total net revenues	1,870,976	100.0%	1,992,149	100.0%	2,000,457	100.0%
<b>Gross margin:</b>						
Systems	396,923	36.6%	492,050	39.8%	535,812	40.9%
Services	316,089	40.2%	302,261	40.0%	290,171	42.0%
Total gross margin	713,012	38.1%	794,311	39.9%	825,983	41.3%
<b>Operating expenses:</b>						
Research and development	211,615	11.3%	207,503	10.4%	198,135	9.9%
Sales and marketing	193,982	10.4%	217,039	10.9%	224,745	11.2%
General and administrative	189,635	10.1%	204,552	10.3%	203,978	10.2%
Restructuring and related charges	143,152	7.7%	41,254	2.1%	8,429	0.4%
Litigation settlement and loss contingency expense	—	—%	650	—%	1,213	0.1%
Amortization of purchased intangible assets	69,622	3.7%	90,534	4.5%	82,492	4.1%
Goodwill impairment	17,384	0.9%	—	—%	—	—%
Total operating expenses	825,390	44.0%	761,532	38.2%	718,992	35.9%
<b>Operating income (loss)</b>	(112,378)	(6.0)%	32,779	1.6%	106,991	5.3%
Interest expense, net	(33,197)	(1.8)%	(34,564)	(1.7)%	(31,455)	(1.6)%
Other income (expense), net	2,756	0.1%	3,612	0.2%	(2,588)	(0.1)%
<b>Income (loss) before income taxes</b>	(142,819)	(7.6)%	1,827	0.1%	72,948	3.6%
Income tax provision (benefit)	32,500	1.7%	11,527	0.6%	(7,409)	(0.4)%
<b>Consolidated net income (loss)</b>	\$ (175,319)	(9.4)%	\$ (9,700)	(0.5)%	\$ 80,357	4.0%

(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.

*Fiscal Year 2017 compared to Fiscal Year 2016*

**Net revenues** for the fiscal year ended October 31, 2017 were \$1.87 billion, compared to \$1.99 billion for the fiscal year ended October 31, 2016, down \$121.1 million or 6.1%. Net revenues decreased primarily due to decreased demand for EMV enabled devices in North America, as well as the timing of certain large customer purchases. See further discussion of revenues by segment and geography below.

**Net Revenues by Geography**

	Years Ended October 31,			
	2017	% of Net revenues	2016	% of Net revenues
(in thousands, except percentages)				
<b>Net Revenues</b>				
North America	\$ 630,201	33.7%	\$ 803,616	40.3%
Latin America	271,029	14.5%	247,949	12.4%
EMEA	735,360	39.3%	738,261	37.1%
Asia-Pacific	234,386	12.5%	202,323	10.2%
<b>Total</b>	<u>\$ 1,870,976</u>	<u>100.0%</u>	<u>\$ 1,992,149</u>	<u>100.0%</u>

- **North America net revenues** decreased \$173.4 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 fiscal year.
- **Latin America net revenues** increased \$23.1 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 \$2.9 million, as a result of changes in timing of purchase decisions, which were influenced by factors such as macroeconomic conditions, government fiscalization programs and timing of customer technology refreshes. Partially offsetting these factors, EMEA net revenues increased \$9.9 million due to our acquisition of InterCard, which closed in December 2015.
- **Asia-Pacific net revenues** increased \$32.1 million, due primarily to increases in point-of-sale device sales in India as a result of government demonetization initiatives.

**Gross margin** for the fiscal year ended October 31, 2017 was \$713.0 million or 38.1% of net revenues, compared to \$794.3 million, or 39.9% of net revenues, for the fiscal year ended October 31, 2016, down \$81.3 million or 1.8 percentage points. Gross margin in dollars decreased primarily due 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.

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**Research and development** for the fiscal year ended October 31, 2017 was \$211.6 million, compared to \$207.5 million for the fiscal year ended October 31, 2016, up \$4.1 million or 2.0%, due primarily to write downs of capitalized software development and acquired intangible assets totaling \$16.1 million. The remaining research and development expenses decreased \$12.1 million year over year primarily as a result of 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, such as our recently launched Verifone Engage and Carbon payment solutions to market.

**Sales and marketing** for the fiscal year ended October 31, 2017 was \$194.0 million, compared to \$217.0 million for the fiscal year ended October 31, 2016, down \$23.0 million or 10.6%, due primarily to reduced variable costs associated with lower revenues and decreased spend associated with cost savings initiatives.

**General and administrative** for the fiscal year ended October 31, 2017 was \$189.6 million, compared to \$204.6 million for the fiscal year ended October 31, 2016, down \$15.0 million or 7.3%, due primarily to decreased spend as a result of cost savings initiatives.

**Restructuring and related charges** for the fiscal year ended October 31, 2017 was \$143.2 million, compared to \$41.3 million for the fiscal year ended October 31, 2016, up \$101.9 million, primarily as a result of our business divestitures. The \$143.2 million charge in the fiscal year ended October 31, 2017 is comprised primarily of a \$102.0 million fair value write-down associated with assets held for sale, a \$28.1 million charge related to contract cancellation obligations and a \$12.3 million employee and facility related restructuring charge. The \$41.3 million charge in the fiscal year ended October 31, 2016 is comprised of a \$22.0 million fair value write-down associated with assets held for sale, a \$13.0 million employee and facility related restructuring charge, and a \$6.3 million charge related to a contract cancellation.

**Amortization of purchased intangible assets** for the fiscal year ended October 31, 2017 was \$69.6 million compared to \$90.5 million for the fiscal year ended October 31, 2016, down \$20.9 million or 23.1%, primarily because a portion of our purchased intangible assets were fully amortized in the prior fiscal year, partially offset by an increase in amortization for purchased intangible assets associated with acquired businesses.

**Goodwill impairment** for the fiscal year ended October 31, 2017 was \$17.4 million related to our former Taxi Solutions reporting unit based on a quantitative assessment and potential sales transactions.

**Income tax provision (benefit)** for the fiscal year ended October 31, 2017 was a \$32.5 million provision, compared to a \$11.5 million provision for the fiscal year ended October 31, 2016, up \$21.0 million. The income tax provision for the fiscal year ended October 31, 2017 was primarily related to foreign taxes and an increase to reserves for unrecognized tax benefits. The income tax provision for the fiscal year ended October 31, 2016 was primarily related to an increase in foreign taxes, partially offset by tax benefits related to release of reserves for unrecognized tax benefits in jurisdictions where statutes of limitations expired and audits were settled.

*Fiscal Year 2016 compared to Fiscal Year 2015*

**Net revenues** for the fiscal year ended October 31, 2016 were \$1.99 billion, compared to \$2.00 billion for the fiscal year ended October 31, 2015, down \$8.4 million or 0.4%, net of a \$77.8 million negative foreign currency impact. Systems net revenues decreased \$73.3 million primarily as a result of decreased demand that was substantially offset by a \$64.9 million increase in Services net revenues, which is primarily from acquired businesses. The foreign currency impact was due primarily to a decrease in the values of the Brazilian real, the Argentine peso, the South African rand, and the British Pound. (See further discussion of revenues by segment and geography below.)

**Net Revenues by Geography**

	Years Ended October 31,			
	2016	% of Net revenues	2015	% of Net revenues
(in thousands, except percentages)				
<b>Net Revenues</b>				
North America	\$ 803,616	40.3%	\$ 791,655	39.6%
Latin America	247,949	12.4%	275,706	13.8%
EMEA	738,261	37.1%	696,346	34.8%
Asia-Pacific	202,323	10.2%	236,750	11.8%
<b>Total</b>	<b>\$ 1,992,149</b>	<b>100.0%</b>	<b>\$ 2,000,457</b>	<b>100.0%</b>

- **North America net revenues** increased \$12.0 million, due primarily to a \$121.9 million increase as a result of increased demand for our EMV capable devices by petroleum customers and a \$35.9 million increase in Services net revenues due primarily to growth in payment-related services as a result of our continued efforts to grow our recurring services offerings. The increases were substantially offset by a \$146.7 million decrease due primarily to reduced demand for our EMV capable devices by Tier 1 retailers that had upgraded to products that support EMV requirements in the prior fiscal year.
- **Latin America net revenues** decreased \$27.8 million, due primarily to a \$34.8 million negative impact as a result of unfavorable foreign currency fluctuations, partially offset by an increase in net revenues due to growth in our Services offerings.
- **EMEA net revenues** increased \$41.9 million, due primarily to \$45.5 million in net revenues from InterCard in Germany, which was acquired in December 2015. Net revenues in the rest of EMEA increased due primarily to timing of purchase decisions by our large customers, but those increases were offset by a \$31.8 million negative impact due to unfavorable foreign currency fluctuations.
- **Asia-Pacific net revenues** decreased \$34.4 million, due to a \$23.7 million decrease in China where we have not yet released a lower cost suite of products to meet customer preferences in that market, and an \$18.1 million decrease in Australia due to reduced demand from some of our large banking customers who upgraded the terminal base at their merchant customers in the prior fiscal year. These decreases were partially offset by an increase in demand from some of our large customers in the rest of Asia-Pacific. The decrease in net revenues also reflects a \$10.2 million negative impact due to the unfavorable foreign currency fluctuations.

**Gross margin** for the fiscal year ended October 31, 2016 was \$794.3 million or 39.9% of total net revenues, compared to \$826.0 million, or 41.3% of total net revenues, for the fiscal year ended October 31, 2015, down \$31.7 million or 1.4 percentage points. Gross margin in dollars decreased due primarily to the decrease in net revenues. Gross margin as a percentage of net revenues decreased due primarily to changes in geographic and product and services mix. For example, in North America net revenues have shifted from higher margin large customers who completed substantial EMV roll outs in the prior year to more purchases in the current year by our distributors and petroleum customers purchasing products with lower margin. In addition, we experienced competitive pricing pressures in Latin America that have resulted in lower margins year over year.

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**Research and development** for the fiscal year ended October 31, 2016 was \$207.5 million compared to \$198.1 million for the fiscal year ended October 31, 2015, up \$9.4 million or 4.7%, due primarily to an increase in personnel related and outside contractor expenses associated with our fiscal year 2016 acquisitions and our ongoing investment in additional resources to develop and bring next generation products and solutions to market.

**Sales and marketing** for the fiscal year ended October 31, 2016 was \$217.0 million, compared to \$224.7 million for the fiscal year ended October 31, 2015, down \$7.7 million or 3.4%, due primarily to reduced variable costs associated with lower revenues and decreased spend associated with cost savings initiatives, partially offset by additional costs related to acquired businesses.

**General and administrative** for the fiscal year ended October 31, 2016 was \$204.6 million, compared to \$204.0 million for the fiscal year ended October 31, 2015, up \$0.6 million or 0.3%, due primarily to costs related to acquired businesses. The increase was substantially offset by decreased spend as a result of cost savings initiatives and reduced variable compensation.

**Restructuring and related charges** for the fiscal year ended October 31, 2016 was \$41.3 million, compared to \$8.4 million for the fiscal year ended October 31, 2015, up \$32.9 million, due primarily to a \$22.0 million write-down to reflect assets held for sale at fair value and a \$6.3 million charge to operating expenses for costs to terminate a contract related to a service we no longer offer.

**Amortization of purchased intangible assets** for the fiscal year ended October 31, 2016 was \$90.5 million compared to \$82.5 million for the fiscal year ended October 31, 2015, up \$8.0 million or 9.7%, due primarily to an increase in purchased intangible assets associated with recently acquired businesses.

**Interest expense, net** for the fiscal year ended October 31, 2016 was \$34.6 million compared to \$31.5 million for the fiscal year ended October 31, 2015, up \$3.1 million or 9.8%, due primarily to higher loan balances related to new borrowings for acquisitions.

**Income tax provision (benefit)** for the fiscal year ended October 31, 2016 was \$11.5 million provision, compared to \$7.4 million benefit for the fiscal year ended October 31, 2015, an \$18.9 million change. The income tax provision for the fiscal year ended October 31, 2016 was primarily related to an increase in foreign taxes, partially offset by tax benefits related to release of reserves for unrecognized tax benefits in jurisdictions where statutes of limitations expired and audits were settled. The income tax benefit for the fiscal year ended October 31, 2015 was due primarily to a change in our valuation allowance assessment against certain non-U.S. deferred tax assets offset by foreign taxes.

### 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.

#### *Fiscal Year 2017 compared to Fiscal Year 2016*

	Years Ended October 31,			
	2017	% of Net revenues	2016	% of Net revenues
	(in thousands, except percentages)			
<b>Net revenues</b>	\$ 1,085,478	57.9%	\$ 1,236,361	61.6%
<b>Operating income</b>	\$ 176,722	16.3%	\$ 252,326	20.4%

**Net revenues** for the fiscal year ended October 31, 2017 were \$1.09 billion, compared to \$1.24 billion for the fiscal year ended October 31, 2016, down \$150.9 million or 12.2%. Net revenues from our EMV capable devices decreased by \$163.0 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 \$28.0 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 fiscal year ended October 31, 2017 was \$176.7 million or 16.3% of net revenues, compared to \$252.3 million or 20.4% of net revenues for the fiscal year end October 31, 2016, down \$75.6 million or 4.2 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.



*Fiscal Year 2016 compared to Fiscal Year 2015*

	Years Ended October 31,			
	2016	% of Net revenues	2015	% of Net revenues
	(in thousands, except percentages)			
<b>Net revenues</b>	\$ 1,236,361	61.6%	\$ 1,309,628	65.5%
<b>Operating income</b>	\$ 252,326	20.4%	\$ 294,857	22.5%

**Net revenues** for the fiscal year ended October 31, 2016 were \$1.236 billion, compared to \$1.310 billion for the fiscal year ended October 31, 2015, down \$73.3 million or 5.6%, net of a \$46.8 million negative impact due to unfavorable foreign currency fluctuations. Net revenues from the sale of countertop and pinpad devices decreased \$42.8 million, due primarily to reduced customer demand in Asia-Pacific, as well as decreases in customer demand due to economic weakness and competitive pricing pressures in Latin America. Net revenues from the sale of multilane products decreased \$111.6 million due primarily to reduced demand for our EMV capable devices by certain Tier 1 retailers that had upgraded to products that support EMV requirements in the prior year. Net revenues from the sale of petroleum products increased \$108.9 million due primarily to increasing adoption of EMV capable devices. Net revenues from the sale of portable and mobile devices decreased \$25.0 million due primarily to decrease in demand by large customers as they rolled out new terminals with EMV capabilities in fiscal year 2015 that did not recur.

**Operating income** for the fiscal year ended October 31, 2016 was \$252.3 million or 20.4% of net revenues, compared to \$294.9 million or 22.5% of net revenues for the fiscal year ended October 31, 2015, down \$42.5 million or 2.1 percentage points. Operating income in dollars decreased due primarily to reduced revenue, partially offset by decreased spend associated with cost savings initiatives.

Verifone Services Net Revenues and Operating Income

Verifone Services offers a wide portfolio of services and subscription-based solutions that are designed to be complementary to our Systems. These services range from traditional device related support services, transaction payment services, cloud-based payment services, and commerce enablement offerings that are designed to facilitate commerce and payment opportunities for merchants. Our traditional terminal-related support services include professional services related to installation and deployment, helpdesk support, training, equipment repair and maintenance and software post-contract support. Our value-added transaction services include terminal management services and 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 enablement solutions leverage our terminals to engage 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.

*Fiscal Year 2017 compared to Fiscal Year 2016*

	Years Ended October 31,			
	2017	% of Net revenues	2016	% of Net revenues
	(in thousands, except percentages)			
<b>Net revenues</b>	\$ 788,491	42.1%	\$ 769,715	38.4%
<b>Operating income</b>	\$ 206,840	26.2%	\$ 198,426	25.8%

**Net revenues** for the fiscal year ended October 31, 2017 were \$788.5 million compared to \$769.7 million for the fiscal year ended October 31, 2016, up \$18.8 million or 2.4%, due primarily to increased demand for device-related and payment-related services solutions, particularly in EMEA. These increases were partially offset by a \$16.8 million decrease in revenues from our Taxi Solutions business, as well as the impact of exiting our petroleum media business in April 2017, which generated \$4.9 million revenues in the fiscal year ended October 31, 2017 compared to \$19.2 million revenues in the fiscal year ended October 31, 2016.

**Operating income** for the fiscal year ended October 31, 2017 was \$206.8 million or 26.2% of net revenues, compared to \$198.4 million or 25.8% of net revenues for the fiscal year ended October 31, 2016, up \$8.4 million or 0.5 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.

*Fiscal Year 2016 compared to Fiscal Year 2015*

	Years Ended October 31,			
	2016	% of Net revenues	2015	% of Net revenues
	(in thousands, except percentages)			
<b>Net revenues</b>	\$ 769,715	38.4%	\$ 691,822	34.6%
<b>Operating income</b>	\$ 198,426	25.8%	\$ 178,754	25.8%

**Net revenues** for the fiscal year ended October 31, 2016 were \$769.7 million compared to \$691.8 million for the fiscal year ended October 31, 2015, up \$77.9 million or 11.3%, net of a \$31.0 million negative impact due to unfavorable foreign currency fluctuations. Net revenues increased \$45.5 million from the acquisition of InterCard in December 2015 and \$18.6 million from the acquisition of AJB in February 2016. Net revenues increased \$11.5 million due primarily to growing demand for payment-related services in North America as a result of our increased focus on expanding our services offerings.

**Operating income** for the fiscal year ended October 31, 2016 was \$198.4 million or 25.8% of net revenues, compared to \$178.8 million or 25.8% of net revenues for the fiscal year ended October 31, 2015, up \$19.7 million and flat as a percentage of net revenues. Operating income in dollars increased due primarily to increases in net revenues. Operating income as a percentage of net revenues remained flat as higher margins from our recently acquired businesses, InterCard and AJB were fully offset by changes in geographic mix.

## **Financial Outlook**

### *Overview*

We expect the timing and amount of revenue to continue to be impacted by factors such as our recent 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, local competitive and pricing dynamics, and uncertain political conditions in certain markets.

### *Recent and Planned Divestitures*

As part of our strategic review of under-performing businesses, we have divested several businesses, including our China and Taxi Solutions businesses. Revenue from our China and Taxi Solutions businesses totaled \$117.7 million in fiscal year 2017 and \$139.7 million in fiscal year 2016. 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 in Thailand. 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.

***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.

## 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 October 31, 2017, our primary sources of liquidity were \$131.0 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 October 31, 2017 included \$129.8 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 \$12.7 million in restricted cash as of October 31, 2017, which comprised of cash held on behalf of customers as part of our transaction processing services.

As of October 31, 2017, our outstanding borrowings consisted of a \$465.0 million term A loan, \$193.5 million term B loan, \$168.4 million drawn against a revolving loan commitment and \$10.7 million under capital leases and other debt. In addition, \$331.6 million was available for draw on the revolving loan commitment, subject to covenant requirements. See Note 11, *Financing*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K for additional information regarding our borrowings. We were in compliance with all financial covenants under our credit agreement as of October 31, 2017.

As of October 31, 2017, we had outstanding interest rate swap agreements to effectively convert \$400.0 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 and canceled contracts under which we made cash payments totaling \$26.9 million during fiscal year 2017. We expect to make additional cash payments totaling approximately \$9.5 million under approved restructuring plans in fiscal year 2018 and may approve additional restructuring plans as our transformation initiatives continue. We are also obligated to spend approximately \$18.4 million pursuant to canceled customer contracts.

As of October 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. In December 2017, our Board of Directors authorized us to expand the stock repurchase program to allow the repurchase of additional shares of our common stock with an aggregate value of up to \$100.0 million, with no expiration from the date of authorization. As of December 18, 2017, there was \$150.0 million remaining available for stock repurchases under this program.

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.

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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 October 31, 2017, the maximum amount that may become payable under these guarantees was \$15.9 million, of which \$2.1 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 October 31, 2017, we have not made any payments and no amounts are accrued related to 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):

	Years Ended October 31,				
	2017	Change	2016	Change	2015
Net cash provided by (used in):					
Operating activities	\$ 165,966	\$ (31,470)	\$ 197,436	\$ (50,693)	\$ 248,129
Investing activities	(72,706)	202,483	(275,189)	(146,740)	(128,449)
Financing activities	(112,457)	(136,816)	24,359	157,917	(133,558)
Effect of foreign currency exchange rate changes on cash, cash equivalents and restricted cash	3,745	7,039	(3,294)	25,920	(29,214)
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ (15,452)</u>	<u>\$ 41,236</u>	<u>\$ (56,688)</u>	<u>\$ (13,596)</u>	<u>\$ (43,092)</u>

Fiscal Year 2017 vs. Fiscal Year 2016

Operating Activities

Net cash provided by operating activities for the fiscal year ended October 31, 2017 was \$166.0 million, down \$31.5 million from \$197.4 million in cash provided during the fiscal year ended October 31, 2016. Cash provided by operations before changes in operating assets and liabilities decreased by \$63.0 million, which is primarily due to our \$165.6 million increased operating loss, which included \$114.5 million of non-cash restructure charges, compared to \$31.2 million in the prior year period. This decrease was substantially offset by a \$31.6 million increase in cash provided by changes in operating assets and liabilities, due primarily to our continued focus on better working capital management.

Investing Activities

Net cash used in investing activities for the fiscal year ended October 31, 2017 was \$72.7 million, compared to \$275.2 million for the fiscal year ended October 31, 2016, down \$202.5 million, due primarily to \$172.2 million in payments for acquired businesses during the fiscal year ended October 31, 2016, compared to \$5.0 million during the fiscal year ended October 31, 2017. Additionally, capital expenditures decreased \$38.0 million year over year due primarily to cost savings initiatives and the divestiture of our Petro Media business, which was capital intensive.

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### Financing Activities

Net cash used in financing activities for the fiscal year ended October 31, 2017 was \$112.5 million compared to \$24.4 million in cash provided during the fiscal year ended October 31, 2016, a \$136.8 million change, due primarily to a \$284.3 million decrease in proceeds from new debt related to fewer business acquisitions in the current year, offset by a \$67.4 million decrease in debt repayments and \$79.9 million in stock repurchases during the fiscal year ended October 31, 2016 that did not recur. We had no stock repurchases during the fiscal year ended October 31, 2017.

### Fiscal Year 2016 vs. Fiscal Year 2015

### Operating Activities

Net cash provided by operating activities for the fiscal year ended October 31, 2016 was \$197.4 million, down \$50.7 million from \$248.1 million in cash provided during the fiscal year ended October 31, 2015, primarily due to a \$90.1 million decrease in consolidated net income partially offset by a \$34.6 million improvement as a result of better working capital management.

### Investing Activities

Net cash used in investing activities for the fiscal year ended October 31, 2016 was \$275.2 million, compared to \$128.4 million for the fiscal year ended October 31, 2015, up \$146.7 million, due primarily to an increase of \$150.1 million in payments for acquired businesses during the fiscal year ended October 31, 2016.

### Financing Activities

Net cash provided by financing activities for the fiscal year ended October 31, 2016 was \$24.4 million, compared to \$133.6 million of cash used for the fiscal year ended October 31, 2015, a \$157.9 million change, due primarily to \$180.6 million additional borrowings for business acquisitions and stock repurchases, which was partially offset by a \$9.7 million decrease in stock repurchases and an \$8.1 million decrease in proceeds from issuance of common stock through employee equity incentive plans in the current year compared to the prior year.



**Contractual Obligations**

The following table summarizes our contractual obligations as of October 31, 2017 (in thousands):

	Years Ended October 31,					Thereafter	Total
	2018	2019	2020	2021	2022		
Amended and restated Credit Agreement <sup>(1)</sup>	\$ 91,490	\$ 595,103	\$ 9,541	\$ 192,488	\$ —	\$ —	\$ 888,622
Operating leases <sup>(2)</sup>	39,717	28,528	23,250	16,333	9,520	7,481	124,829
Minimum purchase obligations	145,374	36,000	36,000	—	—	—	217,374
Other loans	7,555	2,404	1,065	82	36	245	11,387
<b>Total</b>	<b>\$ 284,136</b>	<b>\$ 662,035</b>	<b>\$ 69,856</b>	<b>\$ 208,903</b>	<b>\$ 9,556</b>	<b>\$ 7,726</b>	<b>\$ 1,242,212</b>

- (1) Contractual obligations for the amended and restated Credit Agreement include interest calculated using the rate in effect as of October 31, 2017 applied to the expected outstanding debt balance considering the minimum principal payments due each year.
- (2) Operating leases include \$50.3 million of minimum contractual obligations on leases for our taxi solutions business where payments are based upon the number of operational taxicabs with our advertising displays as of October 31, 2017. On December 11, 2017, we divested our Taxi Solutions business and the buyer assumed responsibility for these operating lease commitments.

As of October 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 October 31, 2017, our remaining non-cancelable commitment under this agreement totaled \$103.9 million.

As of October 31, 2017, the amount payable for unrecognized tax benefits was \$37.4 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 October 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 October 31, 2017 we have agreed to guarantee, in certain circumstances, up to \$12.5 million of debt that was issued to Gas Media. We are unable to make a reasonably reliable estimate as to when or if we will need to pay this guaranteed debt.

**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 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 this Annual Report on Form 10-K. On an ongoing basis, we evaluate our critical accounting policies and estimates. 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 our 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. 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 Consolidated Financial Statements. We believe that the following discussion addresses our most critical accounting policies.

### ***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 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 categorized it as Level 3 in the fair value hierarchy, and recorded charges totaling \$50.2 million to write those assets down to their fair value as of October 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. When performing an impairment test, we have the option to perform a qualitative or quantitative assessment. In a quantitative impairment test, 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, and record an impairment charge for any excess.

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 involves 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.

The carrying amount of each reporting unit is determined based upon the assignment of our assets and liabilities, including existing goodwill and other intangible assets, to the identified reporting units. Where an acquisition benefits only one reporting unit, we allocate, as of the acquisition date, all goodwill for that acquisition to the reporting unit that will benefit. Where we have had an acquisition that benefited more than one reporting unit, we have assigned the goodwill to our reporting units as of the acquisition date such that the goodwill assigned to a reporting unit is the excess of the fair value of the acquired business, or portion thereof, to be included in that reporting unit over the fair value of the individual assets acquired and liabilities assumed that are assigned to the reporting unit.

The estimated fair value of the reporting units is determined using the income approach. The income approach focuses on the income-producing capability of an asset, measuring the current value of the asset by calculating the present value of its future economic benefits such as cash earnings, cost savings, tax deductions, and proceeds from disposition. Value indications are developed by discounting expected cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation, and risks associated with the particular investment. Cash flow projections are based on management's estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the business's ability to execute on the projected cash flows.

In order to assess the reasonableness of the calculated fair values of its reporting units, we compare the sum of the reporting units' fair values to our market capitalization and calculate an implied control premium (the excess of the sum of the reporting units' fair

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values over the market capitalization). We evaluate the reasonableness of the premium over market capitalization by first quantifying certain controlling market participants' synergies included in the income approach. We then supplement this step by comparing the implied premiums for each reporting unit to the premiums implied by recent comparable transactions. If the implied control premium is not reasonable in light of these recent transactions, we will reevaluate our fair value estimates of the reporting units by adjusting the discount rates or other assumptions.

In the event that we realign our reporting units, we allocate our goodwill to the new reporting units using the relative fair value approach. We perform an assessment of any potential goodwill impairment immediately prior to and after the reallocation of goodwill to the new reporting units.

During the fiscal year 2017, there were circumstances which indicated that the carrying amount of the goodwill related to our former 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 for the fiscal year ended October 31, 2017.

### ***Equity Investments***

We evaluate our equity investments to determine whether an investee is a variable interest entity. If we conclude that an investee is a variable interest entity, we evaluate our power to direct the activities of the investee, our obligation to absorb the expected losses of the investee and our right to receive the expected residual returns of the investee to determine whether we are the primary beneficiary of the investee. If we are the primary beneficiary of a variable interest entity, we consolidate such entity and reflect the noncontrolling interest of other beneficiaries of that entity. If we conclude that an investee is not a variable interest entity, we do not consolidate the investee and account for the investment under either the equity method or cost method.

The determination of whether an entity is a variable interest entity and or whether we are the primary beneficiary of the entity is highly judgmental. The fair value of our equity investments is dependent on the performance of the investee companies as well as volatility inherent in the external markets for these investments. In assessing the potential impairment of these investments, we consider these factors as well as the forecasted financial performance of the investees and market values, where available. If these forecasts are not met or market values indicate an other-than-temporary decline in value, impairment charges may be required.

## ***Income Taxes***

Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. In evaluating our ability to recover our deferred tax assets we consider all available positive and negative evidence including our past operating results, the existence of cumulative losses in past fiscal years, and our forecast of future taxable income in the jurisdictions in which we have operations.

We have placed a valuation allowance on the U.S. deferred tax assets and certain non-U.S. deferred tax assets, because realization of these tax benefits through future taxable income does not meet the more-likely-than-not threshold. We intend to maintain the valuation allowances until sufficient positive evidence exists to support the reversal of the valuation allowances.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws. Our estimate for the potential outcome of any uncertain tax issue is based on the detailed facts and circumstances of each issue. For example, during the fourth quarter of fiscal 2014, the Israeli Tax Authorities issued a tax assessment for 2008 or 2009 claiming there was a business restructuring that resulted in a transfer of some functions, assets and risks from Israel to the U.S. parent company treated as an equity sale. We are appealing the tax assessment and believe the Israeli Tax Authority's assessment position is without merit. We intend to continue to challenge the Israeli Tax Authorities position vigorously. If this matter is litigated and the Israeli Tax Authorities are able to successfully sustain their position, our results of operations and financial condition could be materially and adversely affected. See further discussion in Note 6, *Income Taxes*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of various possible outcomes. We re-evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period.

## ***Revenue Recognition***

While the majority of our sales transactions contain standard business terms and conditions, there are some transactions that contain non-standard business terms and conditions, and, as a result, significant contract interpretation is sometimes required to determine whether an arrangement exists and what is included in the arrangement. In addition, our revenue recognition policy requires an assessment as to whether collection is probable, which inherently requires us to evaluate the creditworthiness of our customers.

We enter into arrangements with customers that include multiple deliverables. Significant judgment is required to determine the appropriate accounting for multiple element arrangements including: (1) whether elements represent separate deliverables; (2) the estimated selling price (ESP) for each deliverable; (3) the arrangement consideration to be allocated among the deliverables; (4) when to recognize net revenues on the deliverables; and (5) whether undelivered elements are essential to the functionality of delivered elements. Further, our determination of ESP involves assessing factors such as the cost to produce the deliverable, the anticipated margin on that deliverable, the economic conditions and trends, the selling price and profit margin for similar parts, and our ongoing pricing strategy and policies.

### ***Warranty Costs***

We accrue for estimated warranty obligations at the time that revenue is recognized, and base those accruals on an estimate of future warranty costs for the delivered product. Our warranty obligation generally extends from one to three years from the date of shipment. We estimate such obligations based on the size of the installed base of products subject to warranty protection, historical and projected warranty claim rates, historical and projected costs associated with claims, and knowledge of specific product failures that are outside of our typical experience. Our estimates and judgments are affected by actual product failure rates and actual costs to repair. These estimates and judgments are more subjective for new product introductions as these estimates and judgments are based on our experience for similar products because we do not yet have actual history or experience for new products.

From time to time we encounter situations where our costs of warranty on a product vary significantly from expectations due to factors including defective parts, defective workmanship, or other unanticipated environmental or usage patterns. When encountered, a specific reserve is established for these situations on a case-by-case basis, and best available estimates are used to quantify the potential exposure.

### ***Allowance for doubtful accounts***

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to pay their invoices to us in full. We regularly review the adequacy of our allowance for doubtful accounts, considering the size of each customer's accounts receivable balance, their expected ability to pay, aging of their accounts receivable balances, and our collection history with them. An appropriate provision is made taking into account these factors. The level of reserves for our customer accounts receivable fluctuates depending upon all of the factors mentioned above, and could change significantly if our customers' financial condition changes or the economy in general deteriorates.

### ***Inventory Valuation and Liability for Purchase Commitments with Contract Manufacturers and Suppliers***

The valuation of inventories requires us to determine obsolete or excess inventory, and inventory that is not of salable quality. The determination of obsolete or excess inventories requires us to estimate the future demand for our products within specific time horizons, generally six months. If our demand forecast for specific products is greater than actual demand and we fail to reduce manufacturing output accordingly, we could be required to record additional inventory write-offs, which would have a negative impact on our gross margin percentage.

We review the adequacy of our inventory valuation on a quarterly basis. For production inventory, our methodology involves an assessment of the marketability of the product based on a combination of shipment history and future demand. We then evaluate the inventory found to be in excess and take appropriate write-downs to reflect the risk of obsolescence. Our evaluation depends on the accuracy of our sales estimates. If actual demand was substantially lower than estimated, additional inventory write-downs for excess or obsolete inventories may be required.

We record accruals for estimated cancellation fees related to orders placed with our suppliers that have been canceled or are expected to be canceled. Consistent with industry practice, we acquire inventory through a combination of purchase orders, supplier contracts, and open orders based on projected demand information. These commitments typically cover our requirements for periods ranging from one to five months. If there is an abrupt and substantial decline in demand for one or more of our products or an unanticipated change in technological requirements for any of our products, we may be required to record additional accruals for cancellation fees that would negatively affect our results of operations in the period when the cancellation fees are identified and recorded.

### ***Long-Lived Assets***

We make judgments about the recoverability of long-lived assets, including fixed assets and purchased finite-lived intangible assets whenever events or changes in circumstances indicate that an impairment may exist. Each period we evaluate the estimated remaining useful lives of long-lived assets and whether events or changes in circumstances warrant a revision to the remaining periods of depreciation or amortization. If circumstances arise that indicate an impairment may exist, we use an estimate of the undiscounted value of expected future operating cash flows to determine whether the long-lived assets are impaired. Long-lived assets will be evaluated for impairment either individually or in asset groups where their cash flows are largely independent of cash flows generated from other long-lived assets. If the aggregate undiscounted cash flows are less than the carrying amount of the assets, the resulting impairment charge to be recorded is calculated based on the excess of the carrying amount of the assets over the fair value of such assets, with the fair value generally determined using the DCF method. Application of the DCF method for long-lived assets requires judgment and market participant assumptions related to the amount and timing of future expected cash flows, terminal value growth rates, and appropriate discount rates. Different judgments or assumptions could result in materially different fair value estimates.

### ***Contingencies and Litigation***

The outcome of litigation is inherently uncertain and subject to numerous factors outside of our control. Significant judgment is required when we assess the likelihood of any adverse judgments or outcomes to a potential claim or legal proceeding and, if and when the outcomes of the claims or proceedings are probable and/or reasonably estimable the potential ranges of probable or reasonable possible losses. A determination of the amount of accrued liabilities required, if any, for these contingencies is made after the analysis of each matter. Because of uncertainties related to these matters, we base our estimates on the information available at the time. As additional information becomes available, we reassess the potential liability related to pending claims and litigation, and may revise our estimates. Any revisions in the estimates of potential liabilities could have a material impact on our results of operations and financial position.

### ***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 Consolidated Financial Statements of this Annual Report on Form 10-K, which section is incorporated herein by reference.

## **ITEM 7A. 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.

### **Interest Rate Risk**

We are exposed to interest rate risk related to our borrowings. These borrowings generally bear interest based upon the one-month LIBOR rate. As of October 31, 2017, a 100 basis point increase in interest rates on our borrowings subject to variable interest rate fluctuations would increase our interest expense by approximately \$5.7 million annually.

As of October 31, 2017, we had outstanding interest rate swap agreements to effectively convert \$400.0 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. 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.

We generally hold most of our cash in non-interest bearing bank accounts. However, some of the funds are placed in overnight and short-term instruments, which would earn more interest income if market interest rates rise and less interest income if market interest rates fall.

### **Foreign Currency Transaction Risk**

Customers outside the U.S. account for a substantial majority of our sales. A substantial portion of the net revenues we generate from international sales is denominated in currencies other than the U.S. dollar, particularly the Euro, Brazilian real, Swedish krona, Australian dollar, and the British pound. Additionally, portions of our cost of net revenues and operating expenses are incurred by our international operations and are denominated in currencies other than the U.S. dollar. For consolidated reporting, net revenues and expenses denominated in currencies other than the U.S. dollar, which we refer to as Income Statement Exposures, are translated to the U.S. dollar at average currency exchange rates for the period. Thus, even if foreign operating results were stable, fluctuating currency rates may produce volatile reported results. We have from time to time made efforts to mitigate Income Statement Exposures by hedging with currency derivatives. As of October 31, 2017 and 2016, we had no derivatives related to Income Statement Exposures. We may in the future use foreign exchange forward contracts or other derivatives to hedge Income Statement Exposures, depending upon the risks of the exposures, the costs of hedging, and other considerations. However, hedges of Income Statement Exposures will only mitigate a portion of our risk and only for a short period.

The balance sheets of our subsidiaries may have monetary assets and liabilities denominated in currencies other than the primary currency of such business, which we refer to as Balance Sheet Exposures. For example, Balance Sheet Exposures would include Canadian dollar receivables held in a subsidiary where the Canadian dollar is not the primary currency, such as our U.S. business, or U.S. dollar payables held by our U.K. subsidiary. As exchange rates fluctuate, Balance Sheet Exposures generate foreign currency transaction gains and losses, which are included in Other income (expense), net in our Consolidated Statements of Operations. Most Balance Sheet Exposures will settle in a currency other than the functional currency in the foreseeable future or convert from a foreign currency to a local currency in the foreseeable future, at which time the impact of rate fluctuations will be realized and we will receive or dispense more or less cash than the value originally recorded. We refer to such exposures as Near-Term Balance Sheet Exposures. Some Balance Sheet Exposures may not be settled in the foreseeable future in management's estimation and thus the cash impact of their currency gains or losses is not expected to be realized in the foreseeable future.

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We have in the past and expect to continue to enter into foreign exchange forward contracts to mitigate the risk of Near-Term Balance Sheet Exposures. Our objective is to have gains or losses from the foreign exchange forward contracts largely offset the losses or gains of the Near-Term Balance Sheet Exposures. On a monthly basis, we recognize the gains or losses based on the changes in fair value of these contracts in Other income (expense), net in our Consolidated Statements of Operations. In some instances, we may seek to hedge transactions that are expected to become Near-Term Balance Sheet Exposures in the very short-term, generally within one month. We do not use foreign exchange forward contracts or other derivatives for speculative or trading purposes.

Our outstanding foreign exchange forward contracts as of October 31, 2017 are presented in the table below (in thousands). The fair value of the contracts represents the difference between the spot currency rate at October 31, 2017 and the contracted rate. All of these forward contracts mature within 30 days of October 31, 2017.

	Currency	Local Currency Contract Amount	Currency	Contracted Amount	Fair Market Value at October 31, 2017
Contracts to (buy) sell non-USD currencies:					
Argentine peso	ARS	(160,000)	USD	8,937	\$ 30
Australian dollar	AUD	(17,000)	USD	13,011	(7)
British Pound	GBP	(12,000)	USD	15,752	6
Canadian dollar	CAD	(16,000)	USD	12,417	(16)
Euro	EUR	53,000	USD	(61,532)	(12)
Indian rupee	INR	250,000	USD	(3,841)	13
Israeli shekel	ILS	195,000	USD	(55,092)	163
Mexican peso	MXN	(110,000)	USD	5,714	5
New Taiwan dollar	TWD	(150,000)	USD	4,964	(22)
New Zealand dollar	NZD	(4,000)	USD	2,747	—
Norwegian Kroner	NOK	200,000	USD	(24,472)	(10)
South African rand	ZAR	(140,000)	USD	9,851	21
South Korean won	KRW	(4,000,000)	USD	3,551	(26)
Swedish Krona	SEK	160,000	USD	(19,137)	(14)
Thai Baht	THB	(300,000)	USD	9,010	1
Turkish Lira	TRY	(20,000)	USD	5,206	(9)
Total fair value					\$ 123

As of October 31, 2017, our Balance Sheet Exposures amounted to \$269.6 million. These Balance Sheet Exposures were partially offset by foreign exchange forward contracts with a notional amount of \$255.4 million. Based on our net exposures as of October 31, 2017, a 10% fluctuation in currency exchange rates would result in a gain or loss of approximately \$1.4 million.

Our efforts to mitigate the risk of foreign currency fluctuations in our Balance Sheet Exposures through the use of foreign exchange forward contracts may not always be effective in protecting us against currency exchange rate fluctuations, particularly in the event of imprecise forecasts of non-functional currency denominated assets and liabilities. In addition, at times we have not fully offset our Balance Sheet Exposures for reasons such as the high cost of hedging certain currencies, leaving us at risk for foreign exchange gains and losses on amounts not offset by forward contracts. Furthermore, historically we have not consistently hedged our Income Statement Exposures. Accordingly, if there were an adverse movement in exchange rates, we might suffer significant losses.



ITEM 8.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of VeriFone Systems, Inc.

We have audited the accompanying consolidated balance sheets of VeriFone Systems, Inc. as of October 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for each of the three years in the period ended October 31, 2017. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of VeriFone Systems, Inc. at October 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), VeriFone Systems, Inc.'s internal control over financial reporting as of October 31, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated December 18, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California  
December 18, 2017

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of VeriFone Systems, Inc.

We have audited VeriFone Systems, Inc.'s internal control over financial reporting as of October 31, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). VeriFone Systems, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, VeriFone Systems, Inc. maintained, in all material respects, effective internal control over financial reporting as of October 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of VeriFone Systems, Inc. as of October 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for each of the three years in the period ended October 31, 2017 and our report dated December 18, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California  
December 18, 2017

**VERIFONE SYSTEMS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Years Ended October 31,		
	2017	2016	2015
	(In thousands, except per share data)		
<b>Net revenues:</b>			
Systems	1,085,478	1,236,361	1,309,628
Services	785,498	755,788	690,829
Total net revenues	1,870,976	1,992,149	2,000,457
<b>Cost of net revenues:</b>			
Systems	688,555	744,311	773,816
Services	469,409	453,527	400,658
Total cost of net revenues	1,157,964	1,197,838	1,174,474
<b>Gross margin</b>	713,012	794,311	825,983
<b>Operating expenses:</b>			
Research and development	211,615	207,503	198,135
Sales and marketing	193,982	217,039	224,745
General and administrative	189,635	204,552	203,978
Restructuring and related charges	143,152	41,254	8,429
Litigation settlement and loss contingency expense	—	650	1,213
Amortization of purchased intangible assets	69,622	90,534	82,492
Goodwill impairment	17,384	—	—
Total operating expenses	825,390	761,532	718,992
<b>Operating income (loss)</b>	(112,378)	32,779	106,991
Interest expense, net	(33,197)	(34,564)	(31,455)
Other income (expense), net	2,756	3,612	(2,588)
<b>Income (loss) before income taxes</b>	(142,819)	1,827	72,948
Income tax provision (benefit)	32,500	11,527	(7,409)
<b>Consolidated net income (loss)</b>	(175,319)	(9,700)	80,357
Net income (loss) attributable to noncontrolling interests	(1,490)	(419)	1,260
<b>Net income (loss) attributable to VeriFone Systems, Inc. stockholders</b>	\$ (173,829)	\$ (9,281)	\$ 79,097
<b>Net income (loss) per share attributable to VeriFone Systems, Inc. stockholders:</b>			
Basic	\$ (1.55)	\$ (0.08)	\$ 0.69
Diluted	\$ (1.55)	\$ (0.08)	\$ 0.68
<b>Weighted average number of shares used in computing net income (loss) per share attributable to VeriFone Systems, Inc. stockholders:</b>			
Basic	111,817	110,829	114,044
Diluted	111,817	110,829	115,934

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

**VERIFONE SYSTEMS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

	Years Ended October 31,		
	2017	2016	2015
	( In thousands)		
<b>Consolidated net income (loss)</b>	\$ (175,319)	\$ (9,700)	\$ 80,357
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	60,512	(46,618)	(183,895)
Unrealized gain (loss) on derivatives designated as cash flow hedges			
Change in unrealized gain (loss) on derivatives designated as cash flow hedges	3,062	(1,971)	(7,830)
Amounts reclassified from Accumulated other comprehensive loss	1,171	3,961	4,141
Net change in unrealized gain (loss) on derivatives designated as cash flow hedges	4,233	1,990	(3,689)
Change in other	1,966	(4,045)	93
<b>Other comprehensive income (loss)</b>	66,711	(48,673)	(187,491)
<b>Total comprehensive loss</b>	(108,608)	(58,373)	(107,134)
Less: Comprehensive income (loss) attributable to noncontrolling interests, net of tax	(9,201)	(419)	1,260
<b>Comprehensive loss attributable to VeriFone Systems, Inc. stockholders</b>	\$ (99,407)	\$ (57,954)	\$ (108,394)

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

**VERIFONE SYSTEMS, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	October 31,	
	2017	2016
	(In thousands, except par value)	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 131,029	\$ 148,352
Accounts receivable, net of allowances of \$7,900 and \$9,240, respectively	322,667	323,447
Inventories	126,563	175,231
Prepaid expenses and other current assets	138,396	110,397
<b>Total current assets</b>	<b>718,655</b>	<b>757,427</b>
Property and equipment, net	127,872	202,277
Purchased intangible assets, net	236,378	306,298
Goodwill	1,104,370	1,110,493
Deferred tax assets, net	33,089	36,989
Other long-term assets	101,806	81,323
<b>Total assets</b>	<b>\$ 2,322,170</b>	<b>\$ 2,494,807</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 144,761	\$ 154,574
Accruals and other current liabilities	227,295	213,411
Deferred revenue, net	101,427	104,797
Short-term debt	68,770	66,017
<b>Total current liabilities</b>	<b>542,253</b>	<b>538,799</b>
Long-term deferred revenue, net	61,788	66,516
Deferred tax liabilities, net	97,524	99,371
Long-term debt	762,044	859,896
Other long-term liabilities	76,089	76,840
<b>Total liabilities</b>	<b>1,539,698</b>	<b>1,641,422</b>
<b>Commitments and contingencies</b>		
Redeemable noncontrolling interest in subsidiary	262	4,980
<b>Stockholders' equity:</b>		
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, 112,367 and 111,261 shares issued and outstanding as of October 31, 2017 and 2016, respectively	1,124	1,113
Additional paid-in capital	1,812,209	1,771,951
Accumulated deficit	(792,168)	(618,339)
Accumulated other comprehensive loss	(266,572)	(340,994)
<b>Total VeriFone Systems, Inc. stockholders' equity</b>	<b>754,593</b>	<b>813,731</b>
Noncontrolling interests in subsidiaries	27,617	34,674
<b>Total equity</b>	<b>782,210</b>	<b>848,405</b>
<b>Total liabilities, redeemable noncontrolling interest in subsidiary and equity</b>	<b>\$ 2,322,170</b>	<b>\$ 2,494,807</b>

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

**VERIFONE SYSTEMS, INC.**  
**CONSOLIDATED STATEMENTS OF EQUITY**

	Common Stock Voting		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Non-controlling interest in subsidiaries	Total Equity
	Shares	Amount						
(In thousands)								
Balance as of October 31, 2014	113,314	\$ 1,133	\$ 1,675,695	\$ (538,208)	\$ (104,830)	\$ 1,033,790	\$ 36,108	\$ 1,069,898
Issuance of common stock, net of issuance costs	1,828	19	12,885	—	—	12,904	—	12,904
Tax payments related to restricted stock units	—	—	(4,571)	—	—	(4,571)	—	(4,571)
Stock-based compensation expense	—	—	42,253	—	—	42,253	—	42,253
Tax effects of stock-based compensation	—	—	(268)	—	—	(268)	—	(268)
Stock repurchases	(2,458)	(27)	—	(76,605)	—	(76,632)	—	(76,632)
Adjustment on redemption of noncontrolling interest	—	—	422	—	—	422	—	422
Dividends paid to noncontrolling interests shareholders	—	—	—	—	—	—	(2,412)	(2,412)
Total comprehensive income (loss)	—	—	—	79,097	(187,491)	(108,394)	1,241	(107,153)
Balance as of October 31, 2015	112,684	1,125	1,726,416	(535,716)	(292,321)	899,504	34,937	934,441
Issuance of common stock, net of issuance costs	1,411	14	5,061	—	—	5,075	—	5,075
Tax payments related to restricted stock units	—	—	(1,969)	—	—	(1,969)	—	(1,969)
Stock-based compensation expense	—	—	42,278	—	—	42,278	—	42,278
Tax effects of stock-based compensation	—	—	165	—	—	165	—	165
Stock repurchases	(2,834)	(26)	—	(73,342)	—	(73,368)	—	(73,368)
Dividends paid to noncontrolling interests shareholders	—	—	—	—	—	—	(2,293)	(2,293)
Total comprehensive income (loss)	—	—	—	(9,281)	(48,673)	(57,954)	2,030	(55,924)
Balance as of October 31, 2016	111,261	1,113	1,771,951	(618,339)	(340,994)	813,731	34,674	848,405
Issuance of common stock, net of issuance costs	1,106	11	1,136	—	—	1,147	—	1,147
Tax payments related to restricted stock units	—	—	(1,692)	—	—	(1,692)	—	(1,692)
Stock-based compensation expense	—	—	40,814	—	—	40,814	—	40,814
Dividends paid to noncontrolling interests shareholders	—	—	—	—	—	—	(2,574)	(2,574)
Total comprehensive income (loss)	—	—	—	(173,829)	74,422	(99,407)	(4,483)	(103,890)
Balance as of October 31, 2017	112,367	\$ 1,124	\$ 1,812,209	\$ (792,168)	\$ (266,572)	\$ 754,593	\$ 27,617	\$ 782,210

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

**VERIFONE SYSTEMS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended October 31,		
	2017	2016	2015
(In thousands)			
<b>Cash flows from operating activities</b>			
Consolidated net income (loss)	\$ (175,319)	\$ (9,700)	80,357
Adjustments to reconcile consolidated net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	140,727	179,236	169,400
Stock-based compensation expense	40,013	42,278	42,253
Deferred income taxes, net	835	(13,980)	(31,574)
Non-cash restructuring and related charges	114,534	31,208	—
Goodwill and other long lived asset impairments	33,524	—	1,076
Other	5,483	(6,225)	11,974
Net cash provided by operating activities before changes in operating assets and liabilities	159,797	222,817	273,486
Changes in operating assets and liabilities:			
Accounts receivable, net	(11,597)	59,600	(75,432)
Inventories	30,402	(45,679)	(16,415)
Prepaid expenses and other assets	(8,600)	4,475	(18,092)
Accounts payable	(7,561)	(39,571)	41,206
Deferred revenue, net	(6,984)	28,708	12,707
Other current and long-term liabilities	10,509	(32,914)	30,669
Net change in operating assets and liabilities	6,169	(25,381)	(25,357)
Net cash provided by operating activities	165,966	197,436	248,129
<b>Cash flows from investing activities</b>			
Capital expenditures	(67,324)	(105,335)	(106,492)
Acquisitions of businesses, net of cash and cash equivalents acquired	(4,973)	(172,219)	(22,072)
Divestiture of businesses	1,469	—	—
Other investing activities, net	(1,878)	2,365	115
Net cash used in investing activities	(72,706)	(275,189)	(128,449)
<b>Cash flows from financing activities</b>			
Proceeds from debt, net of issuance costs	276,085	560,378	125,000
Repayments of debt	(385,744)	(453,054)	(198,289)
Stock repurchases	—	(79,866)	(70,134)
Other financing activities, net	(2,798)	(3,099)	9,865
Net cash provided by (used in) financing activities	(112,457)	24,359	(133,558)
Effect of foreign currency exchange rate changes on cash, cash equivalents and restricted cash	3,745	(3,294)	(29,214)
Net decrease in cash, cash equivalents and restricted cash	(15,452)	(56,688)	(43,092)
Cash, cash equivalents and restricted cash, beginning of period	159,181	215,869	258,961
Cash, cash equivalents and restricted cash, end of period	\$ 143,729	\$ 159,181	\$ 215,869
<b>Supplemental disclosures of cash flow information</b>			
Cash paid for interest	\$ 29,465	\$ 29,757	\$ 27,301
Cash paid for income taxes	\$ 29,532	\$ 28,203	\$ 20,529

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



**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

***Business Description***

We are a global leader in payments and commerce solutions. We provide expertise, solutions and services that add value at the retail point-of-sale and enable innovative forms of commerce. For over 35 years, we have been designing, manufacturing, marketing and supplying a broad range of 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 innovative point-of-sale payment capabilities, value-added services that increase merchant revenues and enhance the consumer experience, and solutions that enrich and improve the interaction between merchant and consumers. Today we are an industry leader in multi-application payment systems deployments. Key industries in which we operate include financial services, retail, petroleum, restaurant, hospitality, taxi, transportation, and healthcare.

VeriFone Systems, Inc. was incorporated in the state of Delaware on June 13, 2002 in order to acquire VeriFone, Inc. on July 1, 2002. VeriFone, Inc. was incorporated in 1981 and became our principal operating subsidiary on July 1, 2002. Effective May 18, 2010, we changed our corporate name from VeriFone Holdings, Inc. to VeriFone Systems, Inc. Shares of VeriFone Systems, Inc. are listed on the New York Stock Exchange under the trading symbol PAY.

***Basis of Presentation***

The accompanying 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. Amounts pertaining to the noncontrolling ownership interests held by third parties in the operating results and financial position of our majority-owned subsidiaries are reported as noncontrolling interests. All intercompany accounts and transactions have been eliminated. The Consolidated Financial Statements also include the results of companies acquired by us from the date of each acquisition. Investments in businesses that we do not control, but in which we have the ability to exercise significant influence over operating and financial matters, are accounted for using the equity method.

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 and reporting units are the same as our operating segments.

We determine our operating segments considering our overall management structure, how forecasts are approved, how executive compensation is determined, our organizational chart, as well as how our Chief Executive Officer, who is our chief operating decision maker, regularly reviews our operating results, assesses performance, allocates resources, and makes decisions regarding Verifone's operations.

***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.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Significant Accounting Policies***

**Foreign Currency**

We determine the functional currency for Verifone and our subsidiaries by reviewing the currencies in which their respective operating activities occur. For our subsidiaries whose functional currencies are not the U.S. Dollar, we generally translate assets and liabilities using exchange rates in effect as of the applicable balance sheet dates. Revenue and expenses for these subsidiaries are translated using average rates which approximate those in effect during the period. Foreign currency translation gains and losses are included in stockholders' equity as a component of Accumulated other comprehensive loss in our Consolidated Balance Sheets.

Monetary assets and liabilities denominated in currencies other than the functional currency of that subsidiary are remeasured to the functional currency using exchange rates in effect as of the applicable balance sheet dates. Gains and losses from these remeasurements are recorded as Other income (expense), net in our Consolidated Statements of Operations.

**Revenue Recognition**

System solutions net revenues include net revenues from the sale of products and associated perpetual software licenses and accessories. Services net revenues include net revenues from payment-related services, installation, customer support, repair services related to our System solutions, transaction processing, custom software development, and extended warranties, as well as from advertising in and on taxis, and leases of our products.

We recognize revenues net of sales taxes and value-added taxes when title and risk of loss have passed to the customer and all of the following criteria are met: (i) there is persuasive evidence that an arrangement exists; (ii) delivery of the products or services has occurred; (iii) the selling price is fixed or determinable; and (iv) collection is reasonably assured and not contingent upon future performance.

Net revenues from sales to end-users, resellers, value-added resellers, and distributors are generally recognized upon shipment of the product. End-users, resellers, value-added resellers, and distributors generally have no rights of return, stock rotation rights, or price protection.

We recognize revenue from operating lease arrangements over the term of the applicable lease arrangements. Net revenues from operating lease arrangements represent less than 5% of our total net revenues and are classified as Services net revenues.

Net revenues from services obligations to be provided over a period of time are initially deferred and then recognized on a straight-line basis over the period during which the services are provided. Net revenues from services billed on a per incident basis are recognized as the services are rendered. Net revenues from fees for payment services are recognized when the payment services are complete. Advertising revenues are recognized as the related services are performed.

We periodically enter into software development contracts with our customers that we recognize as net revenues on a completed contract basis. During the period of performance of such contracts, billings and costs are accumulated on the balance sheet, but no profit is recorded before completion or substantial completion of the project or milestone. We generally use customers' acceptance as the specific criteria to determine when such contracts are substantially completed. Provisions for losses on software development contracts are recorded in the period they become evident. Net revenues from software development contracts comprise less than 1% of our total net revenues.

VERIFONE SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

*Revenue Recognition for Multiple-Element Arrangements*

When an arrangement includes multiple deliverables, we allocate the arrangement consideration to each deliverable qualifying as a separate unit of accounting based on its relative selling price at the inception of the arrangement. We determine the relative selling price based on the estimated selling price (ESP) using vendor specific objective evidence (VSOE), if it exists, and otherwise third-party evidence (TPE). If neither VSOE nor TPE exists for a unit of accounting, we use best estimated selling price (BESP).

VSOE is limited to the price charged when the same or similar product or service is sold separately. We define VSOE as substantial standalone transactions that are priced within a narrow range, as defined by us. In addition, we consider the geographies in which the products or services are sold, as well as the class of customers to which the products or services are sold. If a product or service is seldom sold separately, it is unlikely that we can determine VSOE for the product or service.

TPE is determined based on the prices charged by our competitors for a similar deliverable when sold separately to similarly situated customers. As our products and services contain a significant level of differentiation compared to our competitors' products, comparable prices are generally not available.

When we are unable to establish selling price using VSOE or TPE, we use BESP when allocating the arrangement consideration. BESP is the price at which management estimates that we would enter into a transaction with the customer if the product or service was to be sold by us regularly on a standalone basis. Our determination of BESP involves a weighting of several factors based on the specific facts and circumstances of the arrangement. The factors we consider include the geographies in which the products or services are sold, the anticipated gross margin on that deliverable, the cost to produce the deliverable, economic conditions and market trends, the selling price and gross margin for similar deliverables, and our ongoing pricing strategy and policies.

We analyze ESP at least annually or on a more frequent basis if a significant change in our business necessitates a more timely analysis or if we experience significant variances in our selling prices.

In multiple element arrangements that include software, we first evaluate if a tangible product includes software. If a tangible product includes software and if both the tangible product and software components function together to deliver the tangible product's essential functionality, then we will treat the entire product as a non-software element. If the arrangement is deemed to have a software element, we first allocate the total arrangement consideration between the software group of elements as a whole and the non-software elements as a whole based on their relative selling prices, and then to the elements within those groups based on the applicable guidance.

*Shipping and Handling Costs*

Shipping and handling costs incurred for delivery to customers are expensed as incurred, and are included in Cost of net revenues in our Consolidated Statements of Operations. In those instances where we bill shipping and handling costs to customers, the amounts billed are classified as Net revenues in our Consolidated Statements of Operations.

*Warranty Costs*

We accrue for estimated warranty obligations when revenue is recognized based on an estimate of future warranty costs for delivered products. Such estimates are based on historical experience and expectations of future costs. At least annually or whenever circumstances warrant, we evaluate and adjust the accrued warranty costs to the extent actual warranty costs vary from the original estimates. Our warranty period typically extends from one to three years from the date of shipment. Actual warranty costs may differ materially from management's estimates.

Costs associated with maintenance contracts, including extended warranty contracts, are expensed when they are incurred.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Stock-Based Compensation*

We measure stock-based compensation cost at the grant date, based on the estimated fair value of the award and the estimated number of shares we ultimately expect will vest. Stock-based compensation cost is recognized as expense on a straight-line basis over the requisite service period. Cash flows resulting from the tax benefits due to tax deductions in excess of the compensation cost recognized for those awards are classified as financing cash flows.

*Advertising Costs*

Advertising costs are expensed as incurred, and were immaterial for all periods presented in our Consolidated Statements of Operations.

*Research and Software Development Costs*

Research and development costs are generally expensed when incurred.

Software development costs incurred to develop software products for resale, including the costs of software components of our products, are subject to capitalization beginning when a product's technological feasibility has been established and ending when a software or product is available for general release to customers. In most instances, our products are released soon after technological feasibility has been established; therefore, software development costs incurred subsequent to achievement of technological feasibility are usually not significant, and generally most software development costs have been expensed as incurred. Capitalized costs of software for resale are amortized on a straight-line basis over the estimated life of the software or associated product, generally three to five years, commencing when the respective software or product is available to customers.

Software development costs for internal use software are subject to capitalization during the application development stage, beginning when a project, that will result in additional functionality, is approved and ending when the software is put into productive use. Capitalized internal use software costs are amortized on a straight-line basis over the estimated life of the software, generally three to six years, commencing when the respective software is put into productive use.

Amortization related to capitalized software development costs totaled \$7.1 million, \$5.1 million, and \$5.5 million, for the fiscal years ended October 31, 2017, 2016, and 2015, respectively. Unamortized capitalized software development costs totaled \$50.7 million and \$55.1 million as of October 31, 2017 and 2016, respectively, and are recorded as a component of Other long-term assets in our Consolidated Balance Sheets.

*Restructuring*

The determination of when we accrue for employee involuntary termination benefits depends on whether the termination benefits are provided under a one-time benefit arrangement or under an on-going benefit arrangement. We record charges for one-time benefit arrangements in accordance with ASC 420 *Exit or Disposal Cost Obligations* and charges for on-going benefit arrangements in accordance with ASC 712 *Nonretirement Postemployment Benefits*.

We recognize a liability for costs associated with the closure of facilities when the liability is incurred. We measure these liabilities at fair value. Costs to terminate a contract before the end of its term are recognized when we terminate the contract in accordance with the contract terms. Costs that will continue to be incurred under a contract for its remaining term without economic benefit, net of estimated sublease income, are recognized at the facility cease-use date.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Income Taxes*

Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities, and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. In evaluating our ability to recover our deferred tax assets management considers all available positive and negative evidence including the past operating results, the existence of cumulative losses in past fiscal years, and the forecasted future taxable income in the jurisdictions in which we have operations.

We have established valuation allowances on U.S. deferred tax assets and certain non-U.S. deferred tax assets because realization of these tax benefits through future taxable income is not more likely than not as of October 31, 2017 and 2016. We intend to maintain the valuation allowances until sufficient positive evidence exists to support the reversal of the valuation allowances. We make estimates and judgments about our future taxable income that are based on assumptions that are consistent with our plans and estimates. Should the actual amounts differ from the estimates, the amount of the valuation allowance could be materially impacted. An increase in the valuation allowance would result in additional tax expense in such period.

We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits and deductions, and in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as the interest and penalties relating to these uncertain tax positions. Significant changes to these estimates may result in an increase or decrease to our tax provision in a subsequent period.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws. Our estimate for the potential outcome of any uncertain tax issue is based on detailed facts and circumstances of each issue. Resolution of these uncertainties in a manner inconsistent with our expectations could have a material impact on our results of operations and financial condition.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as this requires us to determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period.

*Cash and Cash Equivalents*

Cash and cash equivalents consist of cash, money market funds, and time deposits with maturities of three months or less when purchased.

*Allowance for doubtful accounts*

An allowance for doubtful accounts is established with respect to those amounts that we determine to be doubtful of collection using specific identification of doubtful accounts and an aging of receivables analysis based on invoice due dates. Actual collection losses may differ materially from management's estimates. Uncollectible receivables are written off against the allowance for doubtful accounts when all efforts to collect them have been exhausted. Accounts receivable payment terms are generally between net 30 to 60 days, unless special payment terms are arranged.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Inventories*

Inventories are stated at the lower of standard cost and net realizable value. We compute inventory cost using standard costs, primarily on a FIFO method. Standard costs approximate actual costs, including materials, manufacturing costs, in-bound freight costs, and inbound-related supply chain costs. We regularly monitor inventory quantities on hand and committed orders with contract manufacturers, and record write-downs for excess and obsolete inventories based primarily on the shipment history and our estimated forecast of product demand. Such write-downs establish a new cost basis of accounting for the related inventory.

Consigned inventories from our contract manufacturers where title has not been transferred to us are excluded from our inventories. In certain circumstances, we are obligated to prepay deposits to our contract manufacturers based on a percentage of the value of the inventories consigned to us, and after a certain period of time has elapsed, we may be required to prepay the full amount if we have not taken title to the inventory. Prepayments for consigned inventory are included in Prepaid expenses and other current assets in our Consolidated Balance Sheets.

Generally, we take title to consigned inventories when we ship to our customers, and record the full cost of the inventories as Cost of net revenues at that time. We must purchase the consigned inventories from our contract manufacturers after a certain agreed-upon period of time, ranging from 30 days to one year. Consigned inventories are included in our calculation of minimum order commitments from our contract manufacturers.

*Fair Value Measurements*

We measure and record certain of our financial assets and liabilities at fair value on a recurring basis. We also apply the provisions of fair value measurement to various non-recurring measurements for our financial and non-financial assets and liabilities.

We define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When estimating fair value, we consider the principal or most advantageous market in which we would transact, and we consider assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, credit risk, and risk of non-performance.

In measuring fair value, we follow a three-level hierarchy based on the inputs used:

- Level 1 — Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 — Other inputs that are directly or indirectly observable in the marketplace, such as similar instruments in an active market, or computations using, among other inputs, forward pricing curves, credit default spreads, or the Black-Scholes-Merton valuation model.
- Level 3 — Unobservable inputs that are supported by little or no market activity.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Equity Investments

We evaluate our equity investments to determine whether an investee is a variable interest entity. If we conclude that an investee is a variable interest entity, we evaluate our power to direct the activities of the investee, our obligation to absorb the expected losses of the investee and our right to receive the expected residual returns of the investee to determine whether we are the primary beneficiary of the investee. If we are the primary beneficiary of a variable interest entity, we consolidate such entity and reflect the noncontrolling interest of other beneficiaries of that entity. If we conclude that an investee is not a variable interest entity, we do not consolidate the investee and account for the investment under either the equity method or cost method.

We periodically reassess whether we are the primary beneficiary of a VIE. The reassessment process considers whether we have acquired the power to direct the most significant activities of the VIE through changes in governing documents or other circumstances. We also reconsider whether entities previously determined not to be VIEs have become VIEs, and vice versa, based on changes in facts and circumstances including changes in contractual arrangements and capital structure.

Equity investments are accounted for under the equity method if we are able to exert significant influence over the investee but do not have a controlling financial interest. If we do not have significant influence over the investee, we account for it under the cost method. The carrying value of equity investments are included in Other long-term assets in our Consolidated Balance Sheets.

Equity method investments are initially recorded at fair value and are adjusted for our proportionate share of the earnings and losses of the equity method investee. 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 and the amortization expense is included in Other income (expense), net in our Consolidated Statement of Operations.

We periodically review our cost and equity method investments for impairment and record a reduction in the carrying value, if and when necessary.

Derivative Financial Instruments

We use derivative financial instruments to manage certain exposures to foreign currency exchange rate and interest rate risks. Our primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in foreign currency exchange rates and interest rates.

We do not use derivative financial instruments for speculative or trading purposes, nor do we hold or issue leveraged derivative financial instruments. Our derivative financial instruments do not include a right of offset, and we do not offset derivative financial assets against derivative financial liabilities.

Our derivative financial instruments consist primarily of foreign exchange forward contracts, which we use to hedge certain existing and anticipated foreign currency denominated transactions, and interest rate swaps, which we use to hedge a portion of the variability in cash flows related to our interest payments. We recognize the estimated fair value of our outstanding derivative financial instruments on our Consolidated Balance Sheets at the end of each reporting period as either assets or liabilities. Foreign exchange forward contracts generally mature within 90 days of inception. The interest rate swaps will mature on June 30, 2019.

Gains and losses arising from derivative financial instruments that are designated as cash flow hedges are recorded in Accumulated other comprehensive loss, and are subsequently reclassified into earnings in the period or periods during which the underlying transactions affect earnings. When we enter into hedges we formally assess hedge effectiveness and monitor the effectiveness qualitatively on an ongoing basis. When an anticipated transaction is no longer likely to occur, the corresponding derivative instrument is ineffective as a hedge, and changes in fair value of the instrument are recognized in Other income (expense), net.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Derivative financial instruments that are not designated as hedging instruments predominantly consist of foreign exchange forward contracts used to hedge foreign currency-denominated inter-company receivables and payables exposures arising from product sales and loans from one of our entities to another. Gains and losses arising from changes in the fair values of derivative financial instruments that are not designated as hedging instruments are recognized in Other income (expense), net.

Long-Lived Assets

Fixed assets are stated at cost, net of accumulated depreciation and amortization. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the assets, generally ranging from three to ten years, except buildings which are depreciated from 40 to 50 years. Leasehold improvements are depreciated over the lesser of the lease term or the estimated useful life of the asset.

Revenue generating assets are comprised of tangible assets that we have placed at third party locations for the purpose of generating revenues under rental or service based arrangements. Revenue generating assets are stated at cost, net of accumulated depreciation, and are generally depreciated on a straight-line basis over the estimated useful lives of the assets, generally five years. Payments to acquire revenue generating assets are included in Capital expenditures within cash flows from investing activities on our Consolidated Statements of Cash Flows.

Equipment under capital leases is recorded at the lesser of the present value of the minimum lease payments at the beginning of the lease term or the fair value of such equipment. Leased equipment is amortized on a straight-line basis over the shorter of the lease term or the estimated useful life of such equipment.

Purchased intangible assets that have finite useful lives are amortized on a straight-line basis over their estimated period of benefit, generally ranging from one to 20 years.

If the estimated period of benefit for any of our long-lived assets is determined to have changed, we amortize the remaining net book values over the revised period of benefit.

We periodically evaluate whether changes have occurred that would render our long-lived assets not recoverable. If such circumstances arise, we use an estimate of the undiscounted value of expected future operating cash flows to determine whether the long-lived assets are impaired. If the aggregate undiscounted cash flows are less than the carrying amount of the assets, the resulting impairment charge to be recorded is calculated based on the excess of the carrying amount of the assets over the fair value of such assets, with the fair value generally determined based on an estimate of discounted future cash flows. For assets held for sale, to the extent the carrying value is greater than the asset's fair value less costs to sell, an impairment loss is recognized for the difference.

Goodwill

Goodwill is measured as the excess of consideration transferred and the net of the acquisition date fair value of assets acquired and liabilities assumed in a business acquisition. Goodwill is not amortized for accounting purposes.

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 a quantitative impairment test. If, we conclude otherwise, then no further action is taken. In a quantitative impairment test, 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, and record an impairment charge for any excess.



VERIFONE SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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.

The carrying amount of each reporting unit is determined based upon the assignment of our assets and liabilities, including existing goodwill and other intangible assets, to the identified reporting units. Where an acquisition benefits only one reporting unit, we allocate, as of the acquisition date, all goodwill for that acquisition to the reporting unit that will benefit. Where we have had an acquisition that benefited more than one reporting unit, we have assigned the goodwill to our reporting units as of the acquisition date such that the goodwill assigned to a reporting unit is the excess of the fair value of the acquired business, or portion thereof, to be included in that reporting unit over the fair value of the individual assets acquired and liabilities assumed that are assigned to the reporting unit.

The estimated fair value of the reporting units is determined using the income approach. The income approach focuses on the income-producing capability of an asset, measuring the current value of the asset by calculating the present value of its future economic benefits such as cash earnings, cost savings, tax deductions, and proceeds from disposition. Value indications are developed by discounting expected cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation, and risks associated with the particular investment. Cash flow projections are based on management's estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used is based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to the business's ability to execute on the projected cash flows.

In order to assess the reasonableness of the calculated fair values of its reporting units, we compare the sum of the reporting units' fair values to our market capitalization and calculate an implied control premium (the excess of the sum of the reporting units' fair values over the market capitalization). We evaluate the reasonableness of the premium over market capitalization by first quantifying certain controlling market participants' synergies included in the income approach. We then supplement this step by comparing the implied premiums for each reporting unit to the premiums implied by recent comparable transactions. If the implied control premium is not reasonable in light of these recent transactions, we will reevaluate our fair value estimates of the reporting units by adjusting the discount rates or other assumptions.

In the event that we realign our reporting units, we allocate our goodwill to the new reporting units using the relative fair value approach. We perform an assessment of any potential goodwill impairment immediately prior to and after the reallocation of goodwill to the new reporting units.

Debt Issuance Costs and Original Issue Discounts

Costs incurred in connection with the issuance of new debt are generally capitalized and amounts paid in connection with the modification of existing debt are generally expensed as incurred. Capitalizable debt issuance costs paid to third parties and original issue discounts paid to creditors, net of amortization, are offset against the associated Short-term and Long-term debt on our Consolidated Balance Sheets.

Amortization expense on capitalized debt issuance costs and original issue discounts related to loans with fixed payment terms is calculated using the effective interest method over the term of the associated loans. Amortization expense on capitalized debt issuance costs and original issue discounts related to revolving loans are calculated using the straight-line method over the term of the revolving loan commitment. Amortization expense is recorded in Interest expense, net in our Consolidated Statements of Operations. When debt is extinguished prior to the maturity date, any remaining associated debt issuance costs or original issue discounts are expensed to Interest expense, net in our Consolidated Statements of Operations.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Business Combinations***

In a business combination, we recognize separately from goodwill the assets acquired and the liabilities assumed. While we use our best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to adjustment. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill in the period in which the adjustment amounts are determined.

For a given acquisition, we generally identify certain pre-acquisition contingencies as of the acquisition date, and may extend our review and evaluation of these pre-acquisition contingencies throughout the measurement period in order to obtain sufficient information to assess whether we include these contingencies as a part of the purchase price allocation and, if so, to determine the estimated amounts.

If we determine that a pre-acquisition non-income tax related contingency is probable in nature and estimable as of the acquisition date, we record our best estimate for such contingency as a part of the preliminary purchase price allocation. We often continue to gather related information and evaluate our pre-acquisition contingencies throughout the measurement period and if we make changes to the amounts recorded or if we identify additional pre-acquisition contingencies during the measurement period, such amounts are recorded in the period in which they are identified. Subsequent to our final determination of the contingency's estimated value within the measurement period, changes to these contingencies could have a material impact on our results of operations and financial position.

In addition, uncertain tax positions and tax-related valuation allowances assumed in connection with a business combination are initially estimated as of the acquisition date. We reevaluate these items quarterly with any adjustments to our preliminary estimates being recorded to goodwill provided that we are within the measurement period, and we continue to collect information in order to determine their estimated values. Subsequent to the measurement period or our final determination of the tax allowance's estimated value, changes to these uncertain tax positions and tax-related valuation allowances will affect our Income tax provision (benefit) in our Consolidated Statements of Operations and could have a material impact on our results of operations and financial position.

Acquisition-related costs are expensed as incurred.

***Redeemable Noncontrolling Interest in Subsidiary***

The redeemable noncontrolling interest in subsidiary is recognized at the greater of the initial carrying amount increased or decreased for the noncontrolling interest's share of net income or loss, or its redemption value.

***Concentrations of Credit Risk***

Cash is placed on deposit in major financial institutions around the world. Some of these deposits may be in excess of insured limits. We believe that the financial institutions that hold our cash are financially sound and, accordingly, minimal credit risk exists with respect to these balances.

We invest cash not required for use in operations in high credit quality securities based on our investment policy. The investment policy has limits based on credit quality, investment concentration, investment type, and maturity that we believe reduce the risk of loss. Investments are of a short-term nature and include investments in money market funds and time deposits.

Our derivative financial instruments expose us to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement when we have an unrealized gain on the instrument. We believe the counterparties for our outstanding contracts are large, financially sound institutions, and thus we do not anticipate nonperformance by these counterparties. However, given the high debt levels of many countries and institutions worldwide, the failure of the counterparties is possible. We have not experienced any investment losses due to institutional failure or bankruptcy.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Our accounts receivable are derived from sales to a large number of direct customers, resellers, and distributors globally. We perform ongoing evaluations of our customers' financial condition and limit the amount of credit extended when deemed necessary, but generally require no collateral. As of October 31, 2017 and 2016 no single customer accounted for more than 10% of our total Accounts receivable, net. For fiscal years 2017, 2016, and 2015 no single customer accounted for more than 10% of our total Net revenues.

We utilize a limited number of third parties to manufacture our products, and rely upon these contract manufacturers to produce and deliver products on a timely basis and at an acceptable cost. Furthermore, a majority of our manufacturing activities are concentrated in China and Brazil. As a result, disruptions to the business or operations of the contract manufacturers or to their ability to produce the required products in a timely manner, and particularly disruptions to the manufacturing facilities located in China and Brazil, could significantly impact our business and operations. In addition, a number of components that are necessary to manufacture and assemble our systems are specifically customized for use in our products and are obtained from sole source suppliers on a purchase order basis. Because of the customized nature of these components and the limited number of available suppliers, if we were to experience a supply disruption, it would be difficult and costly to find alternative sources in a timely manner.

***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. Because the presentation and classification under this new standard is consistent with our historical presentation and classification, we elected to early adopt ASU 2016-15 retrospectively, effective November 1, 2016. Adoption had no impact on our consolidated statements of cash flows in any period 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, and interim periods within those fiscal years. Early adoption is permitted. We have elected to early adopt ASU 2016-18 retrospectively, effective November 1, 2016. Accordingly, restricted cash is 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 any 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. Because this new standard simplifies the goodwill impairment test, we elected to early adopt ASU 2017-04 prospectively, effective February 1, 2017, when we performed an interim impairment test on our former Taxi Solutions reporting unit. The adoption of this standard did not have any 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 annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued. The amendments in this standard should be applied prospectively to awards modified on or after the adoption date. Because this new standard simplifies the assessment of any share-based payment award modifications, we have elected to early adopt ASU 2017-09 prospectively, effective August 1, 2017. The impact of the adoption of this standard will depend upon the nature of future modifications to share-based payment awards.

VERIFONE SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 application is permitted in any interim period after issuance, provided that the effect of adoption should be reflected as of the beginning of the fiscal year of adoption. Because this new standard simplifies our hedge accounting, we have elected to early adopt ASU 2017-12 using a modified retrospective approach effective as of November 1, 2016. Adoption of this standard did not have any impact on our consolidated financial position and results of operations.

***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, 2016-12, 2017-05, and 2017-13 which outlines a comprehensive revenue recognition model and supersedes most current revenue recognition guidance. The new guidance requires a company to recognize revenue as control of goods or services transfers to a customer at an amount that reflects the expected consideration to be received in exchange for those goods or services. It defines a five step approach for recognizing revenue, which may require a company to use more judgment and make more estimates than under the current guidance. 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. Two methods of adoption are permitted: (a) full retrospective adoption, meaning this standard is applied to all periods presented or (b) modified retrospective adoption, meaning the cumulative effect of applying the new guidance as of the date of adoption is recognized as an adjustment to the opening retained earnings balance. We expect to adopt ASU 2014-09 effective in the first interim period of our fiscal year ending October 31, 2019 and currently expect to select the modified retrospective adoption method.

As this new revenue standard will supersede substantially all existing revenue guidance under US GAAP, once adopted it could impact revenue and cost recognition on sales across all our businesses, in addition to our business processes, compensation, information technology systems and other financial reporting and operational elements. We expect that this standard may impact, in some cases, the timing and amount of revenue recognized, such as term based software licenses, which are not material, but that are currently recognized over the license term and will be recognized at the time the license is delivered to the customer under the new guidance. Additionally, the direct costs to obtain and fulfill customer contracts, in some cases, may be deferred and amortized under the new standard. We are continuing to assess the potentially impacted revenue streams and costs, quantifying the materiality of these impacts and considering additional disclosure requirements.

During February 2016, the FASB issued ASU 2016-02, *Leases*, which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. In connection with this new guidance, the FASB created Topic 842, *Leases*, which supersedes Topic 840, *Leases*. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. We are continuing to evaluate our adoption timing and the impact of this new pronouncement on our consolidated financial position and results of operations. We expect that this new standard will have a material impact on our balance sheets and are in the process of evaluating whether adoption may impact the timing of revenue recognition on certain leases of equipment to customers.

**VERIFONE SYSTEMS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

During March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation*, to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The standard is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any interim or annual period, however, any adjustments should be reflected as of the beginning of the fiscal year of adoption and all of the guidance must be adopted in the same period. The new standard must be adopted either prospectively, retrospectively, or using a modified retrospective transition method, depending on the area covered in this ASU. We intend to adopt this standard, as required, effective November 1, 2017 and do not expect adoption to have a material impact on our consolidated financial position, and results of operations.

During June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*, which introduces new guidance for the accounting for credit losses on financial instruments and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. The new standard must generally be adopted using a modified retrospective transition method, through a cumulative-effect adjustment to retained earnings as of the beginning of the first effective reporting period. We are currently in the process of evaluating the impact of this new pronouncement on our consolidated financial position and results of operations and our adoption timing.

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 annual periods beginning after December 15, 2017, including interim periods within those annual periods. This update should be applied prospectively on or after the effective date. Early application is permitted in certain circumstances. We are currently assessing when to adopt this new standard. The impact of adopting this standard will depend upon the nature of our future acquisitions, if any.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**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. We have determined that Verifone Systems (China), Inc. is a variable interest entity and that we are not the primary beneficiary. Additionally, we do not have significant influence over the entity, so we account for this investment as a cost method investment. The initial fair value of our 30% equity interest was determined using the income approach and 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, *Equity Investments*, and Note 12, *Restructuring and Related Charges*, for additional information.

***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 was initially valued at \$19.2 million. We have determined that Gas Media is not a variable interest entity and we account for this investment as an equity method investment as we have significant influence over the entity. 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%. See Note 9, *Equity Investments*, for additional information.

In connection with this exchange transaction, we recorded a \$10.1 million gain that is included in Other income (expense), net in the 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.

***Fiscal Year 2016 Acquisitions***

During fiscal year 2016, we completed three business combinations with net assets as described in the table below for an aggregate consideration totaling \$193.1 million, including \$186.8 million of cash paid on acquisition date, contingent consideration with a fair value of \$5.0 million at the acquisition date and \$1.3 million in future consideration based on the exchange rate at the acquisition date. No Verifone equity was issued, and in each transaction all the outstanding equity of the applicable business was acquired, except for Panaroma Bilisim Teknolojileri Sanayi Ve Ticaret Anonim Sirketi (Panaroma), in which we acquired 51% of the voting equity interest. See Note 9, *Equity Investments*, for additional information about our investment in Panaroma. We acquired these

VERIFONE SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

businesses to expand our operations in Germany, North America, and Turkey. Each acquisition was accounted for using the acquisition method of accounting.

The following table summarizes the fair values of the assets acquired and liabilities assumed (in thousands) at the acquisition date of each transaction:

	InterCard	AJB	Panaroma	Total
Acquisition date	December 23, 2015	February 2, 2016	May 20, 2016	
Tangible assets acquired (liabilities assumed), net <sup>(1)</sup>	\$ 3,874	\$ 16,811	\$ (2,479)	\$ 18,206
Purchased intangible assets <sup>(2)</sup>	52,681	41,100	14,220	108,001
Redeemable noncontrolling interest <sup>(3)</sup>	—	—	(7,430)	(7,430)
Goodwill <sup>(4)</sup>	37,292	30,989	6,090	74,371
Total purchase price	<u>\$ 93,847</u>	<u>\$ 88,900</u>	<u>\$ 10,401</u>	<u>\$ 193,148</u>

- (1) The net assets acquired include trade receivables valued at \$23.5 million. The gross contractual value of the trade receivables as of the acquisition date was \$31.5 million, of which \$8.0 million was not expected to be collected.
- (2) Purchased intangible assets include customer relationships valued at \$76.9 million, which are amortized over their estimated useful lives of one to thirteen years, acquired technology valued at \$21.0 million, which are amortized over their estimated useful lives of four to six years, and other intangibles valued at \$10.1 million, which are amortized over their estimated useful lives of one to seven years.
- (3) The minority shareholder holding the remaining 49% of Panaroma has a put option that is exercisable for three years after January 1, 2020 and if exercised requires us to purchase the remaining 49% equity of Panaroma at a multiple of earnings before taxes, depreciation and amortization for the year ended December 31, 2019. Since the noncontrolling interest is redeemable at the option of the minority shareholder and is outside our control, it is reported in the mezzanine section in the Consolidated Balance Sheets and recognized at the greater of the initial carrying amount increased or decreased for the noncontrolling interest's share of net income or loss, or its redemption value.
- (4) Goodwill represents the expected benefits of combining the acquisitions' operations with our operations. Goodwill from the InterCard and AJB acquisitions was assigned to our Verifone Services reportable segment. The goodwill of the Panaroma acquisition was assigned to our Verifone Systems reportable segment. The goodwill associated with the AJB acquisition that is deductible for income tax purposes is \$19.3 million and goodwill recognized on the other fiscal year 2016 acquisitions is not deductible for income tax purposes.

**Fiscal Year 2015 Acquisitions**

In fiscal year 2015, we completed five business combinations for consideration totaling \$29.6 million, including \$22.1 million of cash paid on acquisition date, \$5.7 million in future consideration and contingent consideration with a fair value of \$1.8 million at the acquisition dates. Each acquisition was accounted for using the acquisition method of accounting. These acquisitions were completed to augment our existing service offerings. Purchased intangible assets totaled \$9.0 million related to developed and core technology, \$2.8 million related to customer relationships, and \$0.5 million related to other intangible assets. Goodwill from these acquisitions totaled \$16.6 million, of which \$5.1 million was deductible for income tax purposes. The goodwill was substantially assigned to our North America reportable segment in fiscal year 2015. In fiscal year 2016, in conjunction with the realignment of the company's organizational structure, we reallocated our goodwill to our two new operating segments: Verifone Systems and Verifone Services that are also our reporting units.

See Note 10, *Goodwill and Purchased Intangible Assets* for additional information.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**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.

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

	Years Ended October 31,		
	2017	2016	2015
Basic and diluted net income (loss) per share attributable to VeriFone Systems, Inc. stockholders:			
Numerator:			
Net income (loss) attributable to VeriFone Systems, Inc. stockholders	\$ (173,829)	(9,281)	\$ 79,097
Denominator:			
Weighted average shares attributable to VeriFone Systems, Inc. stockholders - basic	111,817	110,829	114,044
Weighted average effect of dilutive stock options, RSUs and RSAs	—	—	1,890
Weighted average shares attributable to VeriFone Systems, Inc. stockholders - diluted	111,817	110,829	115,934
Net income (loss) per share attributable to VeriFone Systems, Inc. stockholders:			
Basic	\$ (1.55)	\$ (0.08)	\$ 0.69
Diluted	\$ (1.55)	\$ (0.08)	\$ 0.68

For the fiscal years ended October 31, 2017 and 2016, equity incentive awards representing 6.4 million and 6.2 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 the fiscal year ended October 31, 2015, equity incentive awards representing 1.5 million shares of common stock were excluded from the calculation of weighted average shares for diluted net income per share as they were anti-dilutive. 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.

**Note 4. Employee Benefit Plans**

***Retirement and Post-employment Plans***

We maintain defined contribution retirement plans in certain countries, including a 401(k) plan for our U.S. employees. During fiscal years 2017, 2016, and 2015, we contributed \$13.9 million, \$16.4 million, and \$13.9 million, respectively, to these plans.

We have defined benefit pension plans, as required by local laws, for our employees in certain countries, primarily Germany and Taiwan, and non-retirement post-employment benefit plans for our employees in certain countries, primarily Germany and Israel. These plans are not considered material to our financial position or results of operations.



**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Equity Incentive Plans***

We have granted stock awards, including stock options and restricted stock units (RSUs) pursuant to stockholder-approved equity incentive plans. Our stock awards include vesting provisions that are based on either time, performance or market conditions. Shares issued to employees upon the exercise or vesting of equity incentive awards are issued from authorized but unissued common stock.

***2006 Equity Incentive Plan***

In March 2006, our stockholders approved the 2006 Equity Incentive Plan for our officers, directors, employees, and consultants. Under this equity incentive plan, we have granted stock options, RSUs, and RSAs. Stock option awards are granted with an exercise price equal to the market price of our common stock at the date of grant, and have a maximum term of seven years. Awards under this plan are generally time-based awards with vesting over a period of 1 to 4 years from the date of grant, or performance-based awards with vesting based on achievement of specified criteria over a period of 1 to 3 years from the date of grant. The vesting conditions of all awards were set by the compensation committee of the Board of Directors at the time of the grant.

As of October 31, 2017, 13.0 million shares remained available for future grants under this plan. For purposes of the number of shares issuable under this plan, any awards granted as stock options are counted as one share for every award granted; RSUs granted on or after June 29, 2011 are counted as 2.0 shares for every RSU granted; and RSUs granted prior to June 29, 2011 are counted as 1.75 shares for every RSU granted.

***Other Equity Incentive Plans***

Stock options remain outstanding under several other equity incentive plans, including plans assumed in connection with our acquisitions of Hypercom and Lipman. We no longer grant stock options under any of these plans.

***Equity Incentive Plan Activity***

The following table provides a summary of stock option activity for the fiscal year ended October 31, 2017:

	Number of Shares (in thousands)	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at beginning of period	2,859	\$ 30.16		
Exercised	(72)	\$ 15.98		
Canceled	(1)	\$ 20.57		
Expired	(735)	\$ 28.05		
Outstanding at end of period	<u>2,051</u>	\$ 31.41	1.77	\$ 527
Vested or expected to vest at October 31, 2017	<u>2,050</u>	\$ 31.42	1.77	\$ 527
Exercisable at October 31, 2017	<u>2,025</u>	\$ 31.49	1.76	\$ 527

The weighted-average grant-date fair value per share for stock options granted during the fiscal year ended October 31, 2015 was \$13.44. The total intrinsic value of options exercised during the fiscal years ended October 31, 2017, 2016, and 2015 was \$0.1 million, \$5.8 million, and \$14.5 million, respectively. We did not grant stock options in the fiscal years ended October 31, 2017 and October 31, 2016.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following table provides a summary of RSU activity for the fiscal year ended October 31, 2017 (in thousands):

	Number of Shares	Aggregate Intrinsic Value
Outstanding at beginning of period	3,378	
Granted	2,983	
Vested	(1,127)	
Canceled	(866)	
Outstanding at end of period	4,368	\$ 83,340
Vested or expected to vest at October 31, 2017	3,763	\$ 71,794
Vested and deferred at October 31, 2017	91	\$ 1,729

During the fiscal year ended October 31, 2017 we granted 2.5 million RSUs with time-based vesting conditions and 0.5 million RSUs with performance-based vesting conditions contingent upon meeting certain financial and operational targets.

The weighted-average grant-date fair value per share for RSUs granted during the years ended October 31, 2017, 2016, and 2015 was \$18.13, \$24.06, and \$36.14, respectively.

The total fair value of RSUs that vested during the fiscal years ended October 31, 2017, 2016, and 2015 was \$20.8 million, \$23.3 million, and \$39.6 million, respectively.

Equity Incentive Award Valuation

The grant date fair value of RSUs that have time or performance based vesting conditions contingent upon meeting financial and operational targets are equal to the closing market price of our common stock on the grant date.

We estimate the grant date fair value of RSUs that have market based vesting conditions using the Monte Carlo simulation method, using the following weighted-average assumptions:

	Years Ended October 31,		
	2017	2016	2015
Expected term (in years)	3.0	3.0	3.0
Risk-free interest rate	1.5%	1.3%	1.1%
Expected dividend rate	0.0%	0.0%	0.0%
Expected stock price volatility	36.9%	46.8%	52.7%

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Stock-Based Compensation Expense*

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

	Years Ended October 31,		
	2017	2016	2015
Cost of net revenues	\$ 4,627	\$ 3,324	\$ 2,548
Research and development	6,482	7,207	6,669
Sales and marketing	11,538	13,503	16,219
General and administrative	17,256	18,244	16,817
<b>Total stock-based compensation expense</b>	<b>\$ 39,903</b>	<b>\$ 42,278</b>	<b>\$ 42,253</b>

Our computation of stock-based compensation expense includes an estimate of award forfeitures based on historical experience. We record compensation expense only for those awards that are expected to vest.

As of October 31, 2017, total unrecognized stock-based compensation expense related to unvested RSUs was \$60.2 million and is expected to be recognized over the remaining weighted-average vesting period of 2.5 years. As of October 31, 2017, total unrecognized stock-based compensation expense related to unvested options was nominal and is expected to be recognized in the next eight months.

**Note 5. Stock Repurchase Program**

In September 2015, our Board of Directors authorized a program to repurchase shares of our common stock with an aggregate value of up to \$200.0 million, with no expiration from the date of authorization. As of October 31, 2017, there was \$50.0 million remaining available for stock repurchases under this program. Shares may be repurchased from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise. Certain of our share repurchases have been and may from time to time be effected through Exchange Act Rule 10b5-1 repurchase plans. 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.

During the fiscal years ended October 31, 2016 and 2015, we repurchased approximately 2.6 million and 2.7 million shares of our common stock, respectively, on the open market at an average repurchase price of \$28.02 and \$28.66 per share, respectively, pursuant to this program. No shares were repurchased during the fiscal year ended October 31, 2017.

In December 2017, our Board of Directors authorized to expand the stock repurchase program to allow repurchase of additional shares of our common stock with an aggregate value of up to \$100.0 million, with no expiration from the date of authorization. As of December 18, 2017, there was \$150.0 million remaining available for stock repurchases under this program.

**Note 6. Income Taxes**

Income (loss) before income taxes consisted of the following (in thousands):

	Years Ended October 31,		
	2017	2016	2015
United States	\$ (173,550)	\$ (2,894)	\$ 69,458
Foreign	30,731	4,721	3,490
<b>Income (loss) before income taxes</b>	<b>(142,819)</b>	<b>1,827</b>	<b>72,948</b>

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The provision for (benefit from) income taxes consisted of the following (in thousands):

	Years Ended October 31,		
	2017	2016	2015
<b>Current:</b>			
Federal	\$ 915	\$ (917)	\$ 1,965
State	(130)	961	206
Foreign	35,490	26,093	21,664
Total current provision for income taxes	36,275	26,137	23,835
<b>Deferred:</b>			
Federal	(1,100)	3,377	(306)
State	(70)	336	(44)
Foreign	(2,605)	(18,323)	(30,894)
Total deferred benefit from income taxes	(3,775)	(14,610)	(31,244)
<b>Income tax provision (benefit)</b>	<b>\$ 32,500</b>	<b>\$ 11,527</b>	<b>\$ (7,409)</b>

A reconciliation of taxes computed at the federal statutory income tax rate to the provision for (benefit from) income taxes is as follows (in thousands):

	Years Ended October 31,		
	2017	2016	2015
Provision for (benefit from) income taxes computed at the federal statutory rate	\$ (49,986)	\$ 638	\$ 25,532
State income tax, net of federal tax benefit	(154)	961	469
Foreign income taxes at other than U.S. rates	17,508	17,155	(2,544)
Valuation allowance, net	58,988	(1,919)	(31,065)
Impact of tax rate changes	(474)	(1,523)	485
Unrealized inter-company profits	114	(130)	409
Foreign exchange	3,156	1,067	(2,692)
Stock compensation	288	918	1,516
Research Credit	(2,002)	(2,926)	(1,662)
Other	5,062	(2,714)	2,143
<b>Income tax provision (benefit)</b>	<b>\$ 32,500</b>	<b>\$ 11,527</b>	<b>\$ (7,409)</b>

## VERIFONE SYSTEMS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of our deferred tax assets and liabilities were as follows (in thousands):

	October 31,	
	2017	2016
Deferred tax assets:		
Loss carry forwards	\$ 154,890	\$ 111,955
Basis differences in deductible goodwill and purchased intangibles	54,722	49,807
Foreign tax credit carry forwards	19,048	14,544
Foreign taxes on basis differences	58,924	54,170
Accrued expenses and reserves	20,515	29,609
Deferred revenue	40,073	55,657
Stock based compensation	20,927	19,965
Unrealized foreign currency losses	15,344	17,144
R&D credit carry forwards	13,108	10,712
Interest carry forward	12,423	11,221
Inventories	10,692	7,637
Other deferred tax assets	9,452	6,895
Total deferred tax assets	430,118	389,316
Valuation allowance	(372,616)	(326,935)
Deferred tax liabilities:		
Basis differences on purchased intangibles	(39,031)	(52,827)
Basis differences in investments in foreign subsidiaries	(70,393)	(57,657)
Other deferred tax liabilities	(12,513)	(14,278)
Total deferred tax liabilities	(121,937)	(124,762)
Net deferred tax liabilities	\$ (64,435)	\$ (62,381)

Other deferred tax assets and liabilities are comprised primarily of the tax effects of depreciation and amortized debt issuance costs.

The realization of deferred tax assets is dependent primarily on generating sufficient U.S. and foreign taxable income in future fiscal years. We regularly assess the need for a valuation allowance against deferred tax assets. In making that assessment, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets to determine, based on the weight of available evidence, whether it is more-likely-than-not that some or all of the deferred tax assets will not be realized. In evaluating the need for a valuation allowance, we consider the cumulative loss in the U.S. as a significant piece of negative evidence. Therefore, in fiscal 2013, we established a \$245.0 million valuation allowance against a significant portion of our deferred tax assets, including U.S. federal and state deferred tax assets, as well as certain other foreign deferred tax assets. We will continue to assess the realizability of the deferred tax assets in each of the applicable jurisdictions going forward and adjust the valuation allowance accordingly. We intend to maintain the valuation allowances until sufficient positive evidence exists to support the reversal of the valuation allowance.

**VERIFONE SYSTEMS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The tax loss carry forwards as of October 31, 2017 were related primarily to tax losses of \$466.2 million in the U.S., \$113.1 million in Ireland, \$31.1 million in Brazil, \$25.3 million in France, \$16.3 million in Spain, \$12.5 million in the United Kingdom, and \$48.7 million in various other non-U.S. countries. Approximately \$232.8 million of foreign tax losses may be carried forward indefinitely. The remaining approximately \$480.3 million of tax losses is subject to limited carry forward terms of 3 to 20 years, and will expire at various dates beginning in 2018, if not utilized.

The excess tax benefits associated with stock option exercises are recorded directly to stockholders' equity only when realized. The excess tax benefits that have not yet been realized at October 31, 2017, but which are included in net operating loss carryforwards on a tax return basis at October 31, 2017, total \$133.1 million.

The U.S. net operating loss carryforward includes acquired net operating losses of \$125.8 million. Utilization of some of our acquired NOL and tax credit carryforwards in the United States may be subject to annual limitation due to the ownership change limitations provided by Sections 382 and 383 of the Internal Revenue Code and similar state provisions. Such an annual limitation may result in the expiration of certain NOLs and tax credits before future utilization.

As of October 31, 2017, we have recorded U.S. foreign tax credit carry forwards of \$77.0 million which will expire at various dates beginning in 2020, if not utilized. In addition we have recorded U.S. research and development tax credit carry forwards of \$21.4 million which will expire at various dates beginning in 2019, if not utilized.

We recognize deferred tax liabilities associated with outside basis differences on investments in foreign subsidiaries unless the difference is considered essentially permanent in duration. As of October 31, 2017, we have recorded a deferred tax liability of \$64.7 million associated with \$169.4 million of taxable outside basis differences which are not considered permanently reinvested. We have not recorded deferred taxes on approximately \$872.9 million of undistributed earnings as they are considered permanently reinvested. As of October 31, 2017, the determination of the unrecorded deferred tax liability related to these earnings is not practicable. If circumstances change and it becomes apparent that some or all of the undistributed earnings will not be invested indefinitely, or will be remitted in the foreseeable future, an additional deferred tax liability will be recorded for some or all of the outside basis difference.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO 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 \$386.1 million at the foreign exchange rate as of October 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 \$624.1 million at the foreign exchange rate as of October 31, 2017) or alternatively 2.23 billion New Israeli Shekels in fiscal year 2008 (approximately \$631.4 million at the foreign exchange rate as of October 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 1.34 billion New Israeli Shekels (approximately \$378.2 million at the foreign exchange rate as of October 31, 2017), if the claim was assessed for fiscal year 2009, to 1.58 billion New Israeli Shekels (approximately \$446.4 million at the foreign exchange rate as of October 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 October 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.

The Israeli Tax Authorities issued a tax assessment in October 2017 for fiscal years 2011 and 2012 that includes secondary adjustments relating to a deemed dividend and/or interest with respect to the contention concerning business restructuring in 2008 or 2009. The Israeli Tax Authorities' contention regarding secondary adjustments relating to deemed dividend was not quantified by them. We intend to file our objection to the assessment.

*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.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The aggregate changes in the balance of gross unrecognized tax benefits were as follows (in thousands):

	Years Ended October 31,		
	2017	2016	2015
Balance at beginning of period	\$ 106,103	\$ 110,564	\$ 111,002
Lapse of statute of limitations	(6,179)	(1,185)	(501)
Increases in balances related to tax positions taken during prior periods	1,946	488	2,988
Decreases in balances related to tax positions taken during prior periods	(1,392)	(3,834)	(3,615)
Increases in balances related to tax positions taken during current period	7,490	5,100	1,246
Settlements	—	(5,030)	(556)
Balance at end of period	<u>\$ 107,968</u>	<u>\$ 106,103</u>	<u>\$ 110,564</u>

The total gross unrecognized tax benefits, if recognized, will affect our effective tax rate. 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 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 statutes of limitations. Interest and penalties recognized in each statement of operations were not material. As of October 31, 2017 we have accrued \$6.3 million for the payment of interest and penalties related to unrecognized tax benefits.

**Note 7. Balance Sheet Components**

***Cash, Cash Equivalents and Restricted Cash***

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

	October 31,		
	2017	2016	2015
Cash and cash equivalents	\$ 131,029	\$ 148,352	\$ 208,870
Restricted cash included in Prepaid expenses and other current assets	11,413	9,008	4,844
Restricted cash included in Other long-term assets	1,287	1,821	2,155
Total cash, cash equivalents and restricted cash	<u>\$ 143,729</u>	<u>\$ 159,181</u>	<u>\$ 215,869</u>

Restricted cash as of October 31, 2017 and 2016 was mainly comprised of cash held on behalf of customers as part of our transaction processing services.



**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Allowances for doubtful accounts**

Activity related to the allowances for doubtful accounts consisted of the following (in thousands):

	Years Ended October 31,		
	2017	2016	2015
Balance at beginning of period	\$ 9,240	\$ 7,904	\$ 8,510
Charges to bad debt expense	1,037	4,251	2,329
Write-offs, recoveries, and adjustments	(2,377)	(2,915)	(2,935)
Balance at end of period	<u>\$ 7,900</u>	<u>\$ 9,240</u>	<u>\$ 7,904</u>

**Inventories**

Inventories consisted of the following (in thousands):

	October 31,	
	2017	2016
Raw materials	\$ 32,118	\$ 35,453
Work-in-process	978	3,884
Finished goods	93,467	135,894
Total inventories	<u>\$ 126,563</u>	<u>\$ 175,231</u>

**Prepaid Expenses and Other Current Assets**

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

	October 31,	
	2017	2016
Assets held for sale	\$ 46,368	\$ 5,131
Prepaid expenses	41,824	46,240
Other current assets	50,204	59,026
Total prepaid expenses and other current assets	<u>\$ 138,396</u>	<u>\$ 110,397</u>

Assets held for sale relate to our Taxi Solutions business. See Note 12, *Restructuring and Related Charges*, for additional information. Other current assets were comprised primarily of prepaid taxes and restricted cash.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

***Property and Equipment, Net***

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

	<u>Estimated Useful Life (Years)</u>	<u>October 31,</u>	
		<u>2017</u>	<u>2016</u>
Revenue generating assets	5	\$ 138,770	\$ 209,725
Computer hardware and software	3-5	97,413	112,984
Machinery and equipment	3-10	47,728	57,020
Leasehold improvements	Lesser of the term of the lease or the estimated useful life	31,445	31,328
Office equipment, furniture, and fixtures	3-5	20,947	18,573
Buildings	40-50	6,028	6,011
Total depreciable property and equipment, at cost		<u>342,331</u>	<u>435,641</u>
Accumulated depreciation		(221,574)	(243,127)
Depreciable property and equipment, net		120,757	192,514
Construction in progress		5,941	8,600
Land		1,174	1,163
Total property and equipment, net		<u>\$ 127,872</u>	<u>\$ 202,277</u>

During the fiscal year 2017, we divested or reclassified as held for sale revenue generating assets and other fixed assets with a net carrying value of \$74.9 million.

Total depreciation expense for the fiscal years ended October 31, 2017, 2016, and 2015 was \$66.1 million, \$62.5 million, and \$58.7 million, respectively.

***Other long-term assets***

Other long-term assets consisted of the following (in thousands):

	<u>October 31,</u>	
	<u>2017</u>	<u>2016</u>
Capitalized software development costs	\$ 50,691	\$ 55,097
Equity investments	19,589	552
Other	31,526	25,674
Total other long-term assets	<u>\$ 101,806</u>	<u>\$ 81,323</u>

See Note 9, *Equity Investments*, for additional information on our equity investments.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Accruals and Other Current Liabilities**

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

	October 31,	
	2017	2016
Accrued expenses	\$ 57,114	\$ 76,187
Accrued compensation	65,663	52,555
Other current liabilities	104,518	84,669
Total accruals and other current liabilities	<u>\$ 227,295</u>	<u>\$ 213,411</u>

Other current liabilities were comprised primarily of trade payables and accruals that are held for sale in connection with the disposal of our Taxi Solutions business, 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):

	Years Ended October 31,	
	2017	2016
Balance at beginning of period	\$ 16,656	\$ 16,320
Warranty charged to Cost of net revenues	10,466	13,111
Utilization of warranty accrual	(14,104)	(12,957)
Other	469	182
Balance at end of period	13,487	16,656
Less: current portion	(11,669)	(13,640)
Long-term portion	<u>\$ 1,818</u>	<u>\$ 3,016</u>

**Deferred Revenue, Net**

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

	October 31,	
	2017	2016
Deferred revenue	\$ 181,271	\$ 185,788
Deferred cost of revenue	\$ (18,056)	(14,475)
Deferred revenue, net	163,215	171,313
Less: current portion	\$ (101,427)	(104,797)
Long-term portion	<u>\$ 61,788</u>	<u>\$ 66,516</u>

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Other Long-Term Liabilities**

Other long-term liabilities consisted of the following (in thousands):

	October 31,	
	2017	2016
Unrecognized tax benefits liability, net	\$ 37,412	\$ 33,745
Contingent consideration payable	—	5,254
Other long-term liabilities	38,677	37,841
Total other long-term liabilities	<u>\$ 76,089</u>	<u>\$ 76,840</u>

**Accumulated Other Comprehensive Loss**

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

	Foreign currency translation adjustments <sup>(1)</sup>	Unrealized gain (loss) on derivatives designated as cash flow hedges <sup>(2)</sup>	Other <sup>(3)</sup>	Total
Balance at October 31, 2015	\$ (286,662)	\$ (4,409)	\$ (1,250)	\$ (292,321)
Losses before reclassifications, net of tax	(46,618)	(1,971)	—	(48,589)
Amounts reclassified from Accumulated other comprehensive loss, net of tax	—	3,961	(4,045)	(84)
Other comprehensive income (loss)	(46,618)	1,990	(4,045)	(48,673)
Balance at October 31, 2016	(333,280)	(2,419)	(5,295)	(340,994)
Gains before reclassifications, net of tax	60,512	3,062	—	63,574
Amounts reclassified from Accumulated other comprehensive loss, net of tax	7,711	1,171	1,966	10,848
Other comprehensive income	68,223	4,233	1,966	74,422
Balance at October 31, 2017	<u>\$ (265,057)</u>	<u>\$ 1,814</u>	<u>\$ (3,329)</u>	<u>\$ (266,572)</u>

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

(2) Amounts reclassified from Accumulated other comprehensive loss, net of tax, were recorded in Interest expense, net in the Consolidated Statements of Operations. The related tax impacts were insignificant.

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

**Note 8. Financial Instruments**

**Fair Value Measurements**

Our financial assets and liabilities consist principally of cash, accounts receivable, accounts payable, debt, foreign exchange forward contracts, and interest rate swaps, and are reported at fair value. 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. Foreign exchange forward contracts, interest rate swaps, and contingent consideration payable are recorded at estimated fair value on a recurring basis.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis*

The following tables present our significant assets and liabilities that are measured at fair value on a recurring basis and their classification within the fair value hierarchy (in thousands). There were no transfers between levels of fair value hierarchy in the fiscal years ended October 31, 2017 and 2016.

	October 31, 2017				October 31, 2016			
	Carrying Value	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3
<b>Assets</b>								
Other current and long-term assets:								
Foreign exchange forward contracts not designated as hedging instruments	\$ 238	\$ —	\$ 238	\$ —	\$ 69	\$ —	\$ 69	\$ —
Interest rate swap agreements designated as cash flow hedges	3,745	—	3,745	—	301	—	301	—
<b>Total assets measured and recorded at fair value</b>	<b>\$ 3,983</b>	<b>\$ —</b>	<b>\$ 3,983</b>	<b>\$ —</b>	<b>\$ 370</b>	<b>\$ —</b>	<b>\$ 370</b>	<b>\$ —</b>
<b>Liabilities</b>								
Other current and long-term liabilities:								
Contingent consideration payable	\$ —	\$ —	\$ —	\$ —	\$ 5,997	\$ —	\$ —	\$ 5,997
Foreign exchange forward contracts not designated as hedging instruments	115	—	115	—	153	—	153	—
Interest rate swap agreements designated as cash flow hedges	—	—	—	—	2,676	—	2,676	—
<b>Total liabilities measured and recorded at fair value</b>	<b>\$ 115</b>	<b>\$ —</b>	<b>\$ 115</b>	<b>\$ —</b>	<b>\$ 8,826</b>	<b>\$ —</b>	<b>\$ 2,829</b>	<b>\$ 5,997</b>

*Fair Value of Contingent Consideration Payable*

Contingent consideration payable at October 31, 2016 is comprised of amounts payable related to acquisitions and is classified as Level 3 because we use significant unobservable inputs to determine the expected payments and an appropriate discount rate to calculate the fair value. There is no contingent consideration payable at October 31, 2017 because our obligation for the majority of the October 31, 2016 contingent consideration was canceled in connection with the Gas Media exchange transaction, see Note 2, *Business Combinations*. No other remaining contingent consideration is expected to be paid. The maximum liability of the remaining contingent consideration payable is indeterminate because it is based on contributions from the acquired business.

*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 October 31, 2017, we have outstanding interest rate swap agreements to effectively convert \$400.0 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. 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.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The interest rate swaps qualify for hedge accounting treatment as cash flow hedges. The notional amounts of interest rate swap agreements outstanding as of October 31, 2017 and October 31, 2016 were \$400.0 million and \$500.0 million, respectively.

As of October 31, 2017, the estimated net derivative gain related to our cash flow hedges included in Accumulated other comprehensive loss that will be reclassified into earnings in the next 12 months is \$1.5 million.

***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 October 31, 2017 and October 31, 2016 were \$255.2 million and \$175.0 million, respectively.

We recognized the following gains (losses) on foreign exchange forward contracts not designated as cash flow hedges (in thousands):

	Years Ended October 31,		
	2017	2016	2015
Gains (losses) recognized in Other income (expense), net in our Consolidated Statements of Operations	\$ 4,310	\$ (1,988)	\$ 17,113

**Note 9. Equity Investments**

***Consolidated variable interest entity***

We have a 51% equity interest in Panaroma and have determined it is a variable interest entity and that we are the primary beneficiary. Consequently, we consolidate the entity and reflect the non-controlling interest of the entity in our financial statements.

The minority shareholder holding the remaining 49% of Panaroma has a put option that is exercisable for three years after January 1, 2020 and if exercised requires us to purchase the remaining 49% equity of Panaroma at a multiple of earnings before taxes, depreciation and amortization for the year ended December 31, 2019. Since the noncontrolling interest is redeemable at the option of the minority shareholder and is outside our control, it is reported in the mezzanine section in the Consolidated Balance Sheets and recognized at the greater of the initial carrying amount increased or decreased for the noncontrolling interest's share of net income or loss, or its redemption value.

In addition to our equity investment in Panaroma, we have also entered into other arrangements such as reseller and service agreements. We have no obligation to provide ongoing funding other than the put option described above. However in the first quarter of the fiscal year ended January 31, 2018, we provided a nominal financial support to Panaroma and revised certain payment terms relating to purchases of inventory to assist them with their working capital needs.

***Equity method investment***

We have a 50% equity interest in Gas Media and have determined that Gas Media is not a variable interest entity. The carrying value of our investment in Gas Media is \$16.8 million as of October 31, 2017.

We have made the election to use a one-month lag to record our share of Gas Media's results. Our share of the losses of Gas Media was \$2.4 million for the fiscal year ended October 31, 2017. Our basis difference between the investment in Gas Media and the amount of underlying equity in net assets is \$9.8 million as of October 31, 2017.

In addition, 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 maximum exposure is based on the carrying value of investment to date and the extent of our guarantee. As of October 31, 2017, we have not made any payments and no amounts are accrued related to this guarantee.

#### *Cost method investments*

We have investments accounted for under the cost method that have a nominal carrying value as of the fiscal year ended October 31, 2017 and 2016. Two of these investments are in variable interest entities where we are not the primary beneficiary. Our known maximum exposure to loss on the variable interest entities is \$13.8 million as of the fiscal year ended October 31, 2017, and relates primarily to future borrowings on a committed line of credit available to one of our investees. These investments do not have a readily determinable fair values and we did not record any other-than-temporary impairments for the fiscal years ended October 31, 2017 and 2016.

We periodically evaluate the carrying value of our equity investments, when events and circumstances indicate the investment may not be recoverable. As part of this evaluation, we estimate the fair value of the equity investments using Level 3 inputs. These investments include our holdings in privately-held companies that are not exchange traded and therefore not supported with observable market prices, hence we may determine the fair value by reviewing equity valuation reports, current financial results, long-term plans of the private company, the amount of cash that the privately-held company has on-hand, the ability to obtain additional financing and overall market conditions in which the private company operates.

#### **Note 10. Goodwill and Purchased Intangible Assets**

##### *Goodwill*

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

	<u>North America</u>	<u>EMEA</u>	<u>Latin America</u>	<u>Asia-Pacific</u>	<u>Verifone Systems</u>	<u>Verifone Services</u>	<u>Total</u>
Balance at October 31, 2015	\$ 106,641	\$ 810,062	\$ 85,797	\$ 81,531	\$ —	\$ —	\$ 1,084,031
Segment reallocation	(106,641)	(810,062)	(85,797)	(81,531)	512,182	571,849	—
Acquisitions	—	—	—	—	6,090	68,281	74,371
Other adjustments	—	—	—	—	—	(3,431)	(3,431)
Currency translation adjustments	—	—	—	—	(21,146)	(23,332)	(44,478)
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	—	—	—	—	17,778	26,259	44,037
Balance at October 31, 2017	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 514,904</u>	<u>\$ 589,466</u>	<u>\$ 1,104,370</u>

**VERIFONE SYSTEMS, INC.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

During December 2015, our Chief Executive Officer realigned the company's organizational structure to focus on two operating segments: Verifone Systems and Verifone Services. In connection with the operating segment realignment, during the three months ended January 31, 2016, we updated our goodwill impairment assessment based on a quantitative analysis. We first evaluated the goodwill of our reporting units immediately prior to the realignment and concluded that there was no impairment. We then allocated our goodwill to the new reporting units using a relative fair value approach, and re-confirmed that there is no impairment.

During the fourth quarters of fiscal year 2017 and 2016, we completed our annual impairment assessments and concluded that goodwill was not impaired in either year. We used the qualitative method in our 2017 and 2016 annual assessments related to both of our reporting units. We used the quantitative approach in our 2016 assessment related to our former Taxi Solutions reporting unit.

During the second quarter of fiscal year 2017, management concluded that the carrying amount of the goodwill related to our former 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 former Taxi Solutions reporting unit, and the remaining \$28.3 million of goodwill in our former Taxi Solutions reporting unit was reclassified to assets held for sale. See Note 12, *Restructuring and Related Charges*, for additional information.

***Purchased Intangible Assets, Net***

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

	October 31, 2017			October 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 498,951	\$ (282,176)	\$ 216,775	\$ 521,964	\$ (249,513)	\$ 272,451
Other	40,715	(21,112)	19,603	73,175	(39,328)	33,847
Total	\$ 539,666	\$ (303,288)	\$ 236,378	\$ 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 fiscal year ended October 31, 2017, we offset \$44.6 million of Gross carrying amount and Accumulated amortization of intangible assets related to customer relationships and \$29.9 million related to other intangible assets, because they reached the end of their useful lives.

Activity related to purchased intangible assets during the fiscal year ended October 31, 2017 includes a \$29.3 million currency translation adjustment to Gross carrying amount and a \$17.0 million currency translation adjustment to Accumulated amortization.

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

	Years Ended October 31,		
	2017	2016	2015
Included in Cost of net revenues	\$ 6,727	\$ 15,130	\$ 18,307
Included in Operating expenses	69,622	90,534	82,492
Total amortization of purchased intangible assets	\$ 76,349	\$ 105,664	\$ 100,799



**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

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 October 31, 2017, is estimated as follows (in thousands):

	<u>Cost of Net Revenues</u>	<u>Operating Expenses</u>	<u>Total</u>
<b>Fiscal Years Ending October 31:</b>			
2018	\$ 5,357	\$ 57,455	\$ 62,812
2019	5,235	51,871	57,106
2020	3,528	43,910	47,438
2021	2,353	31,973	34,326
2022	203	16,709	16,912
Thereafter	—	17,784	17,784
Total future amortization expense	<u>\$ 16,676</u>	<u>\$ 219,702</u>	<u>\$ 236,378</u>

**Note 11. Financings**

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

	<u>October 31,</u>	
	<u>2017</u>	<u>2016</u>
Credit Agreement		
Term A loan	\$ 465,000	\$ 525,000
Term B loan	193,500	195,500
Revolving loan	168,447	204,684
Capital leases and other debt	10,734	11,573
Total principal payments due	837,681	936,757
Less: original issue discount and debt issuance costs	(6,867)	(10,844)
Total amounts outstanding	830,814	925,913
Less: current portion	(68,770)	(66,017)
Long-term portion	<u>\$ 762,044</u>	<u>\$ 859,896</u>

**Credit Agreement**

On December 28, 2011, we entered into a credit agreement which was amended on July 8, 2014. The amended and restated agreement provides for an aggregate amount of up to \$1.3 billion of debt consisting of a \$600.0 million term A loan, \$200.0 million term B loan and \$500.0 million revolving loan commitment.

Borrowings under the credit agreement bear interest at a “Base Rate” or “Eurodollar Rate”, at our option, plus an applicable margin based on certain financial ratios, determined and payable quarterly. In addition, we pay an undrawn commitment fee on the unused portion of the revolving loan ranging from 0.25% to 0.50% per annum, depending on our leverage ratio.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The outstanding principal balance of the term A loan is required to be repaid in quarterly installments of the following percentages of the original balance outstanding under the term A loan: 1.25% for each quarter from the quarter ending September 30, 2014 through the quarter ending June 30, 2016; 2.50% for each quarter from the quarter ending September 30, 2016 through the quarter ending June 30, 2019, with the balance being due at maturity on July 8, 2019. The outstanding principal balance of the term B loan is required to be repaid in equal quarterly installments of 0.25% of the original balance outstanding under the term B loan, with the balance being due at maturity on July 8, 2021. The revolving loan terminates on July 8, 2019. Outstanding amounts may also be subject to mandatory repayment with the proceeds of certain asset sales, and debt issuances, and, in the case of the term B loan only, from a portion of annual excess cash flows depending on our total leverage ratio, as defined under the agreement.

Additional terms of the credit agreement require compliance with financial covenants that require us to maintain financial ratios related to interest coverage and financial leverage. We were in compliance with these financial covenants as of October 31, 2017. The credit agreement also contains representations and warranties, affirmative covenants, negative covenants, financial covenants and conditions that are customarily required for similar financings including the following, among others:

- A restriction on incurring additional indebtedness, subject to specified permitted debt;
- A restriction on creating certain liens, subject to specified exceptions;
- A restriction on mergers and consolidations, subject to specified exceptions;
- A restriction on asset dispositions, subject to specified exceptions for ordinary course and other transactions;
- A restriction on certain investments, subject to certain exceptions and a suspension if we achieve certain credit ratings;
- A restriction on the payment of dividends, subject to specified exceptions; and
- A restriction on entering into certain transactions with affiliates, subject to specified exceptions.

Borrowings under the credit agreement are guaranteed by certain of our wholly owned domestic subsidiaries and secured by a first priority lien and security interest in certain of our assets, subject to customary exceptions.

As of October 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 October 31, 2017, the monthly market interest rate was 1.25% for our term A and revolver loans, and 1.25% 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 October 31, 2017, the interest rate was 3.25% for the term A and revolving loans and 4.00% 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 \$400.0 million of the term A loan from a floating interest rate to a fixed interest rate as of October 31, 2017. See Note 8, *Financial Instruments*, for additional information.

As of October 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 \$331.6 million.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Principal Payments**

Future principal payments due under our financing arrangements are as follows (in thousands):

	<b>Amounts</b>
<b>Years Ending October 31:</b>	
2018	\$ 69,101
2019	577,737
2020	3,036
2021	187,568
2022	23
Thereafter	216
Total	\$ 837,681

**Note 12. 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 fiscal years ended October 31, 2017 and 2016 consisted of the following (in thousands):

	<b>Restructuring Plans</b>						<b>Total</b>
	<b>Prior year Plans</b>		<b>June 2016 Plan</b>		<b>June 2017 Plan</b>		
	<b>Employee Involuntary Termination Benefits</b>	<b>Facilities Related Costs</b>	<b>Employee Involuntary Termination Benefits</b>	<b>Facilities Related Costs</b>	<b>Employee Involuntary Termination Benefits</b>	<b>Other Business Exit Costs</b>	
Balance at October 31, 2015	\$ 6,117	\$ 5	\$ —	\$ —	\$ —	\$ —	\$ 6,122
Charges, net of adjustments	(172)	—	11,907	3,430	—	—	15,165
Cash payments	(4,245)	(5)	(6,682)	(623)	—	—	(11,555)
Balance at October 31, 2016	\$ 1,700	\$ —	\$ 5,225	\$ 2,807	\$ —	\$ —	\$ 9,732
Charges, net of adjustments	(817)	—	6,092	(767)	11,819	28,686	45,013
Cash payments	(883)	—	(8,220)	(1,043)	(6,388)	(10,319)	(26,853)
Balance at October 31, 2017	\$ —	\$ —	\$ 3,097	\$ 997	\$ 5,431	\$ 18,367	\$ 27,892
Cumulative costs to date	\$ 18,655	\$ 853	\$ 18,005	\$ 2,725	\$ 11,819	\$ 28,686	

Activities under these Restructuring Plans are expected to be substantially complete by the end of fiscal year 2018.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

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

	Years Ended October 31,		
	2017	2016	2015
Included in Cost of net revenues	\$ 25,726	\$ 5,125	\$ 348
Included in Operating expenses	143,152	41,254	8,429
Total restructuring and related charges	<u>\$ 168,878</u>	<u>\$ 46,379</u>	<u>\$ 8,777</u>

***Petro Media restructuring***

During fiscal year 2017, our management committed to and completed 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 Consolidated Statements of Operations. We also recorded a \$28.1 million expense during the fiscal year ended October 31, 2017, for estimated future obligations associated with the terminated customer agreements of which \$18.4 million was unpaid as of October 31, 2017.

***Taxi Solutions restructuring***

During the second quarter of fiscal year 2017, our management committed to a plan to sell our former Taxi Solutions reporting unit and we classified the net assets and liabilities of this business as held for sale. The net assets held for sale are presented at fair value and classified as Level 3 because we use significant unobservable inputs to determine the fair value. The fair value was initially determined during the second quarter of fiscal year 2017 in connection with the quantitative assessment of goodwill impairment discussed in Note 10, *Goodwill and Purchased Intangible Assets*. Additionally, based upon continued negotiations of potential sales transactions, management updated the fair value of the assets held for sale during fiscal year 2017, resulting in charges totaling \$50.2 million, which are included in Restructuring and related charges in the Consolidated Statements of Operations.

The following table reflects the October 31, 2017 carrying value of the Taxi Solutions assets and liabilities that are classified as held for sale (in thousands):

	October 31, 2017
Accounts Receivable	\$ 11,908
Prepaid expenses and other current assets	14,102
Revenue generating assets and other fixed assets	35,245
Purchased intangibles assets, net	5,786
Goodwill	46,978
Accounts payable, accruals and other current liabilities	(15,721)
Other	(2,859)
Carrying Value	95,439
Goodwill impairment	(17,384)
Fair value adjustments	(50,215)
Fair value of assets held for sale	<u>\$ 27,840</u>

The gross assets held for sale are presented in Prepaid expenses and other current assets in the Consolidated Balance Sheet and the gross liabilities held for sale are presented in Accruals and other current liabilities in the Consolidated Balance Sheet.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Losses before income taxes on our Taxi Solutions business incurred during fiscal year 2017 was \$74.7 million, \$16.8 million and \$5.5 million for the fiscal years ended October 31, 2017, 2016, and 2015 respectively.

On December 11, 2017, we divested our Taxi Solutions business for \$22.5 million in cash paid at closing plus \$7.5 million due in March 2018. In connection with the transaction, we received a 10% common stock equity interest in a limited liability company that is an indirect parent of the buyer and is partially owned by the former general manager of this business. The purchase price is subject to upward adjustment based on working capital in certain circumstances. The buyer assumed responsibility for the \$50.3 million of operating lease commitments associated with the Taxi Solution business, as discussed in Note 13, *Commitments and Contingencies*, and we have retained certain guarantees of these leases, for which we are indemnified.

***China business restructuring***

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 Consolidated Statements of Operations. See Note 2, *Business Combinations*, for additional information on the divestiture.

Losses before income taxes on our China business was \$33.2 million, \$15.6 million and \$7.6 million for the fiscal years ended October 31, 2017, 2016, and 2015 respectively.

***Other fiscal year 2016 business restructurings***

During fiscal year 2016, our management committed to a plan to exit certain under-performing businesses. We classified the assets of these businesses as held for sale and recorded a \$22.0 million write-down to reflect the assets held for sale at fair value during fiscal year 2016. This write-down is included in Restructuring and related charges in the Consolidated Statements of Operations. Additionally, during fiscal year 2016 we recorded a \$9.2 million charge for costs to terminate a contract related to a service we will no longer offer, of which \$2.9 million is included in cost of net revenues and \$6.3 million is included in Restructuring and related charges in the Consolidated Statement of Operations.

**Note 13. Commitments and Contingencies**

***Commitments***

**Leases**

We lease certain facilities under non-cancelable operating leases that contain free rent periods, leasehold improvement rebates or rent escalation clauses. Rent expense under these leases is recorded on a straight-line basis over the lease term. We are committed to pay a portion of the related actual operating expenses under some of these lease agreements, and those operating expenses are not included in the table below. The difference between amounts paid and rent expense is recorded as deferred rent. The short-term and long-term portions are included in Accruals and other current liabilities and Other long-term liabilities, respectively, in our Consolidated Balance Sheets.

In connection with our Taxi Solutions business, we have entered into operating lease arrangements for the right to place advertising in or on taxicabs. In general, these lease arrangements, which will be assigned in connection with the divestiture of the Taxi Solutions business, are non-cancelable for terms ranging from three to eight years, require us to pay minimum lease amounts based on the types and locations of the advertising displays in or on the taxicabs, and are subject to fee escalation clauses. Based upon the number of operational taxicabs with our advertising displays at October 31, 2017, these lease commitments total \$50.3 million and are included in the future minimum lease payments in the table below.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Future minimum lease payments under these leases as of October 31, 2017 were as follows (in thousands):

	<u>Minimum Lease Payments</u>	<u>Sublease Rental Income</u>	<u>Net Minimum Lease Payments</u>
<b>Years Ending October 31:</b>			
2018	\$ 40,363	\$ (646)	\$ 39,717
2019	29,187	(659)	28,528
2020	23,923	(673)	23,250
2021	17,020	(687)	16,333
2022	10,221	(701)	9,520
Thereafter	8,930	(1,449)	7,481
Total	<u>\$ 129,644</u>	<u>\$ (4,815)</u>	<u>\$ 124,829</u>

Rent expense consisted of the following (in thousands):

	<u>Years Ended October 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Rent expense for non-cancelable taxi operating leases	\$ 27,932	\$ 32,543	\$ 35,297
Facility and other rent expense	26,634	27,706	26,885
Total rent expense	<u>\$ 54,566</u>	<u>\$ 60,249</u>	<u>\$ 62,182</u>

Manufacturing Related Agreements

We work on a purchase order basis with our contract manufacturers, which are located in China, Singapore, Malaysia, Brazil, and Germany, and component suppliers located throughout the world, to supply nearly all of our finished goods inventories, spare parts, and accessories. We provide each such supplier with a purchase order to cover the manufacturing requirements, which generally constitutes a binding commitment by us to purchase materials and finished goods produced by the manufacturer as specified in the purchase order. Most of these purchase orders are considered to be non-cancelable and are expected to be paid within one year of the issuance date. As of October 31, 2017, the amount of purchase commitments issued to contract manufacturers and component suppliers totaled approximately \$113.5 million. Of this amount, \$8.3 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 \$144.0 million of such components over a four year period, \$36.0 million per year, from one of our existing suppliers. As of October 31, 2017 our remaining non-cancelable commitment under this agreement totaled \$103.9 million.

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 October 31, 2017, the maximum amount that may become payable under these guarantees was \$15.9 million, of which \$2.1 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 October 31, 2017, we have not made any payments and no amounts are accrued related to this guarantee.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*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. That evidence production has now concluded, and we are awaiting judgment. 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 October 31, 2017 for this matter totals approximately 9.4 million Brazilian reais (approximately \$2.9 million at the foreign exchange rate as of October 31, 2017). As of October 31, 2017, we have not accrued for this matter, but we have posted a bank bond as a guaranty.

*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 \$0.9 million Brazilian reais (approximately \$0.3 million at the foreign exchange rate as of October 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 5.9 million Brazilian reais (approximately \$1.8 million at the foreign exchange rate as of October 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 October 31, 2017, the amount of the alleged tax assessments and penalties related to these matters was approximately 26.8 million Brazilian reais (approximately \$8.2 million at the foreign exchange rate as of October 31, 2017), including interest, costs and fees related thereto.

VERIFONE SYSTEMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 October 31, 2017, the underlying assessment, including estimated interest, was approximately 6.0 million Brazilian reais (approximately \$1.8 million at the foreign exchange rate as of October 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.

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, named Verifone as a nominal defendant and brought claims for insider selling, breach of fiduciary duty and unjust enrichment variously against certain of our current and former officers and directors. The complaint sought 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*.

In light of the below-mentioned *Zoumboulakis* judgment, the plaintiff voluntarily dismissed this action with prejudice on October 23, 2017. This matter is now concluded.



**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*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, alleged breach of fiduciary duty and abuse of control and asserted 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, which the court granted with prejudice on September 22, 2017, entering judgment in favor of defendants. Because no appeal was filed timely, this matter is now concluded.

*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 are now being reheard before the NCLAT Bench. That rehearing began on November 7, 2017, and is scheduled to continue on January 5, 2018.

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.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

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 October 31, 2017, the amount payable for unrecognized tax benefits was \$37.4 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 Sheet as of October 31, 2017. We are unable to make a reasonably reliable estimate as to when cash settlement with a taxing authority may occur.

**Note 14. 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 allocate other income and expenses to our operating segments. Also, 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):

	Years Ended October 31,		
	2017	2016	2015
Segment net revenues:			
Verifone Systems	\$ 1,085,478	\$ 1,236,361	\$ 1,309,629
Verifone Services	788,491	769,715	691,822
Total segment net revenues	1,873,969	2,006,076	2,001,451
Amortization of step down in deferred services net revenues at acquisition	(2,993)	(13,927)	(994)
Total net revenues	\$ 1,870,976	\$ 1,992,149	\$ 2,000,457

**VERIFONE SYSTEMS, INC.**  
**NOTES TO 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):

	Years Ended October 31,		
	2017	2016	2015
<b>Operating income by segment:</b>			
Verifone Systems	\$ 176,722	\$ 252,326	\$ 294,857
Verifone Services	206,840	198,426	178,754
<b>Total segment operating income</b>	<b>383,562</b>	<b>450,752</b>	<b>473,611</b>
<b>Items not attributable to segment operating income:</b>			
Amortization of step down in deferred services gross margin at acquisition	(2,385)	(9,839)	(994)
Restructuring and related charges	(168,878)	(46,814)	(8,777)
Amortization of purchase intangible assets	(76,349)	(105,664)	(100,799)
Stock-based compensation expense	(39,903)	(42,278)	(42,253)
Litigation settlement and loss contingency expense	—	(650)	(1,213)
Goodwill impairment	(17,384)	—	—
Unallocated general and administrative expenses	(172,380)	(186,308)	(187,161)
Unallocated research and development expenses	(2,986)	(14,593)	(18,112)
Other unallocated costs	(15,675)	(11,827)	(7,311)
<b>Total operating income (loss)</b>	<b>\$ (112,378)</b>	<b>\$ 32,779</b>	<b>\$ 106,991</b>

Depreciation and amortization of property and equipment was allocated to segments as follows (in thousands):

	Years Ended October 31,		
	2017	2016	2015
Verifone Systems	\$ 6,755	\$ 6,177	\$ 5,648
Verifone Services	32,699	43,184	41,484
Unallocated	26,651	13,097	11,537
<b>Total depreciation and amortization expense</b>	<b>\$ 66,105</b>	<b>\$ 62,458</b>	<b>\$ 58,669</b>

***Geographic Information***

Our net revenues, by country with net revenues over 10% of total net revenues, were as follows (in thousands):

	Years Ended October 31,		
	2017	2016	2015
United States	\$ 627,718	\$ 807,229	\$ 789,386
Other countries	1,243,258	1,184,920	1,211,071
<b>Total net revenues</b>	<b>\$ 1,870,976</b>	<b>\$ 1,992,149</b>	<b>\$ 2,000,457</b>

Net revenues are allocated to countries based on the shipping destination or service delivery location of customer orders.

**VERIFONE SYSTEMS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Property and equipment, net, by country with fixed assets over 10% of total fixed assets, were as follows (in thousands):

	<b>October 31,</b>	
	<b>2017</b>	<b>2016</b>
United States	\$ 29,146	\$ 99,807
Other countries	98,726	102,470
Property and equipment, net	<u>127,872</u>	<u>202,277</u>

During the fiscal year 2017, we divested or reclassified as held for sale revenue generating assets and other fixed assets with a net carrying value of \$74.9 million.

**VERIFONE SYSTEMS, INC.**

**Selected Quarterly Results of Operations (Unaudited)**

The following selected quarterly data should be read in conjunction with our Consolidated Financial Statements and accompanying notes appearing in this Item 8, *Financial Statements and Supplementary Data*, and Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* included elsewhere in this Annual Report on Form 10-K. This information has been derived from our unaudited Consolidated Financial Statements that, in our opinion, reflect all recurring adjustments necessary to fairly present our financial information when read in conjunction with our Consolidated Financial Statements and Notes. The results of operations for any quarter are not necessarily indicative of the results to be expected for any future period.

The tables below sets forth selected unaudited financial data for each quarter for the last two fiscal years (in thousands, except for per share amounts):

	<b>Year Ended October 31, 2017</b>			
	<b>First Quarter</b>	<b>Second Quarter <sup>(1)</sup></b>	<b>Third Quarter <sup>(1)</sup></b>	<b>Fourth Quarter <sup>(1)</sup></b>
Net revenues	453,871	473,685	466,866	\$ 476,554
Gross margin	171,431	172,761	174,450	194,370
Operating income (loss)	(4,435)	(81,394)	(50,214)	23,665
Consolidated net income (loss)	(17,724)	(89,665)	(70,788)	2,858
Net income (loss) attributable to VeriFone Systems, Inc. stockholders	\$ (16,623)	\$ (89,267)	\$ (70,955)	\$ 3,016
Basic net income (loss) per share	\$ (0.15)	\$ (0.80)	(0.63)	\$ 0.03
Diluted net income (loss) per share	\$ (0.15)	\$ (0.80)	(0.63)	\$ 0.03

- (1) The second, third, and fourth fiscal quarters of 2017 include \$80.4 million, \$78.6 million, and \$7.9 million, respectively, of restructuring and related charges as part of cost optimization and corporate transformation initiatives including losses from certain disposals. For further information, see Note 12, *Restructuring and related charges*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

	<b>Year Ended October 31, 2016</b>			
	<b>First Quarter</b>	<b>Second Quarter <sup>(1)</sup></b>	<b>Third Quarter <sup>(1)</sup></b>	<b>Fourth Quarter <sup>(1)</sup></b>
Net revenues	\$ 513,539	\$ 526,278	\$ 488,132	\$ 464,200
Gross margin	215,285	210,379	191,147	177,500
Operating income (loss)	36,216	19,779	(22,345)	(871)
Consolidated net income (loss)	23,733	3,340	(31,498)	(5,275)
Net income (loss) attributable to VeriFone Systems, Inc. stockholders	\$ 23,501	\$ 2,899	\$ (31,138)	\$ (4,543)
Basic net income (loss) per share	\$ 0.21	\$ 0.03	\$ (0.28)	\$ (0.04)
Diluted net income (loss) per share	\$ 0.21	\$ 0.03	\$ (0.28)	\$ (0.04)

- (1) The third fiscal quarter of 2016 includes \$38.8 million of restructuring and related charges as part of cost optimization and corporate transformation initiatives. For further information, see Note 12, *Restructuring and related charges*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There were no changes in or disagreements with accountants on accounting and financial disclosure during the last three fiscal years.

**ITEM 9A. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

Disclosure controls are procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, or the Exchange Act, such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified by the U.S. Securities and Exchange Commission. Based on management's evaluation (with the participation of our Chief Executive Officer and Chief Financial Officer), as of the end of the period covered by this report, 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 Securities Exchange Act of 1934, as amended), 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) 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.

*Management's Report on Internal Control over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f) to provide reasonable assurance regarding the reliability of our financial reporting and consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Management assessed our internal control over financial reporting as of October 31, 2017, the end of our fiscal year. Management based its assessment on the 2013 framework established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. We reviewed the results of management's assessment with the Audit Committee of our Board of Directors.

The effectiveness of our internal control over financial reporting as of October 31, 2017 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in its report which is included in Item 8 of this Annual Report on Form 10-K.

### **Inherent Limitations on Effectiveness of Controls**

Our management, including the CEO and 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.

**ITEM 9B. OTHER INFORMATION**

On December 13, 2017, Albert Liu, Executive Vice President, Corporate Development and General Counsel, notified Verifone of his decision to resign from Verifone in order to pursue another professional opportunity. Mr. Liu will be assisting with the transitioning of his responsibilities through January 2018. Vikram Varma, Verifone's Deputy General Counsel, will succeed Mr. Liu as General Counsel of Verifone. Mr. Liu's corporate development responsibilities will be covered by Richard Char, SVP, Business Development.



**PART II — OTHER INFORMATION**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

In addition to the information set forth under the caption “Executive Officers” in Part I of this Annual Report on Form 10-K, the information required by this Item is expected to be in our definitive Proxy Statement for the 2018 Annual Meeting of Stockholders (the “Proxy Statement”), which we expect to be filed within 120 days of the end of our fiscal year ended October 31, 2017 and is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION**

Information relating to our executive officer and director compensation is incorporated herein by reference to the Proxy Statement.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information relating to security ownership of certain beneficial owners of our common stock and information relating to the security ownership of the registrant’s management is incorporated herein by reference to the Proxy Statement.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information relating to certain relationships and related transactions and director independence is incorporated herein by reference to the Proxy Statement.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information regarding principal accountant fees and services is incorporated herein by reference to the Proxy Statement.

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

The following documents are filed as part of this Annual Report on Form 10-K:

1. *Consolidated Financial Statements*

The consolidated financial statements required to be filed in the Annual Report on Form 10-K and other supplemental financial information required by Item 302 of Regulation S-K are included in Item 8, *Financial Statements and Supplementary Data*, included elsewhere in this Annual Report on Form 10-K.

2. *Financial Statement Schedule*

All financial statement schedules have been omitted because the required information is not present or not present in amounts sufficient to require the submission of schedules, or because the information required is included in our Consolidated Financial Statements and Notes thereto.

3. *Exhibits* The documents set forth below are filed herewith or incorporated by reference to the location indicated.

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
<a href="#"><u>3.1<sup>(6)</sup></u></a>	<a href="#"><u>Amended and Restated Certificate of Incorporation of VeriFone as amended.</u></a>
<a href="#"><u>3.2<sup>(15)</sup></u></a>	<a href="#"><u>Amended and Restated Bylaws of VeriFone</u></a>
<a href="#"><u>4.1<sup>(2)</sup></u></a>	<a href="#"><u>Specimen Common Stock Certificate; reference is made to Exhibit 3.1.</u></a>
<a href="#"><u>10.1<sup>(1)+</sup></u></a>	<a href="#"><u>2002 Securities Purchase Plan.</u></a>
<a href="#"><u>10.2<sup>(1)+</sup></u></a>	<a href="#"><u>New Founders' Stock Option Plan</u></a>
<a href="#"><u>10.3<sup>(2)+</sup></u></a>	<a href="#"><u>Outside Directors' Stock Option Plan</u></a>
<a href="#"><u>10.4<sup>(4)+</sup></u></a>	<a href="#"><u>2005 Employee Equity Incentive Plan</u></a>
<a href="#"><u>10.5<sup>(3)+</sup></u></a>	<a href="#"><u>Form of Indemnification Agreement</u></a>
<a href="#"><u>10.6<sup>(16)+</sup></u></a>	<a href="#"><u>Amended and Restated VeriFone Systems, Inc. (formerly, VeriFone Holdings, Inc.) 2006 Equity Incentive Plan</u></a>
<a href="#"><u>10.7<sup>(12)+</sup></u></a>	<a href="#"><u>Form of Amended and Restated VeriFone Bonus Plan</u></a>
<a href="#"><u>10.8<sup>(5)+</sup></u></a>	<a href="#"><u>Lipman Electronic Engineering Ltd. 2003 Stock Option Plan</u></a>
<a href="#"><u>10.9<sup>(5)+</sup></u></a>	<a href="#"><u>Lipman Electronic Engineering Ltd. 2004 Stock Option Plan</u></a>
<a href="#"><u>10.10<sup>(5)+</sup></u></a>	<a href="#"><u>Lipman Electronic Engineering Ltd. 2004 Share Option Plan</u></a>
<a href="#"><u>10.11<sup>(5)+</sup></u></a>	<a href="#"><u>Amendment to Lipman Electronic Engineering Ltd. 2004 Share Option Plan</u></a>

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<a href="#"><u>10.12</u></a> <sup>(5)+</sup>	<a href="#"><u>Lipman Electronic Engineering Ltd. 2006 Share Incentive Plan</u></a>
<a href="#"><u>10.13</u></a> <sup>(7)</sup>	<a href="#"><u>Sale and Purchase Agreement dated November 12, 2011 by and between Point Luxembourg Holding S.À.R.L. and Electronic Transactions Group Limited, as Sellers, and VeriFone Nordic AB, as Purchaser.</u></a>
<a href="#"><u>10.14</u></a> <sup>(8)</sup>	<a href="#"><u>Security Agreement, dated as of December 28, 2011, by and among JPMorgan Chase Bank, N.A., in its capacity as the Collateral Agent, and the VeriFone parties.</u></a>
<a href="#"><u>10.15</u></a> <sup>(8)</sup>	<a href="#"><u>Pledge Agreement, dated as of December 28, 2011, by and among the VeriFone parties and JPMorgan Chase Bank, N.A., in its capacity as the Collateral Agent.</u></a>
<a href="#"><u>10.16</u></a> <sup>(8)</sup>	<a href="#"><u>Guaranty, dated as of December 28, 2011, executed by each of the Guarantors party thereto in favor of JPMorgan Chase Bank, N.A., in its capacity as Administrative Agent.</u></a>
<a href="#"><u>10.17</u></a> <sup>(9)+</sup>	<a href="#"><u>Offer Letter between the Company and Marc E. Rothman</u></a>
<a href="#"><u>10.18</u></a> <sup>(9)</sup>	<a href="#"><u>Form of Restricted Stock Unit Award Notice.</u></a>
<a href="#"><u>10.19</u></a> <sup>(10)</sup>	<a href="#"><u>Amendment and Restatement Agreement, dated as of July 8, 2014, to the Credit Agreement, among VeriFone Intermediate Holdings, Inc., VeriFone, Inc., the other Loan Parties party thereto, the Lender parties thereto and JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent.</u></a>
<a href="#"><u>10.20</u></a> <sup>(17)+</sup>	<a href="#"><u>Amended and Restated Employment Agreement for Paul Galant, dated as of December 15, 2017</u></a>
<a href="#"><u>10.21</u></a> <sup>*(11)+</sup>	<a href="#"><u>Director Deferred Compensation Plan</u></a>
<a href="#"><u>10.22</u></a> <sup>(14)+</sup>	<a href="#"><u>Executive Severance Policy</u></a>
<a href="#"><u>10.23</u></a> <sup>(13)</sup>	<a href="#"><u>Offer letter, dated November 14, 2014, between the Company and Glen Robson</u></a>
<a href="#"><u>21.1</u></a> <sup>*</sup>	<a href="#"><u>List of subsidiaries of VeriFone.</u></a>
<a href="#"><u>23.1</u></a> <sup>*</sup>	<a href="#"><u>Consent of Independent Registered Public Accounting Firm.</u></a>
<a href="#"><u>31.1</u></a> <sup>*</sup>	<a href="#"><u>Certification of the Chief Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
<a href="#"><u>31.2</u></a> <sup>*</sup>	<a href="#"><u>Certification of the Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
<a href="#"><u>32.1</u></a> <sup>*</sup>	<a href="#"><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></a>
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.

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\*\* 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.

- (1) Filed as an exhibit to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (File No. 333-121947), filed February 23, 2005.
- (2) Filed as an exhibit to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-121947), filed April 18, 2005.
- (3) Filed as an exhibit to Amendment No. 5 to the Registrant's Registration Statement on Form S-1 (File No. 333-121947), filed April 29, 2005.
- (4) Filed as an exhibit to the Registrant's Registration Statement on Form S-8 (File No. 333-124545), filed May 2, 2005.
- (5) Incorporated by reference in the Registrant's Registration Statement on Form S-8 (File No. 333-138533), filed November 9, 2006.
- (6) Filed as an exhibit to the Registrant's Annual Report on Form 10-K, filed December 21, 2010.
- (7) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q, filed March 12, 2012.
- (8) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed January 4, 2012.
- (9) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed February 4, 2013.
- (10) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed July 10, 2014.
- (11) Filed as an exhibit to the Registrant's Annual Report on Form 10-K, filed December 18, 2015.
- (12) Filed as an appendix to the Registrant's Definitive Proxy Statement for its 2016 Annual Meeting of Stockholders, filed February 11, 2016.
- (13) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q, filed March 11, 2016.
- (14) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed June 21, 2016.
- (15) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed December 20, 2016.
- (16) Filed as an appendix to the Registrant's Definitive Proxy Statement for its 2017 Annual Meeting of Stockholders, filed February 9, 2017.
- (17) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed December 15, 2017.

## EXHIBIT INDEX

<b>Exhibit Number</b>	<b>Description</b>
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<a href="#"><u>3.2</u></a> <sup>(15)</sup>	<a href="#"><u>Amended and Restated Bylaws of VeriFone.</u></a>
<a href="#"><u>4.1</u></a> <sup>(2)</sup>	<a href="#"><u>Specimen Common Stock Certificate; reference is made to Exhibit 3.1.</u></a>
<a href="#"><u>10.1</u></a> <sup>(1)+</sup>	<a href="#"><u>2002 Securities Purchase Plan.</u></a>
<a href="#"><u>10.2</u></a> <sup>(1)+</sup>	<a href="#"><u>New Founders' Stock Option Plan.</u></a>
<a href="#"><u>10.3</u></a> <sup>(2)+</sup>	<a href="#"><u>Outside Directors' Stock Option Plan.</u></a>
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<a href="#"><u>10.7</u></a> <sup>(12)+</sup>	<a href="#"><u>Form of Amended and Restated VeriFone Bonus Plan.</u></a>
<a href="#"><u>10.8</u></a> <sup>(5)+</sup>	<a href="#"><u>Lipman Electronic Engineering Ltd. 2003 Stock Option Plan.</u></a>
<a href="#"><u>10.9</u></a> <sup>(5)+</sup>	<a href="#"><u>Lipman Electronic Engineering Ltd. 2004 Stock Option Plan.</u></a>
<a href="#"><u>10.10</u></a> <sup>(5)+</sup>	<a href="#"><u>Lipman Electronic Engineering Ltd. 2004 Share Option Plan</u></a>
<a href="#"><u>10.11</u></a> <sup>(5)+</sup>	<a href="#"><u>Amendment to Lipman Electronic Engineering Ltd. 2004 Share Option Plan.</u></a>
<a href="#"><u>10.12</u></a> <sup>(5)+</sup>	<a href="#"><u>Lipman Electronic Engineering Ltd. 2006 Share Incentive Plan.</u></a>
<a href="#"><u>10.13</u></a> <sup>(7)</sup>	<a href="#"><u>Sale and Purchase Agreement dated November 12, 2011 by and between Point Luxembourg Holding S.À.R.L. and Electronic Transactions Group Limited, as Sellers, and VeriFone Nordic AB, as Purchaser.</u></a>
<a href="#"><u>10.14</u></a> <sup>(8)</sup>	<a href="#"><u>Security Agreement, dated as of December 28, 2011, by and among JPMorgan Chase Bank, N.A., in its capacity as the Collateral Agent, and the VeriFone parties.</u></a>
<a href="#"><u>10.15</u></a> <sup>(8)</sup>	<a href="#"><u>Pledge Agreement, dated as of December 28, 2011, by and among the VeriFone parties and JPMorgan Chase Bank, N.A., in its capacity as the Collateral Agent.</u></a>
<a href="#"><u>10.16</u></a> <sup>(8)</sup>	<a href="#"><u>Guaranty, dated as of December 28, 2011, executed by each of the Guarantors party thereto in favor of JPMorgan Chase Bank, N.A., in its capacity as Administrative Agent.</u></a>
<a href="#"><u>10.17</u></a> <sup>(9)+</sup>	<a href="#"><u>Offer Letter between the Company and Marc E. Rothman.</u></a>
<a href="#"><u>10.18</u></a> <sup>(9)</sup>	<a href="#"><u>Form of Restricted Stock Unit Award Notice.</u></a>
<a href="#"><u>10.19</u></a> <sup>(10)</sup>	<a href="#"><u>Amendment and Restatement Agreement, dated as of July 8, 2014, to the Credit Agreement, among VeriFone Intermediate Holdings, Inc., VeriFone, Inc., the other Loan Parties party thereto, the Lender parties thereto and JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent.</u></a>
<a href="#"><u>10.20</u></a> <sup>(17)+</sup>	<a href="#"><u>Amended and Restated Employment Agreement for Paul Galant, dated as of December 15, 2017</u></a>

<a href="#"><u>10.21</u></a> <sup>(11)+</sup>	<a href="#"><u>Director Deferred Compensation Plan.</u></a>
<a href="#"><u>10.22</u></a> <sup>(14)+</sup>	<a href="#"><u>Executive Severance Policy.</u></a>
<a href="#"><u>10.23</u></a> <sup>(13)</sup>	<a href="#"><u>Offer letter, dated November 14, 2014, between the Company and Glen Robson</u></a>
<a href="#"><u>21.1</u></a> *	<a href="#"><u>List of subsidiaries of VeriFone.</u></a>
<a href="#"><u>23.1</u></a> *	<a href="#"><u>Consent of Independent Registered Public Accounting Firm.</u></a>
<a href="#"><u>31.1</u></a> *	<a href="#"><u>Certification of the Chief Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
<a href="#"><u>31.2</u></a> *	<a href="#"><u>Certification of the Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
<a href="#"><u>32.1</u></a> *	<a href="#"><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></a>
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.

- (1) Filed as an exhibit to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (File No. 333-121947), filed February 23, 2005
- (2) Filed as an exhibit to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-121947), filed April 18, 2005.
- (3) Filed as an exhibit to Amendment No. 5 to the Registrant's Registration Statement on Form S-1 (File No. 333-121947), filed April 29, 2005.
- (4) Filed as an exhibit to the Registrant's Registration Statement on Form S-8 (File No. 333-124545), filed May 2, 2005.
- (5) Incorporated by reference in the Registrant's Registration Statement on Form S-8 (File No. 333-138533), filed November 9, 2006.
- (6) Filed as an exhibit to the Registrant's Annual Report on Form 10-K, filed December 21, 2010.
- (7) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q, filed March 12, 2012.
- (8) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed January 4, 2012.
- (9) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed February 4, 2013.
- (10) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed July 10, 2014.
- (11) Filed as an exhibit to the Registrant's Annual Report on Form 10-K, filed December 18, 2015
- (12) Filed as an appendix to the Registrant's Definitive Proxy Statement for its 2016 Annual Meeting of Stockholders, filed February 11, 2016.
- (13) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q, filed March 11, 2016.
- (14) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed June 21, 2016.
- (15) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed December 20, 2016.
- (16) Filed as an appendix to the Registrant's Definitive Proxy Statement for its 2017 Annual Meeting of Stockholders, filed February 9, 2017.
- (17) Filed as an exhibit to the Registrant's Current Report on Form 8-K, filed December 15, 2017.





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Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ PAUL S. GALANT</u> <b>Paul S. Galant</b>	Chief Executive Officer (principal executive officer)	December 18, 2017
<u>/s/ MARC E. ROTHMAN</u> <b>Marc E. Rothman</b>	Executive Vice President and Chief Financial Officer (principal financial and accounting officer)	December 18, 2017
<u>/s/ ROBERT W. ALSPAUGH</u> <b>Robert W. Alspaugh</b>	Director	December 18, 2017
<u>/s/ KAREN AUSTIN</u> <b>Karen Austin</b>	Director	December 18, 2017
<u>/s/ ALEX W. HART</u> <b>Alex W. Hart</b>	Chairman of the Board of Directors	December 18, 2017
<u>/s/ ROBERT B. HENSKE</u> <b>Robert B. Henske</b>	Director	December 18, 2017
<u>/s/ EITAN RAFF</u> <b>Eitan Raff</b>	Director	December 18, 2017
<u>/s/ JONATHAN I. SCHWARTZ</u> <b>Jonathan I. Schwartz</b>	Director	December 18, 2017
<u>/s/ JANE J. THOMPSON</u> <b>Jane J. Thompson</b>	Director	December 18, 2017
<u>/s/ ROWAN TROLLOPE</u> <b>Rowan Trollope</b>	Director	December 18, 2017

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## Section 2: EX-21.1 (EXHIBIT 21.1)

Exhibit 21.1

### SUBSIDIARIES OF THE REGISTRANT

The chart below lists significant subsidiaries of VeriFone Systems, Inc. as of October 31, 2017.

<b><u>Legal Name</u></b>	<b><u>State or Jurisdiction of Incorporation or Organization</u></b>
VeriFone, Inc.	Delaware
VeriFone Luxembourg S.a.r.l	Luxembourg
Hypercom Corporation	Delaware

VeriFone Nordic AB	Sweden
VeriFone Bermuda Holdings, L.P	Singapore
Hong Kong Branch of VeriFone Luxembourg S.a.r.L	Hong Kong
VeriFone Singapore Pte. Ltd.	Singapore
VeriFone Holding GmbH (formerly known as, Hypercom Holdings GmbH)	Germany
Point Transaction Systems AB.	Sweden
Verifone Systems International Ltd	Labuan
VeriFone GmbH (formerly known as, Hypercom GmbH)	Germany
Verifone Services UK&Ireland Ltd. (formerly known as, Commidea Ltd.)	United Kingdom
Point Transaction Systems Oy	Denmark
Electronic Transaction Group Nordic Holding AB	Sweden
InterCard AG	Germany
VeriFone Israel Ltd.	Israel
Point Transaction Systems SAS	France
Hypercom France SARL	France
Point Transaction Systems SAS	France
Babs Paylink AB (51% owned)	Sweden
Empresa Brasileira Industrial, Comercial e Servicos Ltd.	Brazil
VeriFone (U.K.) Limited	United Kingdom
Point International AS	Norway
Point Transactions Systems AS	Norway
VeriFone Systems Australia Pty. Ltd.	Australia
EFTPOS New Zealand Limited	New Zealand
Verifone New Zealand	New Zealand
VeriFone do Brasil Ltda.	Brazil
Verifone Systems France SAS	France
VeriFone Media, LLC (formerly known as, Clear Channel Media LLC)	Delaware
Verifone India Sales Private Limited	India
VeriFone Africa (Pty) Ltd (formerly known as, Destiny Electronic Commerce Pty Ltd)	South Africa
VeriFone Australia (HAPL) Pty. Ltd. (formerly known as, Hypercom Australia Pty Ltd)	Australia
VeriFone Canada, Inc.	Canada
VeriFone S.A. de C.V.	Mexico
VeriFone Elektronik ve Danismanlik Ltd. Sti.	Turkey
VeriFone Argentina	Argentina
VF Systems Pte Ltd (Taiwan)	Taiwan
Hypercom Financial Terminals AB (Sweden)	Sweden
Verifone Thailand Ltd	Thailand
VeriFone Systems Spain SLU (formerly known as, Lipman Ingenieria Electrica SLU)	Spain
VeriFone Intermediate Holdings, Inc.	Delaware

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## Section 3: EX-23.1 (EXHIBIT 23.1)

**Exhibit 23.1**

### Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-3 No.333-175235) of VeriFone Holdings, Inc.,
2. Registration Statement (Form S-8 No.333-217236) pertaining to the VeriFone Systems, Inc. Amended and Restated 2006 Equity Incentive Plan,
3. Registration Statement (Form S-8 No.333-203456) pertaining to the VeriFone Systems, Inc. Amended and Restated 2006 Equity Incentive Plan,
4. Registration Statement (Form S-8 No.333-189994) pertaining to the VeriFone Systems, Inc. Amended and Restated 2006 Equity Incentive Plan,

5. Registration Statement (Form S-8 No.333-176242) pertaining to the VeriFone Systems, Inc. Amended and Restated 2006 Equity Incentive Plan,
6. Registration Statement (Form S-8 No.333-171324) pertaining to the Hypercom Corporation 2010 Equity Incentive Plan, Hypercom Corporation 2000 Broad-Based Stock Incentive Plan, Hypercom Corporation Nonemployee Directors' Stock Option Plan and Hypercom Corporation Long-Term Incentive Plan,
7. Registration Statement (Form S-8 No.333-154169) pertaining to the VeriFone Systems, Inc. Amended and Restated 2006 Equity Incentive Plan,
8. Registration Statement (Form S-8 No.333-138533) pertaining to the Lipman Electronic Engineering Ltd. 2003 Stock Option Plan, Lipman Electronic Engineering Ltd. 2004 Stock Option Plan, Lipman Electronic Engineering Ltd. 2004 Share Option Plan and Lipman Electronic Engineering Ltd. 2006 Share Incentive Plan,
9. Registration Statement (Form S-8 No.333-132650) pertaining to the VeriFone Holdings, Inc. 2006 Equity Incentive Plan, and
10. Registration Statement (Form S-8 No 333-124545) pertaining to the VeriFone Holdings, Inc. New Founders' Stock Option Plan, VeriFone Holdings, Inc. Outside Directors' Stock Option Plan and VeriFone Holdings, Inc. 2005 Employee Equity Incentive Plan;

of our reports dated December 18, 2017, with respect to the consolidated financial statements of VeriFone Systems, Inc. and the effectiveness of internal control over financial reporting of VeriFone Systems, Inc. included in this Annual Report (Form 10-K) of VeriFone Systems, Inc. for the year ended October 31, 2017.

/s/ Ernst & Young LLP

San Jose, California  
December 18, 2017

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## Section 4: EX-31.1 (EXHIBIT 31.1)

**Exhibit 31.1**

### CERTIFICATION

I, Paul S. Galant, certify that:

1. I have reviewed this quarterly report on Form 10-K of VeriFone Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's

internal control over financial reporting.

By: /s/ Paul S. Galant

Paul S. Galant

Chief Executive Officer

Date: December 18, 2017

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## Section 5: EX-31.2 (EXHIBIT 31.2)

**Exhibit 31.2**

### CERTIFICATION

I, Marc E. Rothman, certify that:

1. I have reviewed this quarterly report on Form 10-K of VeriFone Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (a) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Marc E. Rothman

Marc E. Rothman

Executive Vice President and Chief Financial Officer

Date: December 18, 2017

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## Section 6: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.**

I, Paul Galant, Chief Executive Officer, and I, Marc Rothman, Chief Financial Officer, each certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the report of VeriFone Systems, Inc. (the "Company") on Form 10-Q for the quarterly period ended October 31, 2017 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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: December 18, 2017

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

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