

VERIFONE SYSTEMS, INC.
Form 10-K
December 19, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended October 31, 2012

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number 001-32465

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

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

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

Securities registered pursuant to Section 12(b) of the Act:
Title of Each Class Name of Each Exchange on Which Registered
Common Stock, \$.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 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.

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

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

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

As of April 30, 2012, the aggregate market value of the common stock of the registrant held by non-affiliates was approximately \$5.0 billion based on the closing sale price as reported on the New York Stock Exchange.

There were 107,966,110 shares of the registrant’s common stock issued and outstanding as of the close of business on December 7, 2012.

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 2013 Annual Meeting of Stockholders, which is expected to be filed not later than 120 days after the Registrant's fiscal year ended October 31, 2012.

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FORWARD LOOKING STATEMENTS

This report 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. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology 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. 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. These factors may cause our actual results to differ materially from those expressed or implied in any forward-looking statement.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee 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 relate to future events or our future financial performance, and 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. These risks and other factors include those listed under 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.

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PART I

ITEM 1. BUSINESS

Our Company

VeriFone (VeriFone Systems, Inc.) is a leading global provider of payment solutions that enable secure electronic payment transactions and value-added services at the POS (point of sale). We provide payment solutions and expertise at the POS via merchant-operated, consumer-facing, and self-service systems for, among others, the financial, retail, hospitality, petroleum, transportation, government, and healthcare markets. Since 1981, we have designed and marketed payment solutions that facilitate the long-term shift toward electronic payment transactions and away from cash and checks in both developed and emerging economies worldwide.

Our payment solutions consist of POS electronic payment devices that run our proprietary and third-party operating systems, security, encryption, application, and certified payment software as well as other value-added applications. Our payment solutions are able to process a wide range of payment types, including signature and PIN-based debit cards, credit cards, contactless or RFID (radio frequency identification) cards and tokens, NFC (near field communication) enabled mobile phones, EMV (Europay, MasterCard and VISA) based payment cards, pre-paid gift and other stored-value cards, EFT (electronic funds transfer), check authorization and conversion, signature capture, and EBT (electronic benefits transfer). We design our payment solutions to meet the demanding requirements of our customers. Our payment systems are available in several modular configurations, offering our customers flexibility to support a variety of connectivity options, including various wired and wireless Internet connectivity infrastructures deployed globally. Our proprietary architecture enables multiple value-added applications, such as gift card and loyalty card programs, healthcare insurance eligibility, and time and attendance tracking, to reside on the same system without requiring recertification when new applications are added. We are an industry leader in multi-application payment system deployments and we believe we have the largest selection of certified value-added applications. An increasing number of our electronic payment devices are connected directly to VeriFone-operated processing gateways where we integrate traditional payment and non-payment functionality such as couponing, advertising and mobile NFC-based services for our customers.

In many environments, such as taxi cabs, petroleum dispensers and retail checkout lanes, our payment systems directly face and interact with a consumer and require their attention in order to complete a payment transaction. We have adapted our systems and gateways to capitalize on the time between the initiation and completion of a transaction in order to allow us to present targeted and relevant offers, advertising, and coupons to the consumer through media displays incorporated within our systems. This media-enabled capability brings new opportunities for revenue streams to VeriFone as well as merchants, and offers advertising and content providers with a new, efficient delivery channel.

Services are an increasingly important part of our overall revenue mix. We offer more traditional services that span different aspects of the payments ecosystem, including equipment repair and maintenance, gateway processing, remote terminal management, software post-contract support, customized application development, helpdesk services, customer service, warehousing and encryption or tokenization. We also offer full-service solutions, such as our Point's "All in One" payment solution (also referred to as "Payment-as-a-Service"), as well as end-to-end estate management services. In addition, we offer more market-specific services such as our GlobalBay mobile retailing software, LIFT retail services deployed at gas stations and convenience stores, and our digital media solutions, which utilize media-enabled equipment to display digital content, such as our VNET (VeriFone digital network), in taxis and at gas station petroleum dispensers. We also offer our customers technical support for our installed payment systems, consulting and project management services for system deployment, and customization of integrated software solutions.

Our customers include, among others, financial institutions, payment processors, petroleum companies, large retailers, taxi fleets, transportation agencies, government organizations, healthcare companies, quick service restaurants, advertisers and media companies. We also sell to distributors, resellers, system integrators and ISOs (independent sales organizations that focus on re-sale to small merchants) who resell our products. Increasingly, we are engaging with non-traditional industry participants, such as alternative payment companies, mobile phone operators, mobile wallet providers, coupon/offer providers, and social media networks, who desire access and integration with our payment solutions at the POS to deliver their services and utilize sales and shopper related data.

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Our Company History

VeriFone, Inc., our principal operating subsidiary, was incorporated in 1981. Shortly afterward, we introduced the first check verification and credit authorization device ever 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. became a publicly traded company in 1990 and was acquired in 1997 by HP (Hewlett-Packard Company), which operated it as a division until July 2001, at which time HP sold VeriFone, Inc. to Gores Technology Group, LLC, a privately held acquisition and investment management firm, in a transaction led by our Chief Executive Officer, Douglas G. Bergeron. In July 2002, Mr. Bergeron and certain investment funds affiliated with GTCR (GTCR Golder Rauner, LLC), a private equity firm, led a recapitalization in which VeriFone Systems, Inc. was organized as a holding company for VeriFone, Inc., and GTCR-affiliated funds became our majority stockholders. We completed our 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.

Since becoming a public company in 2005, we have grown both organically and through strategic acquisitions that have expanded our product and service offerings and increased our geographic reach.

In November 2006, we acquired Lipman (Lipman Electronic Engineering Ltd.), a provider of electronic payment systems headquartered in Israel.

In December 2010, we acquired certain business assets and liabilities of Gemalto N.V.'s e-payment terminals and systems business unit, which primarily serviced customers located in the Middle East, South Africa, and India.

In June 2011, we acquired all of the outstanding shares of Destiny Electronic Commerce (Proprietary) Limited, which traded as CSC. CSC, previously one of our distributors, brought to us payment technologies, services, and solutions at the POS for banking, retail, and petroleum, providing value-added services and end-to-end estate management services and tools in Sub-Saharan Africa and the Indian Ocean Islands. We also gained CSC's range of software applications for compliance with card industry specifications and standards.

In August 2011, we completed our acquisition of Hypercom (Hypercom Corporation), a global provider of electronic payment solutions and value-added services at the POS to, among others, banks and other financial institutions, processors, large scale retailers, smaller merchants, quick service restaurants, and users in the transportation, petroleum, healthcare, prepaid, and self-service markets. Immediately prior to the acquisition, Hypercom divested its businesses in the U.S., United Kingdom, and Spain to independent third parties. Following the acquisition, Hypercom became our wholly-owned subsidiary.

In November 2011, we acquired Global Bay Mobile Technologies, a U.S.-based provider of next-generation mobile retail solutions and applications that leverage existing POS, e-commerce, and traditional store systems in the retail environment, such as applications that enable use of handheld tablets or portable devices to provide personalized services anywhere in a store or enable real-time visibility to inventory across an enterprise.

In December 2011, we completed our acquisition of Point (Electronic Transaction Group Nordic Holding AB), a Swedish company operating the Point International business. Point was previously one of our distributors and is Northern Europe's largest provider of payment and gateway services and solutions for retailers. Following the acquisition, Point became our wholly-owned subsidiary.

In January 2012, we acquired San Francisco-based ChargeSmart (ChargeSmart Smart, Inc.), which offers online payment solutions for consumers and billers. Following the acquisition, we re-branded ChargeSmart as VeriFone Commerce Solutions, Inc.

In March 2012, we acquired LIFT (LIFT Retail Marketing Technology, Inc.), a provider of a digital marketing system that integrates with retail POS systems in the convenience store and petroleum markets. LIFT is based in Atlanta, Georgia.

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Our Industry

The electronic payment solutions industry encompasses systems, software, and services that enable the acceptance and processing of electronic payments for goods and services and provide other value-added functionality at the POS. The electronic payment system is an important part of the payment processing infrastructure. We believe that current industry trends, including the continuing global shift toward electronic payment transactions and away from cash and checks, the rapid penetration of electronic payments in emerging markets as those economies modernize, the increasing proliferation of Internet connectivity and wireless communication, and an increasing focus on security to combat fraud and identity theft, will continue to drive demand for electronic payment systems.

The electronic payment system serves as the interface between consumers and merchants at the POS and with the payment processing infrastructure. Traditional electronic payment systems capture critical electronic payment data, secure the data through sophisticated encryption software and algorithms, and route the data across a range of payment networks for processing, authorization, and settlement. Payment networks include credit card networks, such as Visa, MasterCard, and American Express, that route credit card and signature-based debit transactions, as well as EFT networks, such as STAR, Interlink, and NYCE, that route PIN (personal identification number) based debit transactions. In a traditional electronic payment transaction, the electronic payment system first captures and secures consumer payment data from one of a variety of payment types, such as a credit or debit card, smart-card, contactless or RFID card, or mobile phone. Consumer payment data is then routed from the electronic payment system to the appropriate payment processor and financial institution for authorization. Finally, the electronic payment system receives the authorization to complete the transaction between the merchant and consumer.

In many markets around the world, electronic payment systems are becoming increasingly more complex due to a number of technology factors and market forces that parallel the overall macro trend of interconnected devices and convergence of online and offline commerce. In large part due to its physical positioning, proximity to the consumer, and integration with the retail system, the payment system itself is becoming a richer point of interaction and a hub that integrates multiple payment and non-payment related services.

Industry Trends

Our industry's growth continues to be driven primarily by the shift to electronic payments and away from cash and checks, the increasing mobility of payment systems, a growing emphasis on contactless payments, the emergence of payments initiated by consumers through mobile wallets, the development of self-service payment systems, the growth of media-enabled payment solutions, and continued focus on security to reduce fraud and identity theft. In the U.S., we expect that our industry's growth may also be driven by the potential shift to EMV smartcard-based payments. We believe that all these trends will continue to drive demand for electronic payment systems in the future.

Shift to Electronic Payments

Certain regions, such as Eastern Europe, Latin America, and Asia, currently have relatively low rates of electronic payments, but are experiencing a growing number of such transactions. The adoption of electronic payments in these regions is driven primarily by economic growth, infrastructure development, support from governments seeking to modernize their economies and to encourage electronic payment transactions as a means of improving tax collection, and the expanding presence of Internet connectivity.

Mobile Technologies

Broadband Internet connectivity provides faster transmission of transaction data at a lower cost than traditional dial-up Internet connectivity, enabling more advanced payment and other value-added applications at the POS. Major

telecommunications carriers have expanded their communications networks and lowered fees, which allows more merchants to utilize broadband Internet connectivity at the POS more cost-effectively. The faster processing and lower costs associated with broadband Internet connectivity have opened new markets for electronic payment systems, including many that have been primarily cash-only industries.

New portable electronic payment solutions are being developed to increase transaction processing speed, throughput, and mobility at the POS, and offer significant security benefits by enabling consumers to avoid relinquishing their payment cards. A portable device, such as our PAYware Mobile Enterprise, can be presented to consumers to allow them to pay at the table in full-service restaurants or to pay in other environments, such as outdoor arenas, pizza delivery, taxi cabs, farmers' markets, and anywhere within the merchant's store. Our PAYware Mobile Enterprise payment solution works with certain smartphones and tablets to provide merchants with a portable payment system within the store that provides for "end-to-end" encryption of the card data being processed, which is designed to ensure the card data is protected at all times.

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The increased use of wireless Internet connectivity is increasing demand for compact, easy-to-use, and reliable payment solutions that can connect to the Internet wirelessly. The flexibility, ease of installation, and portability of wireless payment solutions make this technology an attractive and often more cost-effective alternative to more traditional payment solutions that typically must be located at a cash register and require a physical cord to connect to the Internet.

Contactless Payments

Payments initiated via NFC technology continue to grow in popularity with trials, pilots, and rollouts taking place. Contactless payment credentials can be in the form of credit cards, key fobs, or other devices that use radio frequency to communicate with the POS system. This contactless acceptance infrastructure is not only capable of reading cards, key fobs, or token-based RFID payment media, but is also compatible with payments initiated via mobile phones using NFC technology. NFC technology goes beyond the exchange of payment credentials supported by contactless payment cards by implementing a bi-directional communication protocol between the consumer's NFC enabled device and the retailer's payment system. Bi-directional exchange of content enables value-added services such as loyalty programs, alternative payment schemes, offer and coupon issuance and redemption, electronic receipt distribution, and item level data capture.

Payments Initiated By Consumers Through Mobile Wallets

Mobile phone-initiated payments through "mobile wallets" have garnered significant industry attention, and there are a number of pilot programs around the world that accept mobile wallets. Mobile wallets allow the consumer to pay for goods and services, while providing access to value-added services such as instantly redeemable coupons, electronic receipt data, alternative payment schemes, and other applications. A number of different technological implementations are currently being tested, such as NFC, 2D barcodes, high-frequency sound, or simply paying with your name or phone number. All of these applications require changes to the POS infrastructure to operate effectively within existing payment systems and processes to provide merchants and consumers with a seamless experience.

Recently, industry leaders have launched several important initiatives intending to drive mobile payments acceptance into the merchant community. For example:

In November 2010, the three largest U.S. mobile network operators, AT&T, Verizon, and T-Mobile, announced a joint venture branded "Isis". Isis's stated goal is "to build a nationwide mobile commerce network utilizing smartphone and near-field communication (NFC) technology." Isis has continued to gain momentum as it initiated partnerships to commercialize its NFC mobile wallet solution. In March 2012, we announced that we are working with Isis to integrate the Isis Mobile Commerce Application in our current and future NFC-enabled payment systems.

In September 2011, "Google Wallet" (which Google announced in May 2011) went live. This proof of concept is designed to be compatible with any existing contactless reader already deployed for payment. In addition, certain large retailers in the U.S. have worked closely with us and Google to implement "Single Tap" functionality that allows the consumer to automatically pay and redeem a coupon via a single tap of their phone on our NFC-enabled payment systems installed at those merchants' locations. In August 2012, Google released version 2.0 of the Google Wallet application. It allows consumers to load any of their credit and debit cards into their Google Wallet.

In September 2011, PayPal announced a comprehensive strategy to become a mainstream payment brand at brick and mortar retail locations by providing consumers with the ability to access their PayPal "cloud-based" account through a variety of mechanisms.

In May 2012, we announced that we are working with PayPal to increase PayPal wallet acceptance at large retailers across the U.S.

To deliver the most user friendly and comprehensive mobile wallet experience to consumers at the POS, the Google, Isis and PayPal mobile payment initiatives require the merchant to deploy state-of-the-art NFC-enabled payment devices in their checkout lanes. Certain of our existing payment systems that are already installed at merchant locations may be easily upgraded to support these, and other, NFC- and non-NFC-enabled mobile wallet payment schemes.

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Self-Service Payment Systems

EMV is the global interoperability standard administered by Visa, MasterCard, American Express, Discover and JCB, for the use of chip based credit/debit cards, and has been adopted by the majority of issuers and acquirers internationally for several years. In our International segment, the growth in EMV transactions that require consumers to enter a PIN code has had an effect on all aspects of the payment acceptance infrastructure, including self-service market segments. Self-service applications, such as automated ticketing machines, self-order kiosks, bill payment, product vending, telephone calling card top-up, and self-checkout applications that historically relied on a simple magnetic stripe reader to process credit and debit payments now require complex and secure payment systems to interact with the consumer safely and securely. Due to the complexities involved in developing compliant, secure, and certified payment solutions, many self-service vendors have turned to traditional payment system vendors such as us to provide easily integrated and pre-certified payment modules to enable the future of electronic payments in these environments.

Media Enabled Payment Solutions

The increasing number of media-enabled payment solutions is allowing merchants and content providers to engage consumers at the POS particularly at the moment of a purchasing decision. The time between the initiation and completion of a transaction on a media-enabled payment solution, such as those located in a taxi or at a petroleum dispenser, can be used to present targeted digital media content, advertising, relevant offers, coupons, and other related content to the consumer, as well as to allow merchants to utilize certain data related to such transactions to allow them to better service their customers.

Security to Reduce Fraud and Identity Theft

Security is a driving factor in our industry, as organizations that want to accept electronic payments endeavor to meet ever-escalating governmental requirements related to the prevention of identity theft as well as operating regulation safeguards issued by the credit and debit card associations, members of which include Visa International, MasterCard Worldwide, American Express, Discover Financial Services, and JCB Co., Ltd. These card associations have established the PCI SSC (Payment Card Industry Security Standards Council) to oversee and unify industry standards in the areas of payment card data security, known as PCI standards, which consist of PTS (PIN Transaction Security), the PCI-DSS (PCI Data Security Standard) for enterprise data security, and the PA-DSS (Payment Application Data Security Standard) for payment application data security. These standards continually evolve to become more stringent and increasingly dependent on complex hardware-based measures to protect all payment related data.

The continuous evolution of industry security standards drives recertification and replacement of electronic payment systems, particularly in Europe and the U.S. In order to offer electronic payment systems that connect to payment networks, electronic payment system providers must certify their products and services with card associations, financial institutions, and payment processors and comply with government and telecommunications company regulations. This certification process 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.

Storage and handling of credit card data by retailers represents a constant threat of fraud and identity theft, creating tremendous risk of financial and reputational losses.

The protection of cardholder data currently requires retailers to:

- operate and install only approved PIN-Entry devices;

• upgrade or modify processing systems to ensure all applications that capture, manage, transmit, or store cardholder information within the enterprise are compliant with PCI-DSS and PA-DSS;

• upgrade wired/wireless networking infrastructure to monitored high-security routers/switches/hubs;

• make wholesale changes to password and other system access policies; and

• undertake costly quarterly or annual security audits by approved third-party auditors.

The current industry-wide response to this threat is to set site security policies across all enterprise systems. This approach is difficult and costly due to the complexity of most retail IT (Information Technology) environments, and is unlikely to guarantee protection against data breaches. Furthermore, any system change, no matter how small, may be costly and time consuming to

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retailers as modification of any portion of the POS system usually requires end-to-end re-certification. Recognizing this, the PCI SSC recently published the new P2P CHD security guidelines governing point-to-point encryption of cardholder data which aim to protect the data at its source, removing many of the critical dependencies described above by placing emphasis on the security of the payment device itself to protect cardholder data.

The recent practice of utilizing smartphones and tablet computers as payment acceptance devices is another industry trend that has elevated payment security concerns. To address the new risks associated with this practice, in September 2012 the PCI-SSC released The PCI Mobile Payment Acceptance Security Guidelines. In these guidelines, the PCI-SSC states that "mobile devices may have a broader set of functionalities than standard desktop and laptop computers, resulting in more security vulnerabilities." The PCI-SSC lists as its first objective to "prevent account data from being intercepted when entered into a mobile device. This can be accomplished via a validated PCI P2PE solution." This new standard acknowledges that general purpose consumer electronic devices like smartphones and tablets do not provide adequate protection of cardholder information and stipulates that proper deployment of these applications can only be accomplished when they are used in conjunction with secure devices which meet PCI-PTS, PCI-DSS and PA-DSS standards.

EMV Smartcard-based Payments in the U.S.

EMV, the global interoperability standard administered by Visa, MasterCard, American Express, Discover and JCB for the use of chip based credit/debit cards, has been in widespread use in most major international markets for nearly a decade, having been adopted by a the majority of issuers and acquirers globally for several years. The U.S. stands out at as the last major country that has yet to fully migrate the EMV standard. Visa recently announced incentives for U.S. merchants to migrate their infrastructures towards EMV-compliant smartcard and contactless or NFC-capable POS systems, leading to a mandate that includes a liability shift to non-compliant merchants effective October 1, 2015. Important milestones of this program include:

Effective October 1, 2012, Visa eliminated the requirements for eligible merchants to annually validate their compliance with the PCI-DSS for any year in which at least 75 percent of the merchant's Visa transactions originate from smartcard and NFC-enabled POS systems.

• Visa will require U.S. acquirer processors and sub-processor service providers to support merchant acceptance of chip transactions by April 1, 2013.

• Effective October 1, 2015, Visa will institute a U.S. liability shift for domestic and cross-border counterfeit card-present POS transactions, moving liability to merchants that are not EMV compliant.

We believe that Visa's announcement may represent the beginning of a shift in the U.S. away from the less secure magnetic stripe infrastructure towards more secure contact, contactless and NFC-based payments similar to the shift that took place in Europe. Such a shift would likely result in an ongoing upgrade and replacement cycle for payment systems in the foreseeable future. MasterCard and American Express have also both announced similar programs with timelines similar to Visa's.

Products and Services

Our System Solutions

Our system solutions are available in several modular configurations, offering our customers flexibility to support a variety of consumer payment and connectivity options, including wireline and wireless Internet connectivity. Unlike traditional ECRs (Electronic Cash Registers), our systems typically face the consumer and allow the shopper to keep

possession of their card, enter a PIN, sign their name electronically, or tap their NFC enabled phone or contactless card to complete a payment. These consumer-facing functions require that our systems meet stringent industry security mandates designed to protect this highly sensitive information.

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Countertop

Our countertop electronic payment systems accept magnetic, smart card, contactless or RFID cards, and NFC-enabled payment options, and support credit, debit, check, EBT, and a full range of pre-paid products, including gift cards and loyalty programs. Our countertop solutions are available under the VX and Optimum solutions brands. Our most recent generation, VX Evolution, incorporates technologies such as high performance 32-bit ARM microprocessors, high resolution graphic displays, touch screen navigation, dramatically increased storage capacity, PCI-PTS v3.0 security approvals and fully integrated NFC technology. VX Evolution product line extensions target the high-end countertop broadband and wireless Internet solutions for financial, retail, multi-lane retail, hospitality, government, and healthcare market segments. Our Optimum product line is similar in functionality to our VX product line, but is differentiated ergonomically, as well as possessing unique software certifications and capabilities. We market and sell the Optimum product line in certain international markets. Optimum extends our ability to reach more merchants through incremental sales channels in the same geographies. We design our products in a modular fashion to offer a wide range of options to our customers, including the ability to deploy new innovations at minimal cost as technology standards change. Our electronic payment systems are designed to easily integrate with a full range of optional external devices, including secure PIN pads, check imaging equipment, barcode readers, contactless or NFC readers, and biometric devices. Our secure PIN pads support credit and debit transactions, as well as a wide range of applications that are either built into electronic payment systems or connect to ECRs and POS systems. In addition, we offer an array of certified software applications and application libraries that enable our countertop systems and secure PIN pads to interface with major ECR and POS systems.

Mobile

We offer a line of mobile solutions that support Internet-based CDMA, GPRS, Bluetooth, and WiFi technologies based on our VX Evolution and Optimum platforms for secure, “always on” connectivity. We expect that market opportunities for mobile solutions will continue to be found in developing countries where wireless telecommunications networks are being deployed at a much faster rate than wireline networks. We have leveraged our wireless system expertise to enter into new markets for electronic payment solutions such as the emerging pay-at-the-table market solutions for full-service restaurants and systems for transportation and delivery segments where merchants and consumers are demanding secure payment systems to reduce fraud and identity theft.

Solutions such as our PAYware Mobile Enterprise hardware and secure gateway services provide hardware security and remote management capabilities that we believe are critical to enabling widespread adoption of smartphones and tablet-based solutions in the retail enterprise. Smartphones and tablets based on the popular Apple iOS and Google Android operating systems are increasingly being utilized to conduct payment transactions and enable new mobile retailing solutions for merchants. At the same time, concerns have been raised by the PCI SSC regarding their suitability as payment acceptance devices due to their inherently open architecture. The PCI SSC recently announced its recommendations regarding how to appropriately secure transactions on these types of devices, including mandates to only utilize card readers that provide hardware-based encryption of all cardholder information prior to entry into the mobile device, which is available through PAYware Mobile Enterprise.

Multimedia Customer Facing

We offer a line of products specifically designed for consumer-facing functionality at the POS. Our consumer facing solutions are offered under our MX Solutions brand. These products include large, easy-to-read color graphic displays, user-friendly interfaces, ECR interfaces, durable key pads, signature capture functionality, and other features that are important to serving customers in a multi-lane retail environment. For example, our signature capture devices allow a merchant to automatically store signatures and transaction data for fast recall, and the signature image is time stamped for fraud prevention. Our MX solutions also feature a modular hardware architecture that allows merchants to

introduce capabilities such as contactless or NFC. Our consumer-facing system solutions also enable merchants to display advertising, promotional content, loyalty program information, and electronic forms in order to market products and services to consumers at the POS. We have extended our product portfolio to support these same features in self-service market segments such as taxis, parking lots, ticketing machines, vending machines, gas pumps, self-checkout, and quick service restaurant markets.

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Contactless

We offer a variety of contactless or NFC payment solutions across multiple product lines, specifically designed for consumer-facing transactions utilizing contactless cards, tokens, or NFC-enabled mobile phones. These product solutions include integrated, modular, and stand-alone contactless readers for both indoor and outdoor payment system solutions. Our contactless payment solutions are certified in accordance with industry standards maintained by EMVCo (EMVCo LLC, a smart card standards organization operated by American Express, MasterCard, Visa and JCB that has prescribed specifications for electronic payment systems to receive certifications for smart card devices and applications) and major card associations, including Visa, MasterCard, American Express, and Discover Financial Services. In addition, we have adapted several of these contactless payment systems to include acceptance of regional contactless card solutions required by our customers. Our contactless platform is designed to be consistent across its entire product portfolio and provides a critical degree of isolation between the various contactless and NFC applications. Each of the major card brands has a unique contactless application that is separately certified by a third party laboratory and managed independently. In addition, each NFC mobile wallet provider likewise has a unique application that must co-exist with the card brand contactless applications. When added together, the average payment system in the future will likely need to support six to eight unique contactless and NFC applications, thus illustrating the need for a sophisticated platform and managed services infrastructure such as those we offer.

Petroleum

Our family of products for petroleum companies consists of integrated electronic payment systems that combine electronic payment processing, fuel dispensing, and ECR functions, as well as secure payment systems for integration with leading petroleum pump controllers and systems. These products are designed to meet the needs of petroleum company operations, where rapid consumer turnaround, easy pump control, and accurate record keeping are imperative. These products allow our petroleum company customers to manage fuel dispensing and control, and enable “pay at the pump” functionality, cashiering, store management, inventory management, and accounting for goods and services at the POS. They are compatible with a wide range of fuel pumps, allowing retail petroleum outlets to integrate our systems easily at most locations. We have expanded this suite of products with our Secure PumpPAY range of high security self-service devices and related software products targeted at integration with petroleum dispensers in domestic and international markets. Our Secure PumpPay is a highly secure payment module designed to retrofit existing petroleum dispensers with state-of-the-art secure payment capabilities. We have also introduced our PAYmedia service that leverages the large color screen of Secure PumpPay and our VNET media platform to enable paid digital advertising and couponing applications at the petroleum dispenser that can offset the cost of the security upgrade for the operator and offer the possibility of an ongoing shared advertising revenue stream with the operator. Our VNET at the Pump media platform delivers short-form video and digital coupons at eye-level displays at the petroleum dispenser, engaging consumers actively involved in a purchase. PAYmedia creates an ideal environment to move consumers inside the station for special offers, build general awareness or drive traffic around key locations with highly localized messaging.

Server-based Payment Processing Software and Middleware

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

PAYware Link LE), value-added payment solutions (PAYware Gift and PAYware Prepay), and card management systems for issuers and acquirers (PAYware CMS).

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Self-Service Payment Solutions

We offer a line of secure payment hardware and software integration modules designed to enable self-service solutions such as vending machines, ATMs (automatic teller machines), ticketing kiosks, petroleum dispensers, public transportation turnstiles and bus ticketing, self-checkout, bill payment, and photo finishing kiosks to securely begin accepting magnetic stripe, EMV chipcard or contactless and NFC payment schemes. These solutions leverage our widely adopted VX, MX, and Artema Modular Solutions security architecture, developer tools and an extensive developer network enabling our global customer base to leverage existing certified payment applications or easily provide customized solutions for unique self-service environments. Designed for both indoor and outdoor use in harsh environments, these components easily integrate with existing self-service solutions and securely segregate payment processing from the system of the host device.

Retail Bank Branch Solutions

Our MX retail banking solutions provide banks with ways to instantly identify customers, streamline teller transactions, quickly create digital documents with electronic signatures, promote additional bank services, and automate the loan desk. Implementing signature capture helps to reduce paperwork associated with signed documents and facilitate the collection of biometric signature data for subsequent analysis. MX solutions also provide banks with an interactive and cost-efficient platform to promote the bank's brand and in-store products and services to customers using targeted and rich media.

Mass Transportation Solutions

Transportation systems worldwide represent a key area that is currently not utilizing electronic payments broadly. In conjunction with our partners, we are driving development of new wireless solutions for areas such as subway turnstiles and bus ticketing, and self-service solutions in areas such as mass transit and parking. Our TransitPAY solution enables bus tracking via real-time information, with the added benefit of supporting future fare payment applications across a common "open standards" hardware platform. TransitPAY provides real-time bus location details that can be shared with riders via SMS text message, website, or bus shelter display to alert them of the next bus's arrival time.

Network Access Solutions

Our network access solutions are designed and customized to support the unique requirements of the electronic transaction industry by providing networking hardware technology and the communications infrastructure necessary to achieve connectivity within the POS environment. We offer two distinct network access solutions tailored to meet the needs of customers who are trying to either extend the life of their existing networks or those who are in the process of building out state-of-the-art, high-speed, high availability access to their processing infrastructure. Our IENs (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, such as X.25, frame relay, SNA and TCP/IP. Our NACs (Network Access Controllers), known as MegaNAC (Mega Network Access Controller) and IntelliNAC (Intelligent Network Access Controller), are intelligent communications devices that provide a wide range of digital and analog interfaces, line and data concentration, protocol conversion and transaction routing among other features. Our NAC's are offered with IntelliView, an enterprise-level system that provides the tools needed to manage POS solutions relying on NAC networks for transport of electronic payment transaction data and other related data.

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GlobalBay Mobile Retail Software

Our GlobalBay mobile solutions engage customers with personalized interaction and additional POS options, providing added convenience without adding additional sales associates. Deployed in conjunction with our PAYware Mobile Enterprise hardware solutions, an Apple iPad® 2 or higher, iPhone® or iPod Touch® can become a fully capable and secure mobile POS device. GlobalBay software is designed to maximize the retailer's investment in such mobile devices, offering a comprehensive range of applications to improve multiple facets of the retailer's operations. Our GlobalBay mPOS module extends the retailer's current POS system to these mobile devices, creating selling opportunities anywhere in the store while providing the same functionality as fixed cash registers as well as such advanced functionality as bar code scanning, price lookup, promotions and acceptance of all forms of electronic payments. Our GlobalBay Clienteling module provides a single, centralized solution for retailers to manage all aspects of customer relations by allowing the merchant to access customer history, preferences and buying habits anywhere in the store. Our GlobalBay mInventory module extends existing inventory system functionality to mobile devices, and our GlobalBay mLookup module provides store associates with real-time access to pricing and inventory data.

Our Services

Services are an increasingly important part of our overall revenue mix, accounting for over 28.2% of net revenues in our fiscal year ended October 31, 2012. Our growing array of service offerings span many different aspects of the payments ecosystem, including equipment repair and maintenance, advertising, gateway processing, remote terminal management, software maintenance, customized application development, helpdesk, customer service, encryption or tokenization, and more recently our "All-in-one" payment solution and value-added cloud software offerings.

Payment-as-a-Service

Through our wholly-owned Point subsidiary, we are the leading provider of electronic payment solutions in Northern Europe, focused on providing comprehensive payment services to merchants. Point serves businesses, from small shops to multi-national retail chains that require multi-channel payment capabilities, as well as hotels, restaurants, business-to-business customers, and more. Point historically has served nine European countries, primarily in the Nordic and Baltic regions, but also the United Kingdom and France. With a customer base of over 250,000 individual businesses, representing nearly 700,000 points of sale, Point operates the largest payment system network in Europe. Leveraging the expertise gained from the Point management team and our well-established global infrastructures, we have begun the expansion of these All-in-one payment solutions into other regions.

These payment solutions offer complex and secure features and functions, typically bundled into packages of multiple products and services we refer to as "Basic", "Premium", and "Premium-Plus." Our bundling strategy offers the potential for incremental upgrades to more advanced features and functions as a retailer's business, or the payments industry evolves. Our product and service bundles are comprised of different individual components that together create a seamless solution for the merchant. For example, the electronic payment devices included in these bundles range from mobile devices to stand-alone devices to fully integrated devices that are designed to serve particular customer needs, such as:

- small kiosks and neighborhood stores with limited space;
- large retail chains with multi-lane checkouts;
- restaurants, bars and other hospitality businesses;
- clinics, hospitals, and other healthcare facilities;
- transit modes, including buses, taxis, trains, and airlines;
- hotels, motels, cruise ships, and other hospitality venues; and
- ticket or vending machines.

Warranty and Repair

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

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Managed Services

We support our installed base by providing payment system consulting, deployment, on-site and telephone-based installation and training, 24-hour helpdesk support, repair, replacement of impaired system solutions, asset tracking, and reporting. We provide a single source of comprehensive management services providing support primarily for our own system solutions. Our services address many system configurations, including local area networks, leased-line, and dial-up environments. 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.

Customized Application Development

We provide specific project management services for turn-key application implementations. Our project management services include all phases of implementation, including customized software development, procurement, vendor coordination, site preparation, training, installation, follow-on support, and legacy system disposal. We also offer customer education programs as well as consulting services regarding selection of product and payment methodologies and strategies such as debit implementation. We believe that our client services are distinguished by our ability to perform mass customizations for large customers quickly and efficiently.

VeriFone Media

VeriFone Media is our content delivery business. Advertisers pay us to display their digital advertising content on video screens that we place in the passenger compartment of a taxi or on a petroleum dispenser, or to display their advertising content on a taxi top mounted billboard or elsewhere on a taxi such as with wraps or other taxi staging. Digital advertising content in taxis and at petroleum dispensers is delivered via our VNET media platform alongside certain digital video content provided by NBC in the U.S. and Sky in the United Kingdom. This content includes local news, weather, traffic and public service messages. Our VNET media platform leverages the engagement with the POS and the dwell time in taxis and at petroleum dispensers. With our highly flexible platform, VeriFone Media allows geotargeting, dayparting, audience segmentation, and a host of custom solutions for advertisers and marketers of all sizes.

Taxi Payments

We provide an integrated suite of hardware, software and services to the taxi industry. In-taxi equipment we provide includes secure electronic payment acceptance devices, GPS navigation, wireless communications, and fleet management control units. All payment transactions originated in the taxi are sent wirelessly through our secure payment gateway and generally we earn a service fee related thereto. Our solution also provides the fleet office with a total view of revenues, fleet efficiency, and vehicle operation.

Our taxi payment solutions are currently deployed in multiple U.S. cities, including New York City, Philadelphia, Boston, Chicago, Las Vegas, Miami, Baltimore, and Fort Lauderdale. International installations can be found in London, South Africa and Turkey. Our taxi solutions are designed to address the needs of taxi fleets of any size, as well as independent taxi owners.

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Cardholder Data Security Software

We offer merchants the VeriShield Protect software solution to protect sensitive consumer magnetic stripe data captured from credit and debit cards at the POS. VeriShield Protect encrypts consumer card data at the moment it is swiped, before it enters the retailer's POS system, and maintains that protection until it is outside of the merchant's infrastructure, effectively ensuring that the merchant systems do not handle unencrypted consumer data. VeriShield Protect employs proprietary technology designed to mask the encrypted data in a manner that does not require changes to currently installed POS systems and applications, making adoption of this highly secure solution simple and cost effective for merchants. VeriShield Protect aids merchants in achieving certification for data security standards set forth by the PCI SSC, also adding an additional layer of protection not currently mandated by performing end-to-end encryption using proven secure tamper resistant security module technology. VeriShield Protect is currently available on our VX and MX Solutions product lines. In the U.S., major credit card processors who handle nearly 80% of all domestic credit card volume have adopted VeriShield Protect, effectively making it the de facto standard for the encryption of card data at the POS in the U.S.

Technology

We have developed the following core technologies that are essential to the creation, delivery, and management of our system solutions. We believe these technologies are central to our leadership position in the electronic payment solutions industry.

Platform Architecture

Our secure, multi-tasking, multi-application platform architecture consists of an ARM System-on-Chip, our proprietary operating systems, proprietary security system, multi-application support, data encryption technologies, and file authentication technologies. The combination of these technologies provides an innovative memory protection and separation scheme to ensure a robust and secure operating environment, enabling the download and execution of multiple applications on an electronic payment system without the need for recertification.

Our operating environment and modular design provide a consistent and intuitive user interface for third-party applications as well as our own. We believe our platform design enables our customers to deliver and manage multi-application payment systems in a timely, secure, and cost-effective manner. We continue to enhance and extend the capabilities of our platform to meet the growing demands of our customers for secure multi-application payment systems.

Our consumer-facing and self-service payment system solutions also incorporate a commercial Linux operating system that we have customized to include the security, application resources, and data communication capabilities required in these payment systems. The Linux operating system was chosen for functionality, adaptability, and robustness as well as the readily available development tools for graphical user interface and multi-media content applications.

Libraries and Development Tools

We believe that by delivering a broad portfolio of application libraries and development tools 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 to further take those applications through the card brand certifications for these functions, we are able to significantly reduce the time to obtain certification for our system solutions. 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 timely and consistent implementation of our multi-application system solutions. Further, we maintain a high level of application compatibility across platforms, facilitating 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 numerous 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. In the highly competitive transaction processing market, these institutions are looking for ways to differentiate their solutions by adding additional services beyond credit and debit transaction processing. These value-added applications provide this differentiation and also provide a way to increase merchant retention and revenue for these channels.

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Application Framework

Our SoftPay application framework contains a comprehensive set of pre-certified software modules enabling rapid configuration and delivery of merchant-ready applications for payment processors and financial institutions. We have configured SoftPay for use in a broad range of vertical markets including retail, restaurants, lodging, and rental services. SoftPay supports our comprehensive range of wired and wireless Internet connectivity technologies, including Ethernet, CDMA, GPRS, WiFi, and Bluetooth options.

Remote Terminal Management Systems

Many retailers, merchants, and processors require centralized terminal management systems to automate the deployment and maintenance of electronic payment systems. Common capabilities include software downloads, application management, remote diagnostics, status monitoring, and information reporting. For a monthly fee, we offer integrated terminal management services including gateway, mobile wallet, encryption, remote key loading, and other services. We currently offer these services on an assortment of terminal management systems, each associated with specific terminal models, including: VeriCentre, PAYWare Vision, TermMaster, eTMS, MagIC Management System, and Nurit Control Center. In 2012, we introduced the next generation terminal management system, VeriFone HQ Estate Management System or VHQ. VHQ is designed to securely enable automated management of existing and emerging payment terminal services. It initially replaces PAYware Vision and will consolidate over time our current family of terminal management systems to enable a single point of management for mixed terminal estates. As the market transitions from a more traditional use of our electronic payment systems to a more dynamic use with mobile wallets, EMV, advertising, and other features, this solution is designed to meet the changing needs of the market.

Customers

Our customers include, among others, financial institutions, payment processors, petroleum companies, large retailers, taxi fleets, transportation agencies, government organizations, healthcare companies, quick service restaurants, advertisers and media companies. We also sell to distributors, resellers, system integrators, and ISOs who resell our products. The percentage of net revenues from our ten largest customers is as follows:

	Years Ended October 31			
	2012	2011	2010	
Percentage of net revenues from our ten largest customers	22.8	% 27.4	% 26.7	%

For fiscal years 2012, 2011 and 2010, no single customer accounted for more than 10% of our total net revenues. In fiscal year 2012, no single customer accounted for more than 10% of our net revenues in either of our two reportable segments. During fiscal years 2011 and 2010, Cielo, S.A. and its affiliates accounted for approximately 12.4% and 12.5% of our International segment net revenues, and First Data and its affiliates accounted for approximately 13.0% of North America segment net revenues in both years.

At October 31, 2012, no single customer accounted for more than 10% of our total net accounts receivable. At October 31, 2011, Cielo S.A. and its affiliates accounted for approximately 10.0% of our total net accounts receivable.

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Sales and Marketing

Internationally, we have historically relied upon distributors to represent us in countries or geographies where we did not have a direct presence. During fiscal years 2012 and 2011, we have expanded the number of countries where we maintain offices, in part through our recent acquisitions.

Through our Point subsidiary, we provide electronic payment solutions, consultation, installation, and support directly to merchants and other businesses, including restaurants, hotels, and multinational retail chains requiring multi-channel payment capabilities. In the future, we plan to expand the Payment-as-a-Service solution to markets outside Point's historic geographic footprint.

Our North American sales teams are focused primarily on financial institutions, payment processors, third-party distributors, and value-added resellers, and on specific vertical markets, such as multi-lane retail, petroleum, restaurants, bank branches, self-service payment systems, government, transportation, taxi fleets, healthcare and digital content providers. Typically, each sales team includes a general manager or managing director, account representatives, business development personnel, sales engineers, and customer service representatives with specific vertical market expertise. The sales teams are supported by client services, manufacturing, product development, and marketing teams to deliver products and services that meet the needs of our diverse customer base.

Our marketing group is responsible for product management, account management, program marketing, corporate communications, and public relations. Our product management group analyzes and identifies product and technology trends in the marketplace and works closely with our research and development group to develop new products and enhancements. Our program marketing function promotes adoption of our branded solutions and services through go-to-market solution campaigns that leverage traditional business-to-business and business-to-consumer media channels, the Internet, social media, customer relationship management technology, and affiliations with industry and trade associations. Our corporate communications function coordinates key market messaging across regions and manages our public relations.

As of October 31, 2012, we had 910 sales and marketing employees, representing approximately 18% of our total workforce.

Global Outsourcing and Manufacturing Operations

We outsource our product manufacturing to various suppliers in the EMS (Electronic Manufacturing Services) industry. Our primary EMS providers have been located in China, Singapore, Malaysia, Brazil, Germany, Romania, and France. We have enabled direct shipment capability for several product lines from our EMS providers to our customers in various countries around the world.

Competition

The markets for our system solutions and services are highly competitive, and we are subject to price pressures resulting from a number of factors. Competition from manufacturers, distributors, or providers of products similar to or competitive with our system solutions or services could result in price reductions, reduced margins, and a loss of market share or could render our solutions obsolete. For example, First Data Corporation, a leading provider of payment processing services, and one of our largest customers, has developed and continues to develop a series of proprietary electronic payment systems for the U.S. market.

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 cash registers that provide built-in electronic payment capabilities and producers of software that facilitates electronic payments over the Internet. Our primary competitors in these markets for POS terminals and services include Ingenico S.A., First Data Corporation, Heartland Payment Systems, PAX Technology, Ltd., SZZT Electronics Co. Ltd., Equinox Payments, CyberNet Inc., and Spire Payments Ltd.

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

Traditionally, most of our customers are large, sophisticated organizations that have significant purchasing power. We believe that we benefit from a number of competitive advantages gained through our 30-year history of success in our industry. These advantages include our globally trusted brand name, large installed base, significant involvement in the development of industry standards, security infrastructure, global operating scale, customizable platforms and investment in research and development. Additionally, we compete primarily on the basis of the following additional key factors: end-to-end system solutions, product certifications,

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value-added applications and advanced product features, advanced communications modularity, reliability, supply chain scale and flexibility, payment data security, and low total cost of ownership. In certain foreign countries, some of our competitors are more established, benefit from greater local recognition and have greater resources within those countries than we do.

As we focus on specialty services and increase our emphasis on mobile and full service solutions, as well as on small to medium sized enterprises, we face new competitors, including those who target merchants that are not traditionally our customers or offer competing technologies. In the future, these competitors may begin to target merchants that are our customers.

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

Research and Development

We work with our customers to develop system solutions that address existing and anticipated end-user needs. Our development activities are distributed globally and managed primarily from the U.S. We utilize regional application development capabilities in locations where labor costs are lower than in the U.S. and where regional expertise can be leveraged for our target markets in the same territory. Our regional application development centers provide customization and adaptation to meet the needs of customers in local markets. Our modular designs enable us to customize existing systems in order to meet customer requirements, shorten development cycles, and reduce time to market.

Our research and development goals include:

- developing new solutions, technologies, and applications;
- developing enhancements to existing product solutions, technologies and applications;
- certifications of new and existing solutions in accordance with industry standards and regulations; and
- ensuring compatibility and interoperability between our solutions and those of third parties.

Our research and development expenses were \$152.0 million, \$109.2 million and \$74.2 million, for the fiscal years ended October 31, 2012, 2011, and 2010. Research and development expenses as a percentage of net revenues were 8.1%, 8.4%, and 7.4%, for the fiscal years ended October 31, 2012, 2011, and 2010. As of October 31, 2012, we had 1,611 research and development employees representing approximately 32% of our total workforce.

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.

We have gained an in-depth knowledge of certification requirements and processes by working closely with card associations, payment processors, security organizations, and international regulatory organizations to certify our new products. We accelerate this certification process by leveraging our platform architectures, user interface, and core technologies.

We employ a group of engineers who specialize in security design methodologies. This group is responsible for designing and integrating security measures in our system solutions and conducts early design reviews with independent security lab consultants to ensure compliance of our electronic payment system designs with worldwide security standards.

Regulatory certifications are addressed by our compliance engineering department, which is staffed with EMC (electromagnetic compatibility), safety, telecommunications, and wireless carrier certification experts.

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We actively participate in electronic payment industry working groups that help develop market standards. Our personnel are members of several working groups of the ANSI (American National Standards Institute), a private, non-profit organization that administrates and coordinates voluntary standardization in the U.S. and the Industry Standards Organization that contains working groups responsible for international security standards. These personnel have leadership roles on subcommittees that develop standards in such areas as financial transactions, data security, smart cards, and the petroleum industry.

We have served on the PCI SSC Board of Advisors since its inception and we are active in the working groups whose role is to clarify the standards the PCI SSC has created.

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

We are also subject to the following standards and requirements:

Security Standards

Industry and government security standards ensure the integrity of the electronic payment process and protect the privacy of consumers using electronic payment systems. New standards are continually being adopted or proposed as a result of worldwide fraud prevention initiatives, thus increasing the need for new security solutions and technologies. In order for us to remain compliant with the growing variety of international requirements, we have developed a security architecture that incorporates physical and electronic security measures, including encryption, and security at the operating system and application levels . We designed this architecture to meet the requirements of even those countries that have particularly stringent and specific security requirements, such as Australia, Canada, Germany, the Netherlands, New Zealand, Singapore, Sweden, Switzerland, and the United Kingdom.

Card Association Standards

Payment Card Industry Security Standards. In September 2006, the PCI SSC was formed by American Express, Discover Financial Services, JCB, MasterCard, and Visa. PCI SSC is responsible for developing and disseminating security specifications, validation of testing methods and security assessor training. The five founding companies participate as members of the policy setting executive committee of the PCI SSC.

In September 2006, the PCI SSC published an updated version of the PCI-DSS that represents a common set of industry tools and measurements to help ensure the safe handling of sensitive electronic transaction information. In October 2008, the PCI-DSS standard was updated and an expiration date for the previous version of this standard was set. The PCI SSC also released an updated version of the newer PA-DSS standard and set an expiration date for the original standard adopted in April 2008 by Visa under the Payment Application Best Practices program. These initial updates to the PCI-DSS and PA-DSS standards included mandates and audit requirements for retailers, merchant acquirers, and payment application developers. In October 2010, both the PCI-DSS standard and the PA-DSS standard were updated again and the PCI SSC adopted a three year cycle for future updates.

In September 2007, the PCI SSC announced that the PCI PED (PIN-Entry Device) standard will be moved under the control of the PCI SSC. This PCI PED standard was previously maintained and updated by Visa, MasterCard, and JCB. PCI SSC's PCI PED specification and testing requirements have become a standard specification for the five card associations. All previous mandates and deadlines regarding PCI PED compliance will remain in effect under the PCI SSC. Further alignment with regional and national debit networks and certification bodies may occur, which would enable electronic payment system providers to certify payment technology more quickly and cost effectively. In practice, the PCI PED approval process represents a significant increase in level of security and technical complexity for PEDs. In April 2009, the PCI SSC announced the expansion of the PCI PED requirements program to include two new types of devices, unattended payment terminals and hardware security modules. In November, 2009, the PCI SSC renamed the PCI PED standard to the PTS standard and included additional unattended product requirements as well as a new optional requirement, Secure Read and Exchange of Data for secure devices to encrypt cardholder data as part of an end-to-end encryption solution

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In September 2011, the PCI SSC announced the P2PE Requirements. Solutions that meet these requirements can be used by retailers to reduce PCI scope. In April 2012, the PCI SSC released the testing requirements for a P2PE solution. The first training for QSA's began in May 2012. No P2PE solutions have been listed as validated yet on the PCI SSC website.

EMV Standards. EMV has introduced new standards to address the growing need for transaction security and interoperability. One important example is their establishment of EMVCo. The EMV standards 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.

Contactless and NFC System Standards. The major card associations have each established a brand around contactless payment. The brands and specifications are PayPass® for MasterCard, Visa payWave® and Visa Wave® for Visa, ExpressPay® for American Express, ZIP® for Discover Financial Services , and J/speedy for JCB.

Along with these brands, each of the card associations has developed its own specifications governing its brand's user experience, data management, the card-to-reader protocols and in at least one case the protocol between the contactless reader and the host device. Each brand of contactless payment has a complete set of specifications, certification requirements and a very controlled testing and approval process. In order to access the specification and approval process, payment system manufacturers must become licensees of the relevant card association's specification. Although all of the specifications are based on ISO-IEC 14443, a standard developed by the International Organization for Standardization, the application approval processes are not compatible with one another. In 2007, the EMVCo retained ownership of the Contactless communication Protocol Specification and in 2009 began certification testing process in accordance with this standard. In 2010, the four major card associations investing in this payment technology (American Express, Discover, MasterCard and Visa) licensed their respective contactless kernel specification to EMVCo for consolidation into a combined standard.

In addition to EMVCo standards, there are also regional specification and certification requirements such as PBOC in China, CEPAS in Singapore, Interac Flash in Canada, Geldkarte in Germany, and Carte Bancaire in France.

During 2012, several MNO (Mobile Networking Overview) consortiums have formed around the world to bring to market mobile wallets with payment functionalities as well as value-added services such as loyalty and coupons. Google also launched its Wallet 2.0, which leverages NFC and the cloud-to-store card credentials, and Isis started its pilot program in Salt Lake City, Utah, and Austin, Texas. The number of NFC-enabled phones has grown substantially, and NFC is becoming a standard feature for all payment terminals. Also in 2012, PayPal began marketing its wallet, which does not use NFC, and a group of leading U.S. merchants formed the Merchant Customer Exchange to offer a merchant-driven mobile platform and wallet.

We actively participate in several standards bodies pursuing common standards for contactless payments, including INCITS B10, EMVCo, the Smart Card Alliance and the NFC Forum.

MasterCard PTS and TQM Program. The MasterCard PTS program addresses stability and security of communications between Internet enabled POS terminals and the acquirer host system using authentication/encryption protocols approved by MasterCard ensuring transaction data integrity. The purpose of this program is threefold:

• provide POS vendors with security guidelines to counter the threats presented by the use of Internet connectivity within the POS terminal infrastructure;

•

specifically address network vulnerabilities within the increasingly popular Internet connected networks; and

identify potential vulnerabilities of an end-to-end solution that may occur as a result of failing to provide confidentiality, integrity, availability, authentication, non-repudiation, and replay attack prevention on the data being transmitted over the Internet.

We have successfully achieved VX product-line compliance with the MasterCard PTS security specification regarding security of Internet connected payment systems. The MasterCard PTS program compliance applies to several of our Internet-enabled products including the VX Evolution series payment systems. We are the first terminal vendor to achieve such a distinction across an entire product line.

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. This is a hardware quality management program, on top of the EMV Level 1 certification. It

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mainly involves the review and audit of the vendor's process in the different phases of implementation, manufacturing, and distribution. At the end of the process, the product is given a quality label. MasterCard has mandated the quality label to all their member banks and has made it a pre-requisite for their terminal integration process since December 2003. 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, Class A and Class B. Class B certification ensures that an electronic payment system adheres to the payment processor's basic functional and network requirements. Class A certification 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. We have significant experience in attaining these critical payment processor certifications and have a large portfolio of Class A certifications with major U.S. processors. In addition, several international financial institutions and payment processors have certification requirements that electronic payment systems must comply with in order to process transactions on their specific networks. We have significant experience in attaining these required certifications across the broad range of systems solutions that we offer to our international customers.

Telecommunications Regulatory Authority and Carrier Requirements

Our products must comply with government regulations, including those imposed by the FCC (U.S. Federal Communications Commission) and similar telecommunications authorities worldwide regarding emissions, radiation, safety, and connections with telephone lines and radio networks. Our products must also comply with recommendations of quasi-regulatory authorities and of standards-setting committees. Our electronic payment systems have been certified as compliant with a large number of national requirements, including those of the FCC and Underwriters Laboratory in the U.S. and similar local requirements in other countries.

In addition to national requirements for telecommunications systems, wireless network service providers mandate certain standards with which all connected devices and systems must comply in order to operate on these networks. Many wireless network carriers have their own certification process for devices to be activated and used on their networks. Our wireless electronic payment systems have been certified by certain leading wireless carrier networks around the world.

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, 2012, we held 348 patents and 131 patent applications filed with various patent offices in 49 jurisdictions throughout the world, including the U.S., Canada, the United Kingdom, the European Union, China, Israel, Italy, India, Australia, Japan, Germany, France, Ireland, Hong Kong, Taiwan, Brazil, and South Africa among other countries. These patents and patent applications include utility patents, utility models and designs acquired in connection with our acquisitions, such as our acquisitions of Global Bay and LIFT in fiscal year 2012, Hypercom Corporation in fiscal year 2011 and Semtek Innovative Solutions Corporation and the assets of WAY Systems, Inc. in

fiscal year 2010. We believe that the duration of our patents is adequate relative to the expected lives of our products which generally are expected to be shorter than the terms of our patents due to continual technical innovations in our industry.

We use the VeriFone name and logo globally as an important part of the branding of our company and our products, and we register these trademarks in the key jurisdictions where we do business, including the U.S. and the European Union. As of October 31, 2012, we held trademark registration in 22 jurisdictions (including registration in the European Union that covers a number of country level registrations we had previously filed) for the "VERIFONE" trademark and in 32 jurisdictions (including registration in the European Union that covers a number of country level registrations we had previously filed) for VERIFONE trademark including our ribbon logo. We currently hold trademark registration in the U.S. and a variety of other countries for our product names and other marks.

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

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In the U.S. and other countries, prior to 2001, our predecessor held patents relating to a variety of POS technology and related inventions, which expire in accordance with the applicable law in the country where filed. In 2001, as part of the divestiture of VeriFone, Inc. from HP, VeriFone, Inc. and HP entered into a technology agreement whereby HP retained ownership of most of the patents owned or applied for by VeriFone prior to the date of divestiture. The technology agreement grants VeriFone a perpetual, non-exclusive license to use any of the patented technology retained by HP at no charge. In addition, we hold a non-exclusive license to patents held by NCR Corporation related to signature capture in electronic payment systems. This license expired in 2011 at the time the underlying patents expired.

Segment and Geographic Information

For segment and geographic information, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations — Net Revenues, and Note 15, Segment and Geographic Information of this Annual Report on Form 10-K.

Employees

As of October 31, 2012, we had 4,977 employees worldwide. We have collective bargaining agreements with our employees in France, Spain, Italy, Sweden, and Brazil. Our employees in France and Germany are also 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, 2012 are as follows:

Name	Age	Position
Douglas Bergeron	52	Chief Executive Officer
Robert Dykes	63	Executive Vice President and Chief Financial Officer
Jeff Dumbrell	43	Executive Vice President, Europe, Middle East, Africa and Asia
Albert Liu	40	Executive Vice President, Corporate Development & General Counsel
Jennifer Miles	40	Executive Vice President, North America
Eliezer Yanay	52	Executive Vice President, Operations

Douglas G. Bergeron. Mr. Bergeron has served as Chief Executive Officer and a director of VeriFone Systems, Inc. since its formation in July 2002 and of VeriFone, Inc. since July 2001. From December 2000 to June 2002, Mr. Bergeron was Group President of Gores Technology Group and, from April 1999 to October 2000 served as President and Chief Executive Officer of Geac Computer Corporation. From 1990 to 1999, Mr. Bergeron served in a variety of executive management positions at SunGard Data Systems Inc., including Group CEO of SunGard Brokerage Systems Group and President of SunGard Futures Systems. Mr. Bergeron holds a Bachelor of Arts with Honours from York University in Toronto, Canada, and a Masters of Science in Systems Management from the University of Southern California. He also serves as a member of the Listed Company Advisory Committee of the NYSE Euronext. Mr. Bergeron previously served on the board of directors of Merriman Holdings, Inc., a financial services holding

company, and as Chairman of the board of directors of First Consulting Group, a provider of consulting and systems implementation services to health-related industries, prior to its acquisition by Computer Sciences Corporation in January 2008. Mr. Bergeron brings to our Board, among other skills and qualifications, significant knowledge of the payments industry and a unique understanding of our strategies and the complexities of our business as our Chief Executive Officer since 2001, when he led the divestiture of VeriFone from Hewlett Packard, and thereafter as he guided our Company through a period of substantial technological advancement and growth in the payments industry. Mr. Bergeron also brings extensive experience in executive management positions in the financial services industry.

Robert Dykes. Mr. Dykes serves as Executive Vice President and Chief Financial Officer. Mr. Dykes joined VeriFone as Senior Vice President on September 2, 2008 and was named Chief Financial Officer on September 9, 2008. Mr. Dykes was named Executive Vice President in August 2011. Prior to joining VeriFone, Mr. Dykes was Chairman and CEO of NebuAd Inc., a provider of targeted online advertising networks. Before joining NebuAd, from January 2005 to March 2007, Mr. Dykes was Executive Vice President, Business Operations and Chief Financial Officer of Juniper Networks, Inc., a provider of network infrastructure to global service providers, enterprises, governments and research and educational institutions. From February 1997 to December 2004, Mr. Dykes was Chief Financial Officer and President, Systems Group, of Flextronics International Ltd., a provider of design and electronics manufacturing services to original equipment manufacturers. From October 1988 to February 1997, Mr. Dykes

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was Executive Vice President, Worldwide Operations and Chief Financial Officer of Symantec Corporation, a provider of software and services that address risks to information security, availability, compliance, and information technology systems performance. Mr. Dykes also held Chief Financial Officer roles at industrial robots manufacturer Adept Technology and at disc drive controller manufacturer Xebec. He also held senior financial management positions at Ford Motor Company. Mr. Dykes holds a Bachelor of Commerce in Administration degree from Victoria University in Wellington, New Zealand.

Jeff Dumbrell. Mr. Dumbrell joined VeriFone in July 2002 where he served in various senior-level management roles within the company, most recently as Executive Vice President, Europe, Middle East, Africa and Asia and is responsible for managing VeriFone's growth initiatives in these regions. From December 2000 to July 2002, Mr. Dumbrell was Executive Director of Sales for B3 Corporation and he was National Sales Manager for BankServ from October 1999 to December 2000. Previously, Mr. Dumbrell was Western Regional Manager for The Quaker Oats Company where he had sales responsibility for managing Tier 1 retail customers. Mr. Dumbrell holds a M.B.A. from The University of San Francisco and a Bachelor of Science in Marketing from Clemson University.

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

Jennifer Miles. Ms. Miles has served as Executive Vice President, North America since August 2011, overseeing VeriFone's North America business, which includes the Financial, Mobility, Retail, Petro, Transit, Retail Banking, Hospitality, Security, Healthcare, and Government business units. Ms. Miles joined VeriFone in February 2001 and has served in various management positions playing an integral role in driving the successful growth of VeriFone's solutions, most recently as VeriFone's Senior Vice President - Retail, Global Security and Vertical Solutions. Prior to joining VeriFone, Ms. Miles spent six years with Wachovia Bank serving in several roles including sales and product management of corporate treasury and cash management solutions to Fortune 500 companies. Ms. Miles graduated from the University of Georgia with a bachelor degree in Business Administration.

Eliezer Yanay. Mr. Yanay has served as Executive Vice President, Operations since August 2011 and is responsible for global R&D initiatives, supply chain and product management for the entire product life cycle, from conception to delivery to support. Previously, Mr. Yanay served as President of VeriFone Israel and Executive Vice President, Continental Europe, South East Europe and Asia from March 2009 to August 2011 and as President of VeriFone Israel and Managing Director of Middle East from November 2006 to March 2009. Mr. Yanay joined VeriFone following its acquisition of Lipman Electronic Engineering in November 2006. Mr. Yanay had served at Lipman as Executive Vice President of Sales and Marketing since September 2001 where his responsibilities included management of worldwide sales and marketing activities, management of the corporate sales and marketing department and oversight of Lipman's non-U.S. subsidiaries. Before joining Lipman, Mr. Yanay held various senior-level positions at Shira Computers Ltd. (a subsidiary of VYYO Inc.) and Scitex Corporation, Ltd. Mr. Yanay

holds a Bachelor of Arts in Psychology from Tel Aviv University.

Available Information

We file reports required of public companies with the U.S. SEC (Securities and Exchange Commission). These include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other reports, and amendments to these reports or statements. The public may read and copy the materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. We make available free of charge on the Investor Relations section of our corporate website (<http://ir.verifone.com>) all of the reports we file with or furnish to the SEC as soon as reasonably practicable after the reports are filed or furnished.

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ITEM 1A. RISK FACTORS

Risks Related to Our Business

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

We routinely engage in acquisitions, divestitures, and other strategic transactions which 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.

In pursuing our business strategy, we routinely conduct discussions, evaluate opportunities, and enter into agreements regarding possible acquisitions or strategic investments in related businesses, technologies, or products.

For example, on December 30, 2011, we completed our acquisition of Point, a Stockholm-based provider of point-of-sale technology and support, gateway services, card encryption services, and multi-channel e-commerce payment network encompassing almost 475,000 merchant contracts throughout Northern Europe, and on August 4, 2011 we completed our acquisition of Hypercom.

Acquisitions or investments, including our acquisitions of Point and Hypercom, both of which were material to our business and operations, involve significant challenges and potential business risks, and we may not realize the expected benefits of any of our recent or future acquisitions. These challenges and risks include:

- the difficulty of successfully integrating the technologies, operations, business systems, and personnel of the acquired business, technology or product, including in a cost-effective manner;
- the potential disruption of our ongoing business, including the diversion of management attention to issues related to integration and administration, particularly given the number, size and varying scope of our recent completed acquisitions;
- entering markets in which we have limited prior experience;
- in the case of international acquisitions, such as the Point and Hypercom acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, foreign currency, political, legal and regulatory risks, including with respect to countries where we previously had limited operations;
- the possible inability to obtain the desired financial and strategic benefits from the acquisition or investment, as discussed further in “We may not realize the expected benefits of our acquisitions, including Hypercom and Point” below;
- the loss of all or part of our investment;
- the loss of customers and partners of acquired businesses;
- the need to integrate each company's accounting, legal, management, information, human resource and other administrative systems to permit effective management, and the lack of control if such integration is delayed or not implemented;
- the need to implement controls, procedures and policies appropriate for a larger public company at companies that prior to acquisition had lacked such controls, procedures and policies;
- the risk that increasing complexity inherent in operating a larger global business and managing a broader range of solutions and service offerings may impact the effectiveness of our internal controls and adversely affect our financial reporting processes;
- the assumption of unanticipated liabilities and the incurrence of unforeseen expenditures;
- the failure to identify or assess the magnitude of certain liabilities, shortcomings or other circumstances prior to acquiring a company, which could result in unexpected litigation, unanticipated liabilities, additional costs, unfavorable accounting treatment or other adverse effects; and

the loss of key employees of an acquired business.

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These risks are heightened and more prevalent in acquisitions of larger businesses, such as the Point and Hypercom acquisitions. Further, in connection with the Point acquisition we incurred substantial additional debt, which has increased our leverage and debt service requirements. 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. Moreover, we may not realize the anticipated benefits of any or all of our acquisitions, or may not realize them in the time frame expected. We will depend on the retention and performance of existing management and employees of acquired businesses for the day-to-day management and future operating results of these businesses.

We may not realize the expected benefits of our acquisitions, including Hypercom and Point.

Achieving the expected benefits of our acquisitions, including Hypercom and Point, depends in large part on our successful completion of our integration of the acquired businesses' operations and personnel with our own in a timely and efficient manner. We cannot assure you, however, that all of our integration efforts will be completed as quickly as expected or that our acquisitions will achieve the expected benefits. The risks and challenges involved in the integration of Hypercom and Point include:

Both Hypercom and Point have significant international operations; we may have difficulty integrating the international operations of Hypercom and Point, including coordinating the efforts of Hypercom's and Point's sales operations with those of VeriFone;

We may have difficulties successfully managing Hypercom's or Point's technologies or lines of businesses, particularly those lines of business with which we have limited operational experience;

We may not be able to adequately demonstrate to customers that the acquisitions will not result in adverse changes in client service standards or product support, in particular where the acquired business, such as Hypercom, has products that compete with existing VeriFone products;

Some of Hypercom's suppliers, distributors, customers, and licensors are VeriFone's competitors or work with VeriFone's competitors and may terminate their business relationships with Hypercom as a result of the acquisition;

We may not be able to successfully persuade the employees in various jurisdictions that the companies' business cultures are compatible, maintain employee morale, and retain key employees;

We may have difficulties integrating or migrating the information technology infrastructures of Hypercom and Point into our information technology systems and resources in an effective and timely manner;

We may be unable to cost-effectively and timely migrate Hypercom and Point to our common enterprise resource planning information system and to integrate all operations, sales, accounting, and administrative activities for the combined company;

We may have difficulties integrating Hypercom's supply chain operations with ours while ensuring that products continue to be manufactured and delivered on a timely basis, with superior quality to customers and at a cost acceptable to us;

We may have higher than anticipated costs in coordinating research and development and support activities across our existing and newly acquired products and services; and

We may not be able to successfully incorporate acquired technologies, products and service offerings into our next generation of products and solutions or to enhance introduction of new products, services, and technologies, while ensuring timely release of products to market., and any delay in the release of one or more product or service offerings could negatively impact revenues, profitability and results of operations.

The integration of Hypercom and Point is international in scope, complex, time-consuming, and expensive, and has disrupted and may continue to disrupt our business or result in the loss of customers or key employees or the diversion of the attention of management. Our operating results or financial condition may be adversely impacted by pre-existing claims or liabilities, both known and unknown, of an acquired company, 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; unfavorable revenue recognition or other accounting treatment as a result of an acquired company's pre-existing contractual arrangements; and intellectual property claims or disputes. In addition, the integration process may strain the combined company's financial and managerial controls and reporting systems and procedures and may result in the diversion of management and financial resources from the combined company's core business objectives.

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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. One of our key strategies of the Point acquisition is to implement Point's Payment-as-a-Service model into new markets. Implementing a new business model involves significant risk and costs, including, in the case of our Payment-as-a-Service model, up front capital expenditures. The markets where we seek to implement the Payment-as-a-Service model may take longer to adopt a payment as a service model than we anticipate or may choose not to adopt this model. Continued weakness in the global economy may also negatively impact our ability to implement our payment as a service solution within the time frames we desire. If we do not execute successfully on the implementation of our Payment-as-a-Service model and achieve the anticipated benefits of the Point acquisition, our revenues, profitability and net income may be negatively impacted.

Costs associated with the acquisitions may be higher than expected and may harm our financial results. We have incurred substantial direct transaction costs associated with the acquisitions, and expect to incur additional costs associated with consolidation and integration of operations. We have also incurred post-closing costs and continue to devote resources related to Hypercom's divestiture of its U.S., Spain and U.K. payment terminal businesses. For example, as part of the divestitures the buyers are entitled to certain post-closing administrative and operating support services for various periods following the closing date of the merger and indemnification for certain liabilities associated with the divested businesses. If the total costs of the acquisitions and integration efforts exceed estimates or the benefits related to the acquisitions do not exceed our total costs, our financial results could be adversely affected.

If we do not continually enhance our existing solutions and develop and market new solutions and enhancements responsive to technological advancements in our industry, 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;
- evolving industry and government performance and security standards;
- increasingly, introductions of alternative payment solutions, such as mobile payments and processing, at the point of sale; and
- changes in customer and end-user preferences or requirements.

Because of these factors, we must continually enhance our existing solutions and develop and market new solutions, and we must anticipate and respond to these industry and customer changes in order to remain competitive. If we are unable to timely and adequately respond to new competitors and technological advancements our net revenues and results of operations could be adversely affected. These efforts require significant investment in research and development as well as increased costs of manufacturing and distributing our system solutions, and we may not necessarily be able to increase or maintain prices to account for these costs, which could negatively impact our profitability, cash flows and results of operations.

We cannot be sure that we will successfully complete the development and introduction of new solutions or enhancements or that our new solutions will be accepted in the marketplace. We may also fail to develop and deploy new solutions and enhancements on a timely basis. In either case, we may lose market share to our competitors, our solutions could become obsolete and our net revenues and results of operations could suffer.

A majority of our net revenues are generated outside of the United States and we intend to continue to expand our operations internationally including through acquisitions and strategic partnerships. Our results of operations could suffer if we are unable to manage our international expansion and operations effectively.

During the fiscal year ended October 31, 2012, approximately 72.7% of our net revenues were generated outside of the United States. During the fiscal year ended October 31, 2011, approximately 64.7% of our net revenues were generated outside of the United States. The percentage of net revenues generated outside of the United States has increased over recent years and we expect such percentage to continue to increase over time. In particular, our acquisition of Point has increased our business in the Nordic regions and elsewhere in Northern Europe and our acquisition of Hypercom has increased our business significantly in EMEA (Europe, the Middle East and Africa) and Asia. Part of our strategy is to expand our penetration in existing foreign markets and to enter new foreign markets and in particular to enter new emerging markets where we expect to see growth in electronic payments and related services. Our ability to penetrate some international markets may be limited due to different technical standards, protocols or product requirements. Expansion of our international business will require significant management attention and financial resources. Our international net revenues will depend on our continued success in the following areas:

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- 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 among foreign customers 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 new systems, procedures, and controls to monitor and manage our operations in new international markets.

In addition, we are subject to risks and costs associated with operating in foreign countries which could negatively impact our results of operations or cash flows, including:

- multiple, changing, and often inconsistent enforcement of laws and regulations;
- satisfying local regulatory or industry imposed requirements, including security or other certification requirements;
- competition from existing market participants, including strong local competitors, that may have a longer history in and greater familiarity with the international markets we enter;
- tariffs and trade barriers;
- higher costs and complexities of compliance with international and U.S. laws and regulations such as import and trade regulations and embargoes, trade sanctions, export requirements and local tax laws;
- laws and business practices that may favor local competitors;
- restrictions on the repatriation of funds, including remittance of dividends by foreign subsidiaries, foreign currency exchange restrictions, and currency exchange rate fluctuations;
- extended payment terms and the ability to collect accounts receivable;
- different and/or more stringent labor laws and practices, such as the 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;
- economic and political instability in certain foreign countries;
- changes in a specific country's or region's political or economic conditions; and
- greater difficulty in safeguarding intellectual property in areas such as China, India, Russia, and Latin America.

Many of these factors typically become more prevalent during periods of economic stress, such as the ongoing weakness in the economies of the euro zone countries and volatility in global financial markets that have caused declines in the value of the euro and other currencies impacted by the European sovereign debt crisis, or disruptive events such as natural or man-made disasters and military or terrorist actions. The persistence or occurrence of weakened global economic conditions in one or more regions where we do business may exacerbate certain of these risks. We are subject to foreign currency risk including from economic and political instability which can lead to significant and unpredictable volatility in currency rates, including significant currency devaluations, which may negatively impact our revenues, gross margins, results of operations and financial position. Although we engage in some hedging of our foreign currency exposures, we do not hedge all such exposures and our hedging arrangements may not always be effective. See Part II Item 7A, Quantitative and Qualitative Disclosures About Market Risk - Foreign Currency Risk of this Form 10-K. In addition, compliance with foreign and U.S. laws and regulations that are applicable to our international operations is complex and may increase our cost of doing business in international jurisdictions and our international operations could expose us to fines and penalties if we fail to comply with these regulations. These laws and regulations include import and export requirements, trade restrictions and embargoes, exchange control regulations, data privacy requirements, labor laws, tax laws, anti-competition regulations, U.S. laws

such as the Foreign Corrupt Practices Act, and local laws prohibiting corrupt payments to governmental officials and other improper payments or inducements, such as the U.K. Bribery Act. Although we have implemented policies, procedures and training designed to ensure compliance with these laws, 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, two of our Brazilian subsidiaries that were acquired as a part of the Lipman acquisition have been notified of a number of assessments regarding Brazilian customs penalties that relate to alleged infractions in the importation of goods as well as certain tax assessments and penalties. Similarly, the Brazilian subsidiary we acquired in August 2011 as part of the Hypercom acquisition has a number of pending assessments related to local tax assessments and penalties. See Part I Item 3, Legal Proceedings of this Form 10-K. Defending such assessments can be costly and divert management time. Any such violations 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

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expansion efforts, our business, and negatively impact our operating results. In addition, if we fail to address the challenges and risks associated with international expansion and acquisitions, we may encounter difficulties implementing our strategy, which could impede our growth or harm our operating results.

Macroeconomic conditions and economic volatility could materially and adversely affect our business and results of operations.

Our operations and performance depend significantly on worldwide economic conditions. For example, the significant slowdown and volatility in the U.S. and international economy and financial markets which began in the latter half of 2008 resulted in reduced demand for our products, which in turn adversely impacted our revenues, business, financial condition and results of operations. In particular, the slowdown and volatility in the global markets resulted in softer demand in the financial and retail sectors, pricing pressures and more conservative purchasing decisions by customers, including a tendency toward lower-priced products and lower volume of purchases during the economic downturn. In some countries where we do business the weakened economy has resulted in economic instability which has had negative effects, including a decrease in purchasing power due to currency devaluations.

While we have experienced overall sequential growth in revenues and earnings and stronger demand in some of our recent quarters, certain markets such as parts of Europe where we conduct business continue to experience weakened or uncertain economic conditions, including the recent ongoing difficulties in the credit markets in the euro zone. Some of our customers, suppliers and partners may continue to be negatively impacted by the continued global weakness in the economy. We cannot predict whether growth will continue, or whether our results of operations will be negatively impacted by the recent renewed global market turmoil, or whether any other future decline or volatility in global conditions could negatively impact our business, operating results and financial condition. There is no assurance that actions taken by governments and central banks to stimulate the economy will have positive impacts. Further, conditions such as political unrest or terrorist actions in other parts of the world, the impending “fiscal cliff” in the U.S. whereby certain temporary tax cuts and breaks expire, additional taxes related to changes in the health care law in the U.S. and certain tax cuts are scheduled to occur effective January 1, 2013 absent intervening U.S. congressional measures, and reports of continued high unemployment rates in the U.S. and elsewhere, 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 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 common stock could decline.

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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 British pound, the euro and the Brazilian real, and the amount of net revenues in foreign currencies has increased with our recent acquisitions of Point and Hypercom. Additionally, portions of our cost of net revenues and our other operating expenses are incurred by our International operations and denominated in local currencies, primarily the British pound, the euro and the Brazilian real. In particular, our net revenues, cost of net revenues and operating expense denominated in the euro and the Dutch Kroner and Swedish Kroner, which are impacted by the European sovereign debt crisis, have increased with the Point and Hypercom acquisitions. Fluctuations in the value of these net revenues, costs and expenses as measured in U.S. dollars have historically affected our results of operations, and adverse currency exchange rate fluctuations may have a material impact in the future. Further, changes in exchange rates that strengthen the U.S. dollar could increase the price of our products in the local currencies of the foreign markets we serve. For example, in recent periods the euro has declined substantially relative to the U.S. dollar and, given the ongoing European sovereign debt crises, may further decline. Declines in foreign currencies relative to the U.S. dollar would result in making our products relatively more expensive than products that are denominated in local currencies, leading to a reduction in sales and profitability in those foreign markets. In addition, our balance sheet contains monetary assets and liabilities denominated in currencies other than the U.S. dollar, such as cash, intercompany balances, trade receivables and payables, and fluctuations in the exchange rates for these currencies could adversely affect our results of operations. We have, to some extent, entered into foreign exchange forward contracts intended to hedge our balance sheet exposure to adverse fluctuations in exchange rates. We have also effectively priced our System solutions products in U.S. dollars in certain countries. Nevertheless, these hedging arrangements may not always be effective, particularly in the event of imprecise forecasts of non-U.S. denominated assets and liabilities. Additionally, our efforts to effectively price products in U.S. dollars may have disadvantages as they may affect demand for our products if the local currency strengthens relative to the U.S. dollar. We could be adversely affected when the U.S. dollar strengthens relative to the local currency between the time of a sale and the time we receive payment, which would be collected in the devalued local currency. Accordingly, if there is an adverse movement in one or more exchange rates, we might suffer significant losses and our results of operations may otherwise be adversely affected. Uncertainty in the global market conditions have resulted in and may continue to cause significant volatility in foreign currency exchange rates which could increase these risks. As our international operations expand, our exposure to these risks also increases. Additionally, hedging programs expose us to risks that could adversely affect our operating results, including the following:

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

Our markets are highly competitive and subject to price erosion and rapidly evolving technologies and customer preferences.

The markets for our system solutions and services are highly competitive, and we have been subject to price pressures. We compete with suppliers of cash registers that provide built-in electronic payment capabilities and producers of software that facilitates electronic payment over the internet, as well as other manufacturers or distributors of electronic payment systems. Competition from manufacturers, distributors, new technologies or providers of products similar to or competitive with our system solutions or services could result in price reductions, reduced margins, and a loss of market share or could render our solutions obsolete. For example, First Data Corporation, a leading provider of payments processing services, and one of our largest customers, has developed and continues to develop a series of

proprietary electronic payment systems for the U.S. market. Internationally, we face significant downward pressures on prices in China, India and other regions where competition is increasingly fierce in the point-of-sale hardware market including aggressive pricing by some local competitors. Any decrease in our selling prices in order to compete in these markets will negatively impact our revenues, gross margins and results of operations.

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

We expect to continue to experience significant and increasing levels of competition in the future from new competitors and a variety of technologies, many of which are rapidly evolving. Increasingly, new competitors are entering the payments market with alternative payment solutions at the point of sale, such as mobile device-based card payment and processing solutions. Some of these alternative solutions enable payment and processing at the point of sale without use of a traditional payment terminal at the point of sale, such as the payment terminals we manufacture and sell. Our revenues, profits and net income will be negatively impacted if we do not effectively compete with new market entrants, including by offering alternative solutions that align with shifts to payment on devices other than the traditional POS terminal. We must also compete with smaller companies that have been able to develop strong local or regional customer bases. In certain foreign countries, some competitors are more established,

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benefit from greater name recognition and have greater resources within those countries than we do. Further, in certain international markets, such as Brazil, we may face competition from refurbished units which could result in reduced demand and pricing pressures.

Although a number of industry participants have announced new technologies, initiatives, and/or products that we anticipate our products and services will partner with and benefit from, there can be no guarantee that any of these will be successful. Should any or all of these initiatives fail, it could have a negative impact on our results of operations and cash flows due to a loss in the investment that we have made in pursuing these new developments. Furthermore, even if the market does embrace these new technologies, initiatives, and products, there is no guarantee that any of these will benefit our business or that our products and services will continue to participate in those technologies, initiatives, and products. Additionally, if industry participants develop competing technologies that we do not participate with, our results of operations and cash flows could suffer as market share shifts to these different technologies.

A component of the cost of providing some of our newer product offerings, including the Payment-as-a-Service solution, in-taxi payments solutions and our SAIL product, are credit card interchange and assessment fees, which are set by the card networks. Any increase in such fees could have a material negative impact on our profitability, results of operations and cash flows.

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

A significant percentage of our net revenues are attributable to a limited number of customers, including distributors and independent sales organizations (“ISOs”). For example, our ten largest customers accounted for approximately 22.8% of our total net revenues and three customers accounted for 12.1% of our total net revenues in fiscal year 2012. No single customer accounted for more than 10% of our total net revenues or more than 10% of net revenues in either of our two reportable segments in fiscal year 2012. 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 revenues, profitability, cash flows and net income could be materially and adversely affected.

We sell a significant portion of our solutions through third-party resellers such as independent distributors, ISOs, value-added resellers, and payment processors. We depend on their active marketing and sales efforts. These resellers also provide after-sales support and related services to end user customers, and generally have valuable knowledge and experience with the customer base in the territories they serve. When we introduce new applications and solutions, these resellers also provide critical support for developing and supporting the custom software applications to run on our various electronic payment systems and, internationally, in obtaining requisite certifications in the markets in which they are active. Accordingly, the pace at which we are able to introduce new solutions in markets in which these resellers are active depends on the resources they dedicate to these tasks. Moreover, our arrangements with these resellers typically do not prevent them from selling products of other companies, including our competitors, and such resellers may elect to market our competitors' products and services in preference to our system solutions. If one or more of our major resellers terminates or otherwise adversely changes its relationship with us, we may be unsuccessful in replacing such relationship. The loss of any of our major resellers could impair our ability to sell our solutions and result in lower revenues and income. It could also be time-consuming and expensive to replicate, either directly or through other resellers, the certifications and the custom applications owned by these resellers.

In addition, orders from our distributors and resellers depend on their sales volumes and inventory management decisions. For example, during the fiscal quarter ended January 31, 2012, we experienced a \$13.0 million

year-over-year decrease in our North America Financial Solutions business based on timing of orders from our distributors, which generally varies based on distributor decisions on inventory levels, desired product mix and timing of new product introductions. At the end of 2008, in response to the global economic downturn a number of distributors and resellers experienced weakened demand and slower sales, which in turn resulted in declines in order volume and deferrals of orders for our products. Declines or deferral of orders could materially and adversely affect our revenues, operating results and cash flows.

We have experienced rapid and significant growth in our operations, and if we cannot adequately manage our growth, our results of operations will suffer.

We have experienced rapid and significant growth in our operations in certain periods, both organically and from acquisitions. We cannot be sure that we have made adequate allowances for the costs and risks associated with our expansion, or that our systems, procedures, business processes, and managerial controls will be adequate to support the rapid and significant expansion in our operations, including expansion into new vertical markets, expansion into a number of additional international markets and a broader range of payment services offerings globally. Any delay in implementing, or transitioning to, new or enhanced systems, procedures, or controls to accommodate and support the requirements of our business and operations and to effectively and

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efficiently integrate acquired operations may adversely affect our ability to meet customer requirements, manage our product inventory, and record and report financial and management information on a timely and accurate basis. If we are unable to successfully manage our expansion, our results of operations may be adversely affected.

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. See Item 9A. Controls and Procedures in our Annual Report on Form 10-K for the fiscal year ended October 31, 2010. 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. We have implemented a number of additional and enhanced processes and controls to improve our internal control over financial reporting.

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 have devoted additional resources to our financial control and reporting requirements, including hiring additional qualified employees in these areas. We may hire additional employees and may also engage additional consultants in these and other key areas. Competition for qualified financial control and accounting professionals in the geographic areas in which we operate is intense and there can be no assurance that we will be able to hire and retain these individuals.

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

Our success depends to a significant degree upon the continued contributions of our key senior management, engineering, sales and marketing, and manufacturing personnel, many of whom would be difficult to replace. In addition, our future success also depends on our ability to attract, integrate, manage, and retain highly skilled employees throughout our business. Competition for some of these personnel is intense, and in the past, we have had difficulty hiring, in our desired time frame, employees that have the specific qualifications required for a particular position. Additionally, we may be unsuccessful in attracting and retaining personnel. The loss of the services of any of our key personnel, the inability to attract or retain qualified personnel in the future, or delays in hiring required personnel, particularly engineers and sales personnel, could make it difficult for us to manage our business and meet key objectives, such as timely product introductions.

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

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 expense.

We offer complex solutions that are susceptible to undetected hardware and software errors or failures. Our solutions may experience failures when first introduced, as new versions are released, or at any time during their lifecycle. We cannot assure you that, despite our testing procedures and controls over manufacturing quality, errors will not be found in our products. Field failure may result from usage with third-party issued payment cards, for example, if such

usage generates excess electrostatic discharge. Defects may also arise from third-party components that are incorporated into our products, such as hardware modules, chipsets or battery cells. Any product recalls as a result of errors or failures could result in the loss of or delays in market acceptance of our solutions, diversion of the attention of our research and development personnel from product development efforts, harm to our relationships with our customers, adversely affect our business and reputation and increase our product costs which could negatively impact our margins, profitability and results of operations. Any significant returns or warranty claims for any of our products, including products that we have added to our product offerings from acquisitions, could result in significant additional costs to us, such as costs to implement modifications to correct defects, recall and replace products and defending against litigation related to defective products or related property damage or personal injury, and could adversely affect our results of operations. Our customers may also run third-party software applications on our electronic payment systems. Errors in third-party applications could adversely affect the performance of our solutions.

The existence of defects and delays in correcting them could result in negative consequences, including the following: harm to our brand; delays in shipping system solutions; loss of market acceptance for our system solutions; additional warranty and other

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expenses associated with correcting or resolving defects; diversion of resources from product development; and loss of credibility with distributors, customers and partners. Identifying and correcting defects can be time consuming, costly and in some circumstances extremely difficult. Software errors may take several months to correct, and hardware defects may take even longer to correct.

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

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

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

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

policies and controls are found to be non-compliant with these laws, which vary from jurisdiction to jurisdiction and are undergoing increasing regulatory scrutiny, we may be subject to penalties and fines, and may need to expend significant resources to implement additional data protection measures.

We 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, and results of operations.

We are currently a party in several litigation proceedings. 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. We are also subject to a number of pending tax assessment matters, particularly in Brazil where such assessments can be difficult to defend and result in substantial losses. Further, our operating results or financial condition may also be adversely impacted by claims or liabilities that we assume from an acquired company or that are otherwise related to an acquisition. For example, in

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connection with our acquisition of Hypercom, we have, except for certain exceptions 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 following closing of the Hypercom divestitures but related to pre-closing operations. For a description of our material pending litigation, see Part I Item 3. Legal Proceedings of this Form 10-K.

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. The outcome of litigation and tax assessments is inherently difficult to predict. In addition, an unfavorable outcome in such litigation or a decision by us to settle such lawsuits to avoid the distraction and expense of continued litigation even if we deem the claims to be without merit could have a material adverse effect on our business, financial condition, and results of operations. An adverse outcome in any of our pending tax assessment matters also could have a material adverse effect on our business, financial condition, and results of operations.

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. We currently hold insurance policies for the benefit of our directors and officers, although our 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.

We 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 (the "Staff") intends to recommend that the SEC bring a civil injunctive action against us, alleging violations of the federal securities laws arising from the restatement, which we settled in November 2009. Although we have settled this matter with the SEC, additional regulatory inquiries may also be commenced by other U.S. federal, state or foreign regulatory agencies. In addition, we may in the future be subject to additional litigation or other proceedings or actions arising in relation to the restatement of our historical interim financial statements. Litigation and any regulatory proceeding or action may be time consuming, expensive and distracting from the conduct of our business. The adverse resolution of any specific lawsuit or any potential regulatory proceeding or action could have a material adverse effect on our business, financial condition, and results of operations.

These litigation proceedings could result in substantial additional costs and expenses and adversely affect our cash flows, and may adversely affect our business, financial condition, and results of operations. We have in the past incurred and expect to continue to incur significant expenses in connection with these matters. Many members of our senior management team and our Board of Directors have been and will be required to devote a significant amount of time to the litigation related to the restatement. In addition, certain of these individuals are named defendants in the litigation related to the restatement. 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.

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

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 deem those claims to be without merit. For example, in March 2008, Cardsoft, Inc. and Cardsoft (Assignment for the Benefit of Creditors), LLC commenced an infringement action against us and others. On June 8, 2012, following a jury trial in the Eastern District of Texas, Marshall Division,

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the jury issued a verdict against us and awarded Cardsoft infringement damages and royalties. Judgment has not yet been issued, and additional amounts could be ordered against us by the court. See Note 13, Commitments and Contingencies, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K. Infringement claims are expensive and time consuming to defend against, regardless of the merits or ultimate outcome. Although we believe Cardsoft's claims to be without merit, we have had to expend substantial time and funds to defend the claims, and we expect we will continue to incur costs to defend this litigation. Similar claims may result in additional protracted and costly litigation. There can be no assurance that we will prevail in any such actions or that any license required under any such patent or other intellectual property would be made available on commercially acceptable terms, if at all. An unfavorable outcome in any such litigation, including the post-trial rulings and final judgment in the Cardsoft litigation, could result in a significant judgment of damages against us, which could materially and adversely impact our financial results, financial condition and cash flows. See Note 13, Commitments and Contingencies, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

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

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

We have experienced some fiscal quarters in which a significant percentage of the business for the quarter is executed towards the end of the fiscal quarter. This could negatively impact our business and results of operations.

Revenues recognized in our fiscal quarters can be back-end weighted meaning that during a particular fiscal quarter the timing of orders could be such that a substantial portion of sales orders are received, product is shipped, and revenue is recognized towards the end of the fiscal quarter, for various reasons. The occurrence of such back-end loading could adversely affect our business and results of operations due to a number of 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 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.

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 United States and, because of local customs or conditions, longer in some international markets. In the past, there have been bankruptcies among our customer base. Although credit losses have not been material to date, future losses, if incurred, could harm our business and have a material adverse effect on our operating results and financial condition. Also, certain customers that are invoiced in U.S. dollars, such as those based in Venezuela, have experienced and may continue to experience difficulties in obtaining U.S. dollars due to local currency controls, and therefore may not be able to remit timely payment to us. Additionally, to the extent that the ongoing uncertainty in the global economy continues to make it more difficult for some customers to obtain financing or access U.S. dollar currency, our customers' ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business, cash flows, operating results and financial condition.

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

We utilize a limited number of third parties to manufacture our hardware products pursuant to our specifications and rely upon these contract manufacturers to produce and deliver products to our customers 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 revenues and results of operations. We also rely on our contract manufacturer's facility in Israel for certain of our product lines and therefore are subject to the political disruptions or economic instability in that region. Substantially all of our manufacturing is currently handled by our third party contract manufacturers and our dependency on our third party contract manufacturers could exacerbate these risks.

Components such as application specific integrated circuits, or ASICs, microprocessors, wireless modules, modems and printer mechanisms that are necessary to manufacture and assemble our systems are sourced either directly by us or on our behalf by our contract manufacturers from a variety of component suppliers selected by us. Certain of the components are specifically customized for use in our products and are obtained from sole source suppliers on a purchase order basis. Disruptions to the business, financial stability or operations, including due to strikes, labor disputes or other disruptions to the workforce, of our suppliers, and particularly sole source suppliers, may also impact the availability of components to us in the quantities we require and on a timely basis. As an example, in March 2011 we experienced some component shortages due to the severe earthquake and tsunami in Japan which together with resulting damage to certain nuclear power plants, had resulted in widespread destruction and economic uncertainty in that region. Although we have to date been able to manage component supply adequately to meet our product demands, any prolonged component shortage as a result of similar events could materially and adversely affect our business and results of operations. Component shortages have resulted in increased costs for certain components and continued cost increases, particularly for critical components, could negatively impact our gross margins and profitability. If our suppliers are unable or unwilling to deliver the quantities that we require within the timeframe that we require, we would be faced with a shortage of critical components. We also experience from time to time an increase in the lead time for delivery of some of our key components. We may not be able to find alternative sources in a timely manner if suppliers of our key components become unwilling or unable to provide us with adequate supplies of these key components when we need them or if they increase their prices. If we are unable to obtain sufficient key required components, or to develop alternative sources if and as required in the future, or to replace our component and factory tooling for our products in a timely manner if they are damaged or destroyed, we could experience delays or reductions in product shipments. This could harm our relationships with our customers and cause our 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.

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.

As of October 31, 2012, on a worldwide basis we had net deferred tax assets of \$30.1 million. 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. Failure to achieve our projections may result in an increase in the valuation allowance in a future period. Any future 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.

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

Our effective tax rate could be adversely affected by a number of factors, including shifts in the mix of pretax profits and losses by tax jurisdiction, loss or cessation of tax holidays or other tax benefit in one or more jurisdictions, our ability to use tax credits, changes in tax laws or related interpretations in the jurisdictions in which we operate, including jurisdictions which currently impose low or no taxes on our operations in those jurisdictions, and tax assessments and related interest and penalties resulting from income tax audits. We are subject to ongoing tax audits in various jurisdictions. Although we regularly assess the likely

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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. Recently, there have been proposals to reform U.S. tax rules that may result in a reduction or elimination of the deferral of U.S. income tax on our foreign earnings, in which case our effective tax rate could be adversely affected. Any of these changes could have an adverse effect on our results of operations.

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

Israel

Our subsidiary in Israel (formerly Lipman) previously received tax benefits under Israeli law for capital investments that are designated as “Approved Enterprises.” We received such tax benefits of approximately \$0.4 million during the twelve months ended October 31, 2009. Due to our restructuring and contract manufacturing arrangements entered into during the twelve months ended October 31, 2010 we no longer meet the requirements necessary to maintain the tax benefit status in Israel. Since November 1, 2009, we have been taxed at the full statutory rate in Israel and no future tax benefit has been recorded. This Israel subsidiary has undistributed earnings of approximately \$174 million, the vast majority of which are attributable to Lipman's historic Approved Enterprise programs. As such, these earnings were not subject to Israeli statutory corporate tax at the time they were generated. Distribution or use of these funds outside Israel would subject us to payment of corporate and withholding taxes. For example, to the extent that these earnings are distributed to the United States in the future, our Israeli subsidiary would be required to pay corporate tax at the rate ordinarily applicable to such earnings, currently between 12.5% and 36.25%, which includes the withholding tax between the United States and Israel. We have accrued approximately \$47 million for taxes associated with potential future distributions of our Israeli subsidiary's approximately \$174 million in earnings.

Singapore

Our subsidiary in Singapore, which previously served as one of our principal operating subsidiaries, has received tax benefits under the Singapore Pioneer Tax Holiday provision (the “Tax Holiday”), including tax benefits of approximately \$19.2 million during the twelve months ended October 31, 2012, \$13.6 million during the twelve months ended October 31, 2011 and \$8.3 million during the twelve months ended October 31, 2010. To maintain our eligibility for these benefits, we were required to meet and maintain certain agreed conditions, including retaining agreed levels of Singapore employees and incurring and documenting total local business spend levels as agreed with the Singapore Economic Development Board. During 2010 we renegotiated the terms and conditions of the Tax Holiday, including an extension of our Tax Holiday through October 31, 2012. While we have continued to maintain personnel and certain operations in Singapore, we elected to not extend this Tax Holiday further and it expired on October 31, 2012. Therefore, effective November 1, 2012, any net income we generate in Singapore would be taxed at the statutory rate of 17% instead of the agreed Pioneer Tax Holiday rate of 0%. While we believe the cessation of this Tax Holiday does not require us to refund tax benefits received in the past, it is possible that the tax authorities may not agree with our positions.

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

We expect our 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 common stock to decline. Factors that may affect our operating results include:

- the type, timing, and size of orders and shipments;
- demand for and acceptance of our new product and services offerings;
- changes in competitive conditions, including from traditional payment solution providers, as well as from alternative payment solution providers;
- customers' willingness to maintain inventories and/or increased overall channel inventories held by customers in a particular quarter;
- fluctuations in currency exchange rates;
- delays in the implementation and delivery of our products and services, which may impact the timing of our recognition of revenues;
- variations in product mix and cost during any period;

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development of new relationships, penetration of new markets and maintenance and enhancement of existing relationships with customers and strategic partners;

- component supply, manufacturing, or distribution difficulties;
- deferral of customer contracts in anticipation of product or service enhancements;
- timing of commencement, implementation, or completion of major implementation projects;
- timing of governmental, statutory and industry association requirements, such as PCI compliance deadlines or EMV adoption in the U.S. or elsewhere;
- the relative geographic mix of net revenues;
- the fixed nature of many of our expenses;
- industry and economic conditions, including competitive pressures and inventory obsolescence.; and

the introduction of new or stricter laws and regulations, such as data protection or data privacy laws and regulations covering hazardous substances, in jurisdictions where we operate that may cause us to incur additional compliance or implementation costs or costs to alter our business operations.

In particular, differences in relative growth rates between our businesses in North America and internationally may have a significant effect on our operating results, particularly our reported gross profit percentage, in any individual quarter, with International sales carrying lower margins.

In addition, we have in the past and may continue to experience periodic variations in sales to our key vertical and international markets. 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 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:

- the need to maintain significant inventory of components that are in limited supply;
- buying components in bulk for the best 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, including of acquired product lines.

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 adversely affect our business, results of operations and financial condition. As an example, for the fiscal year ended October 31, 2009, we incurred costs for obsolete inventory, scrap, and purchase commitments for excess components at contract manufacturers of \$23.0 million due to changing demand we experienced in fiscal year 2009 as a result of the severe deterioration in the macroeconomic environment.

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 improperly forecast demand for our products we could end up with too many products and be unable to sell the excess inventory in a timely manner, if at all, or, alternatively we could end up with too few products and not be able to satisfy demand. This problem is exacerbated because our attempt to closely match inventory levels with product demand leaves limited margin for error, 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. For example, the shortages of certain components due to the March 2011 earthquake and tsunami in Japan exacerbated our ability to match inventory to customer demand. Also, during the transition from an existing product to a new replace