VERIFONE SYSTEMS, INC.
Form 10-Q
September 04, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 31, 2015

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 incorporation or organization)	(I.R.S. Employer Identification No.)

88 West Plumeria Drive
San Jose, CA 95134
(Address of principal executive offices with zip code)
(408) 232-7800
(Registrant’s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on August 31, 2015:

Class	Number of shares
Common Stock, $0.01 par value per share	114,946,525

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VERIFONE SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2015	2014	2015	2014
	(Unaudited, in thousands, except per share data)			
Net revenues:				
System solutions	$332,980	$299,435	$970,680	$851,335
Services	176,960	176,465	515,630	527,048
Total net revenues	509,940	475,900	1,486,310	1,378,383
Cost of net revenues:				
System solutions	201,207	186,833	575,847	541,912
Services	102,192	106,297	300,849	308,210
Total cost of net revenues	303,399	293,130	876,696	850,122
Total gross margin	206,541	182,770	609,614	528,261
Operating expenses:				
Research and development	54,195	53,217	150,677	153,748
Sales and marketing	56,635	54,136	169,416	161,164
General and administrative	55,442	58,447	152,249	158,110
Litigation settlement and loss contingency expense	—	—	1,213	9,000
Amortization of purchased intangible assets	19,985	24,517	62,884	73,849
Total operating expenses	186,257	190,317	536,439	555,871
Operating income (loss)	20,284	(7,547)	73,175	(27,610)
Interest expense, net	(8,223)	(14,421)	(23,550)	(35,300)
Other income (expense), net	(529)	(421)	(3,455)	(6,731)
Income (loss) before income taxes	11,532	(22,389)	46,170	(69,641)
Income tax provision (benefit)	1,452	5,718	4,296	(1,874)
Consolidated net income (loss)	10,080	(28,107)	41,874	(67,767)
Net income attributable to noncontrolling interests	(626)	(926)	(1,008)	(1,414)
Net income (loss) attributable to VeriFone Systems, Inc. stockholders	$9,454	$(29,033)	$40,866	$(69,181)
Net income (loss) per share attributable to VeriFone Systems, Inc. stockholders:				
Basic	$0.08	$(0.26)	$0.36	$(0.62)
Diluted	$0.08	$(0.26)	$0.35	$(0.62)
Weighted average number of shares used in computing net income (loss) per share:				
Basic	114,401	112,024	113,928	111,176
Diluted	116,352	112,024	115,974	111,176

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

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VERIFONE SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2015	2014	2015	2014
	(Unaudited, in thousands)			
Net income (loss) attributable to VeriFone Systems, Inc. stockholders	$9,454	$(29,033)	$40,866	$(69,181)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(10,943)	(39,503)	(175,107)	(42,519)
Unrealized gain (loss) on derivatives designated as cash flow hedges				
Change in unrealized gain (loss) on derivatives designated as cash flow hedges, net of tax	(884)	1,120	(5,284)	2,982
Amounts reclassified from Accumulated other comprehensive loss, net of tax	1,289	(714)	2,861	(2,087)
Net change in unrealized gain (loss) on derivatives designated as cash flow hedges	405	406	(2,423)	895
Net change in other	28	26	82	(118)
Other comprehensive income (loss)	(10,510)	(39,071)	(177,448)	(41,742)
Comprehensive loss attributable to VeriFone Systems, Inc. stockholders	$(1,056)	$(68,104)	$(136,582)	$(110,923)

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

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VERIFONE SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	July 31, 2015	October 31, 2014
	(Unaudited, in thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$242,147	$250,187
Accounts receivable, net of allowances of $9,440 and $9,880	322,371	305,500
Inventories	121,774	124,275
Prepaid expenses and other current assets	111,668	105,610
Total current assets	797,960	785,572
Fixed assets, net	183,094	177,753
Purchased intangible assets, net	335,900	457,595
Goodwill	1,083,862	1,185,892
Deferred tax assets, net	11,998	30,394
Other long-term assets	74,201	65,037
Total assets	$2,487,015	$2,702,243
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$150,116	$161,226
Accruals and other current liabilities	213,905	206,982
Deferred revenue, net	85,767	92,075
Short-term debt	31,964	32,131
Total current liabilities	481,752	492,414
Long-term deferred revenue, net	53,597	50,968
Long-term deferred tax liabilities, net	121,426	136,057
Long-term debt	781,608	851,040
Other long-term liabilities	73,788	101,092
Total liabilities	1,512,171	1,631,571
Commitments and contingencies		
Redeemable noncontrolling interest in subsidiary	—	774
Stockholders' equity:		
Preferred stock: $0.01 par value, 10,000 shares authorized, no shares issued and outstanding	—	—
Common stock: $0.01 par value, 200,000 shares authorized, 114,708 and 113,314 shares issued and outstanding as of July 31, 2015 and October 31, 2014, respectively	1,147	1,133
Additional paid-in capital	1,718,378	1,675,695
Accumulated deficit	(497,342)	(538,208)
Accumulated other comprehensive loss	(282,278)	(104,830)
Total VeriFone Systems, Inc. stockholders' equity	939,905	1,033,790
Noncontrolling interest in subsidiaries	34,939	36,108
Total equity	974,844	1,069,898
Total liabilities and equity	$2,487,015	$2,702,243

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

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VERIFONE SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended July 31,	
	2015	2014
	(Unaudited, in thousands)	
Cash flows from operating activities		
Consolidated net income (loss)	$41,874	$(67,767)
Adjustments to reconcile consolidated net income (loss) to net cash provided by operating activities:		
Depreciation and amortization, net	127,688	160,974
Stock-based compensation expense	32,208	40,855
Deferred income taxes, net	(8,673)	(20,581)
Write-off of debt issuance cost upon extinguishment	—	7,153
Other	14,506	11,049
Net cash provided by operating activities before changes in operating assets and liabilities	207,603	131,683
Changes in operating assets and liabilities:		
Accounts receivable, net	(33,403)	(17,225)
Inventories	(6,681)	24,558
Prepaid expenses and other assets	(20,812)	12,548
Accounts payable	(189)	24,293
Deferred revenue, net	10,068	20,704
Other current and long-term liabilities	12,235	(49,141)
Net change in operating assets and liabilities	(38,782)	15,737
Net cash provided by operating activities	168,821	147,420
Cash flows from investing activities		
Capital expenditures	(78,514)	(62,821)
Acquisition of businesses, net of cash and cash equivalents acquired	(13,639)	—
Other investing activities, net	121	2,428
Net cash used in investing activities	(92,032)	(60,393)
Cash flows from financing activities		
Proceeds from debt, net of issuance costs	60,000	1,081,097
Repayments of debt	(130,256)	(1,199,720)
Proceeds from issuance of common stock through employee equity incentive plans	12,670	31,608
Other financing activities, net	(2,507)	(2,118)
Net cash used in financing activities	(60,093)	(89,133)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(24,736)	(2,308)
Net decrease in cash and cash equivalents	(8,040)	(4,414)
Cash and cash equivalents, beginning of period	250,187	268,220
Cash and cash equivalents, end of period	$242,147	$263,806

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

VERIFONE SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Unaudited

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

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of VeriFone Systems, Inc. and our wholly-owned and majority-owned subsidiaries, and have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions on Form 10-Q pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. The Condensed Consolidated Balance Sheet at October 31, 2014 has been derived from the audited Consolidated Balance Sheet at that date. All significant inter-company accounts and transactions have been eliminated. In accordance with those rules and regulations, we have omitted certain information and notes normally provided in our annual consolidated financial statements. In the opinion of management, the unaudited Condensed Consolidated Financial Statements contain all adjustments, consisting only of normal recurring items, necessary for the fair presentation of our financial position and results of operations for the interim periods. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2014. The results of operations for the three and nine months ended July 31, 2015 are not necessarily indicative of the results expected for the entire fiscal year.

We have four operating segments: North America, Latin America, EMEA, and Asia-Pacific. Our North America segment is defined as our operations in the U.S. and Canada. Our Latin America segment is defined as our operations in South America, Central America, Mexico and the Caribbean. Our EMEA segment is defined as our operations in Europe, Russia, the Middle East, and Africa. Our Asia-Pacific segment consists of our operations in Australia, New Zealand, China, India and throughout the rest of Greater Asia, including other Asia-Pacific Rim countries. Our reportable segments are the same as our operating segments. We determine our operating segments based on the discrete financial information used by our Chief Executive Officer, who is our chief operating decision maker, to assess performance, allocate resources, and make decisions regarding VeriFone's operations. As a result of new Company leadership and related changes in the structure of our internal organization during July 2015, we realigned our operating segments in the current quarter. All prior period amounts reported by segment have been reclassified to conform to the current presentation. Our Chief Executive Officer is evaluating using global product line financial information to manage the business in the future. If our Chief Executive Officer is provided different financial information to assess performance, allocate resources and make decisions regarding VeriFone's operations, we will reassess our operating segment presentation.

Use of Estimates

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

Significant Accounting Policies

During the three and nine months ended July 31, 2015, there have been no changes in our significant accounting policies as described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2014.

Concentrations of Credit Risk

For the three and nine months ended July 31, 2015 and 2014 no single customer accounted for more than 10% of our total Net revenues. As of July 31, 2015 and October 31, 2014 no single customer accounted for more than 10% of our total Accounts receivable, net.

Recent Accounting Pronouncements

During April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs and during August 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which clarifies the treatment of debt issuance costs from line-of-credit arrangements after adoption of ASU 2015-03. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. ASU 2015-15 clarifies that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-03 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. We plan to early adopt ASU 2015-03 retrospectively effective October 31, 2015. Retrospective adoption as of October 31, 2015, presuming that debt issuance costs related to our revolving line-of-credit arrangement will be reported as a direct deduction of the debt liability, will result in a $0.3 million decrease in Prepaid expenses and other current assets, and a $14.4 million decrease in Other long-term assets, with a corresponding $0.3 million decrease in Short-term debt, and a $14.4 million decrease in Long-term debt in our Condensed Consolidated Balance Sheet at October 31, 2014. Adoption will not have any impact on results of operations.

During July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 provides presentation requirements for unrecognized tax benefits when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists and would likely be settled as a reduction of such tax attributes. We prospectively adopted ASU 2013-11 effective November 1, 2014. Adoption resulted in a $24.2 million reduction of Deferred tax assets and Other long-term liabilities in our Condensed Consolidated Balance Sheets at November 1, 2014, because the payable amount of unrecognized tax benefits is presented net against Deferred tax assets. Adoption had no impact on our results of operations.

During May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which provides new guidance on the recognition of revenue and states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard was originally effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. On July 9, 2015, the FASB deferred the effective date to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted as of the original effective date. We are currently evaluating our adoption timing, the transition method we will use and the impact of this new pronouncement on our consolidated financial position and results of operations.

Note 2. Net Income (Loss) per Share of Common Stock

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

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

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2015	2014	2015	2014
Basic and diluted net income (loss) per share attributable to VeriFone Systems, Inc. stockholders:				
Numerator:				
Net income (loss) attributable to VeriFone Systems, Inc. stockholders	$9,454	$(29,033)	$40,866	$(69,181)
Denominator:				
Weighted average shares attributable to VeriFone Systems, Inc. stockholders - basic	114,401	112,024	113,928	111,176
Weighted average effect of dilutive securities:				
Stock options, RSUs and RSAs	1,951	—	2,046	—
Weighted average shares attributable to VeriFone Systems, Inc. stockholders - diluted	116,352	112,024	115,974	111,176
Net income (loss) per share attributable to VeriFone Systems, Inc. stockholders:				
Basic	$0.08	$(0.26)	$0.36	$(0.62)
Diluted	$0.08	$(0.26)	$0.35	$(0.62)

For the three months ended July 31, 2015 and 2014, equity incentive awards representing 1.3 million, and 8.4 million shares of common stock, respectively, were excluded from the calculation of weighted average shares for diluted net income (loss) per share as they were anti-dilutive. For the nine months ended July 31, 2015 and 2014, equity incentive awards representing 1.3 million, and 8.4 million shares of common stock, respectively, were excluded from the calculation of weighted average shares for diluted net income (loss) per share as they were anti-dilutive. Anti-dilutive awards, which include stock options, RSUs and RSAs, could impact future calculations of diluted net income per share if the fair market value of our common stock increases.

Warrants to purchase 7.2 million shares of our common stock were outstanding at October 31, 2013 and expired unexercised in equal amounts on each trading day from December 19, 2013 to February 3, 2014. The warrants were anti-dilutive in the nine months ended July 31, 2014 because the warrants' $62.356 exercise price was greater than the average share price of our common stock during that period.

Note 3. Income Taxes

We recorded tax provisions totaling $1.5 million and $5.7 million for the three months ended July 31, 2015 and 2014, respectively. We recorded a $4.3 million income tax provision and a $1.9 million income tax benefit for the nine months ended July 31, 2015 and 2014, respectively. The income tax provisions for the three months ended July 31, 2015 and 2014 are primarily related to foreign taxes. The income tax provision for the nine months ended July 31, 2015 is primarily related to foreign taxes offset by the reversal of unrecognized tax benefits where statutes of limitations expired and audits were settled. The income tax benefit for the nine months ended July 31, 2014 includes tax benefits from statutory tax rate changes in certain foreign countries, decreases in prior year unrecognized tax benefits, and other discrete activity. Losses generated during the three and nine months ended July 31, 2014 in the U.S. federal, state, and certain foreign jurisdictions did not result in a tax benefit due to valuation allowances.

Our total unrecognized tax benefits were approximately $108.0 million as of July 31, 2015. The amount of unrecognized tax benefits could be reduced upon closure of tax examinations or if the statute of limitations on certain tax filings expires without assessment from the relevant tax authorities. We believe that it is reasonably possible that there could be an immaterial reduction in unrecognized tax benefits due to statute of limitation expirations in multiple tax jurisdictions during the next 12 months. Interest and penalties accrued on these uncertain tax positions will also be released upon the expiration of the applicable statute of limitations.

U.S. Internal Revenue Service Tax Audit Assessment

We are currently under audit by the U.S. Internal Revenue Service for fiscal years 2005 through 2010 related to our 5 year net operating loss carry back for fiscal year 2010. We have received a Notice of Proposed Adjustment indicating the denial of our worthless stock deduction of $154.3 million, related to the insolvency of one of our UK subsidiaries, recorded on our 2010 tax return. The impact of the Notice of Proposed Adjustment is the denial of the loss carryback to 2005 and 2006 which resulted in an approximately $25.0 million cash refund and the disallowance of approximately $29.0 million of future tax benefits residing in the NOL carryover which are offset with a valuation allowance. We filed our protest to the Notice of Proposed Assessment in April 2015 and believe the Internal Revenue Service position for the denial is without merit.

Israel Tax Audit Assessment

We are also currently under audit by the Israel Tax Authority for fiscal years 2008 through 2013. The Israel Tax Authority has issued a tax assessment claiming there was a business restructuring that resulted in a transfer of some functions, assets and risks from Israel to the U.S. parent company that the Israel Tax Authority claims was an equity sale of 1.36 billion Israeli new shekels (approximately $361.5 million at the foreign exchange rate as of July 31, 2015). The Israel Tax Authority is alleging that the claim applies alternatively to fiscal years 2008 or 2009. These claims result in a tax liability and deficiency penalty assessment in the range of 556.0 million Israeli new shekels (approximately $147.4 million at the foreign exchange rate as of July 31, 2015), if the claim was assessed for fiscal year 2009, to 645.5 million Israeli new shekels (approximately $171.1 million at the foreign exchange rate as of July 31, 2015), if the claim was assessed for fiscal year 2008, including interest and the required Israeli price index adjustments (referred to as the linkage differentials) through July 31, 2015.

We filed our objection to the tax assessment in January 2015 and believe the Israel Tax Authority assessment position is without merit. We have agreed with the Israel Tax Authority to repay our $69.0 million intercompany loan from Israel to the extent of the amount of a final agreed tax assessment, if any.

Note 4. Balance Sheet and Statement of Operations Details

Cash and Cash Equivalents

As of July 31, 2015 and October 31, 2014, $187.0 million and $216.4 million, respectively, of our cash and cash equivalents were held by our foreign subsidiaries. If we decide to distribute or use such cash and cash equivalents outside those foreign jurisdictions, including a distribution to the U.S., we may be subject to additional taxes or costs.

As of July 31, 2015 and October 31, 2014, Prepaid expenses and other current assets included $5.1 million and $6.2 million, respectively, of restricted cash. As of July 31, 2015 and October 31, 2014, Other long-term assets included $2.2 million and $2.6 million, respectively, of restricted cash. Restricted cash was mainly comprised of pledged deposits.

Inventories

Inventories consisted of the following (in thousands):

	July 31, 2015	October 31, 2014
Raw materials	$34,702	$36,264

Work-in-process	1,993	1,662
Finished goods	85,079	86,349
Total inventories	$121,774	$124,275

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

Accruals and Other Current Liabilities

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

	July 31, 2015	October 31, 2014
Accrued expenses	$74,785	$72,250
Accrued compensation	61,156	66,281
Accrued legal loss contingencies, including interest (Note 9)	5,632	5,728
Other current liabilities	72,332	62,723
Total accruals and other current liabilities	$213,905	$206,982

Other current liabilities were primarily comprised of accrued warranty, sales and value-added taxes payable, accrued restructurings and accrued liabilities for contingencies related to tax assessments and legal proceedings.

Accrued Warranty

Activity related to accrued warranty for the nine months ended July 31, 2015 consisted of the following (in thousands):

Balance at beginning of period	$15,411
Warranty charged to Cost of net revenues	12,644
Utilization of warranty accrual	(9,571)
Other	(1,303)
Balance at end of period	17,181
Less: current portion	(14,609)
Long-term portion	$2,572

Deferred Revenue, Net

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

	July 31, 2015	October 31, 2014
Deferred revenue	$154,332	$168,712
Deferred cost of revenue	(14,968)	(25,669)
Deferred revenue, net	139,364	143,043
Less: current portion	(85,767)	(92,075)
Long-term portion	$53,597	$50,968

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

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

	July 31, 2015	October 31, 2014
Unrecognized tax benefits liability, net	$33,182	$62,228
Contingent consideration payable	11,765	11,185
Other long-term liabilities	28,841	27,679
Total other long-term liabilities	$73,788	$101,092

Adoption of ASU 2013-11 effective November 1, 2014 resulted in a $24.2 million reduction in Unrecognized tax benefits liability, net, at November 1, 2014, because some of the unrecognized tax benefits are now presented net against Deferred tax assets. As of July 31, 2015, the $33.2 million Unrecognized tax benefits liability, net, includes accrued interest and penalties, none of which is expected to be paid within one year. We are unable to make a reasonably reliable estimate as to when cash settlement with a taxing authority may occur.

Redeemable noncontrolling interest in subsidiary

On September 30, 2010, we acquired 80% of the outstanding equity of All Business Solutions - ABS S.r.l., pursuant to a share purchase agreement under which the holders of the remaining 20% of outstanding equity had the option to require us to purchase their shares at the then fair market value. The redeemable noncontrolling interest was reported in a separate line above Stockholders' equity in our Condensed Consolidated Balance Sheets and was recognized at the greater of the initial carrying amount increased or decreased for the noncontrolling interest's share of net income or loss or its redemption value.

On April 2, 2015 the minority shareholders of ABS S.r.l. exercised their option to require us to purchase their shares. As a result, the fair market value of the noncontrolling interest is reported in Other current liabilities in our Condensed Consolidated Balance Sheet at July 31, 2015.

Accumulated Other Comprehensive Loss

Activity related to Accumulated other comprehensive loss for the nine months ended July 31, 2015 consisted of the following (in thousands):

	Foreign currency translation adjustments	Unrealized loss on derivatives designated as cash flow hedges (1)	Other (2)	Total
Balance at October 31, 2014	$(102,767)	$(720)	$(1,343)	$(104,830)
Gains (losses) before reclassifications, net of tax	(175,107)	(5,284)	—	(180,391)
Amounts reclassified from Accumulated other comprehensive loss, net of tax	—	2,861	82	2,943
Other comprehensive income (loss)	(175,107)	(2,423)	82	(177,448)
Balance at July 31, 2015	$(277,874)	$(3,143)	$(1,261)	$(282,278)

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

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

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

Stock-Based Compensation Expense

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2015	2014	2015	2014
Cost of net revenues	$432	$506	$1,560	$1,267
Research and development	1,676	2,061	5,628	7,920
Sales and marketing	4,660	5,644	12,239	14,272
General and administrative	4,413	5,034	12,781	17,396
Total stock-based compensation	$11,181	$13,245	$32,208	$40,855

Note 5. Financial Instruments

Fair Value Measurements

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

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

The following tables present our significant assets and liabilities that are measured at fair value on a recurring basis and their classification within the fair value hierarchy (in thousands). There were no transfers between levels of fair value hierarchy in the nine months ended July 31, 2015 and the fiscal year ended October 31, 2014.

	July 31, 2015				October 31, 2014			
	Carrying Value	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3
Assets								
Other current and long-term assets:								
Derivative financial instruments	$771	$—	$771	$—	$195	$—	$195	$—
Total assets measured and recorded at fair value	$771	$—	$771	$—	$195	$—	$195	$—
Liabilities								
Other current and long-term liabilities:								
Contingent consideration payable	$14,306	$—	$—	$14,306	$11,824	$—	$—	$11,824
Derivative financial instruments	4,215	—	4,215	—	1,315	—	1,315	—
	$18,521	$—	$4,215	$14,306	$13,139	$—	$1,315	$11,824

Total liabilities measured and recorded at fair value

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Fair Value of Contingent Consideration Payable

The following table presents changes in our contingent consideration payable for the nine months ended July 31, 2015, which is categorized in Level 3 of the fair value hierarchy (in thousands):

Balance at beginning of period	$11,824
Additions	1,315
Payments	(349)
Changes in estimates, included in Other income (expense), net	(64)
Interest expense, net	1,580
Balance at end of period	$14,306

Contingent consideration payable is substantially comprised of amounts payable for media contracts we acquired from Outcast Media LLC in August 2014. The contingent consideration payable is classified as Level 3 because we use significant unobservable inputs to determine the expected payments and an appropriate discount rate to calculate the fair value. The significant unobservable inputs we use include our estimate of the future net revenues we expect to generate from the acquired media contracts, the probability of achieving those revenues, and the revenue share rate for a media contract. The discount rate used to determine the fair value of the contingent consideration payable is 18.5%. The maximum liability on contingent consideration payable is indeterminate because it is based on future revenues generated from the acquired business. We evaluate changes in the assumptions used to calculate the fair value of contingent consideration payable at the end of each period.

Derivative Financial Instruments

Interest Rate Swap Agreements Designated as Cash Flow Hedges

We use interest rate swap agreements to hedge the variability in cash flows related to interest payments. On March 23, 2012, we entered into a number of interest rate swap agreements to effectively convert $500.0 million of the term A loan from a floating rate to a 0.71% fixed rate plus applicable margin through March 31, 2015. On January 8, 2015, we entered into a number of new interest rate swap agreements to effectively convert $500.0 million of the term A loan from a floating rate to a 1.20% fixed rate plus applicable margin effective April 1, 2015, after the expiration of the original swap agreements. The principal amount under the term A loan covered by the new interest rate swap agreements will decrease to $450.0 million from April 1, 2017 through August 31, 2017, and $400.0 million from September 1, 2017 through March 31, 2018. The swap agreements expire March 31, 2018.

The interest rate swaps qualify for hedge accounting treatment as cash flow hedges. The notional amounts of interest rate swap agreements outstanding as of July 31, 2015 and October 31, 2014 were each $500.0 million.

Gains and losses arising from the effective portion of interest rate swap agreements are recorded in Accumulated other comprehensive loss, and are subsequently reclassified into earnings in the period or periods during which the underlying transactions affect earnings. As of July 31, 2015, the estimated net derivative loss related to our cash flow hedges included in Accumulated other comprehensive loss that will be reclassified into earnings in the next 12 months is $3.8 million.

Foreign Exchange Forward Contracts Not Designated as Hedging Instruments

We arrange and maintain foreign exchange forward contracts so as to yield gains or losses to offset changes in foreign currency denominated assets or liabilities due to changes in foreign exchange rates, with the objective to mitigate the volatility associated with foreign currency transaction gains or losses. Our foreign currency exposures are predominantly inter-company receivables and payables arising from product sales and loans from one of our entities to another. Our foreign exchange forward contracts generally mature within 90 days. The notional amounts of such contracts outstanding as of July 31, 2015 and October 31, 2014 were $236.8 million and $241.1 million, respectively.

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

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2015	2014	2015	2014
Gains (losses) recognized in Other income (expense), net in our Condensed Consolidated Statements of Operations	$5,201	$(2,614)	$16,103	$(8,187)

Note 6. Goodwill and Purchased Intangible Assets

Goodwill

Activity related to goodwill for the nine months ended July 31, 2015 consisted of the following (in thousands):

Balance at beginning of period	$1,185,892
Additions	11,562
Currency translation adjustments	(113,592)
Balance at end of period	$1,083,862

Goodwill is not amortized. We review goodwill for impairment annually, and whenever events or changes in circumstances indicate its carrying amount may not be recoverable. Based on our review for potential indicators of impairment performed during the nine months ended July 31, 2015 and the fiscal year ended October 31, 2014, there were no indicators of impairment.

On February 2015, we acquired all the outstanding shares of Double Beam, Inc. for $11.8 million in total consideration pursuant to a transaction that we accounted for using the acquisition method of accounting. We paid $10.5 million at the close date and the remaining consideration is payable on the one year anniversary of the transaction. Double Beam delivers Android based cloud point-of-sale solutions in the U.S.. Purchased intangible assets, which principally related to developed and core technology, totaled $3.4 million and goodwill totaled $8.4 million at the acquisition date. The goodwill was assigned to our North America reportable segment and will not be deductible for income tax purposes.

Purchased Intangible Assets, Net

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

	July 31, 2015			October 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$591,473	$(280,910)	$310,563	$673,081	$(255,161)	$417,920
Developed and core technology	98,837	(79,680)	19,157	108,379	(76,738)	31,641
Other	19,849	(13,669)	6,180	20,556	(12,522)	8,034
Total	$710,159	$(374,259)	$335,900	$802,016	$(344,421)	$457,595

Activity related to purchased intangible assets during the nine months ended July 31, 2015 includes a $92.5 million currency translation adjustment to Gross carrying amount and a $41.2 million currency translation adjustment to Accumulated amortization.

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2015	2014	2015	2014
Included in Cost of net revenues	$4,502	$10,115	$13,771	$32,652
Included in Operating expenses	19,985	24,517	62,884	73,849
Total amortization of purchased intangible assets	$24,487	$34,632	$76,655	$106,501

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

Note 7. Financings

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

	July 31, 2015	October 31, 2014
2011 Credit Agreement		
Term A loan	$570,000	$592,500
Term B loan	198,000	199,500
Revolving loan	49,000	95,000
Other	372	706
Total principal payments due	817,372	887,706
Less: original issue discount	(3,800)	(4,535)
Total amounts outstanding	813,572	883,171
Less: current portion	(31,964)	(32,131)
Long-term portion	$781,608	$851,040

2011 Credit Agreement

Key terms of our amended and restated 2011 credit agreement (the "2011 Credit Agreement") include financial maintenance covenants and certain representations, warranties, covenants, and conditions that are customarily required for similar financings. We were in compliance with all financial covenants under this credit agreement as of July 31, 2015.

Borrowings under this credit agreement bear interest at a “Base Rate” or “Eurodollar Rate”, at our option, plus an applicable margin based on certain financial ratios, determined and payable quarterly. As of July 31, 2015, we elected the "Eurodollar Rate" margin option for our borrowings and the interest margins were 2.00% for the term A loan and the revolving loan, and 2.75% for the term B loan. Accordingly as of July 31, 2015, the interest rate was 2.19% for the term A loan and the revolving loan and 3.5% for the term B loan. We have a number of interest rate swap agreements to effectively convert a portion of the term A loan from a floating interest rate to a fixed interest rate. As of July 31, 2015, $500.0 million of the term A loan is effectively at a 1.20% fixed rate plus applicable margin based on interest rate swaps. As of July 31, 2015, the commitment fee for the unused portion of the revolving loan was 0.375% per annum, payable quarterly in arrears, and the amount available to draw under the revolving loan was $451.0 million.

On July 8, 2014, we amended and restated the original 2011 credit agreement to extend the maturity dates, provide more favorable interest rates, and make certain changes to the covenants and other terms. As part of the amendment and restatement, the outstanding loan balances were repaid in full, and new debt was issued. The repayment of outstanding debt as part of the amendment and restatement was deemed an extinguishment of $153.5 million of outstanding debt. As a result, during July 2014, we expensed $5.2 million of previously capitalized debt issuance costs to Interest expense in our Condensed Consolidated Statements of Operations. We incurred $13.2 million of costs in connection with the amendment and restatement.

Note 8. Restructurings

As part of cost optimization and corporate transformation initiatives, during fiscal year 2014 our management approved, committed to and initiated restructuring plans to reduce headcount, and consolidate facilities and data centers. These plans are expected to be substantially complete by the end of fiscal year 2015. In addition, during July 2015, our management approved, committed to and initiated another restructuring plan to further reduce headcount and consolidate operations as part of these transformation initiatives. The July 2015 Plan is expected to be substantially complete by the end of fiscal year 2016.

Activity related to our restructuring plans for the nine months ended July 31, 2015 consisted of the following (in thousands):

	Restructuring Plans					
	April 2014 Plan		June 2014 Plan		July 2015 Plan	
	Employee Involuntary Termination Benefits	Facilities Related Costs	Employee Involuntary Termination Benefits	Facilities Related Costs	Employee Involuntary Termination Benefits	Total
Balance at beginning of period	$319	$1,194	$5,500	$399	$—	$7,412
Charges, net of adjustments	(67)	537	601	82	6,374	7,527
Cash payments	(224)	(1,866)	(5,113)	(476)	(737)	(8,416)
Other	—	135	—	—	—	135
Balance at end of period	$28	$—	$988	$5	$5,637	$6,658
Cumulative costs to date	$5,139	$1,967	$11,936	$853	$6,374	$26,269

The following table presents the restructuring expense recognized in our Condensed Consolidated Statements of Operations (in thousands):

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2015	2014	2015	2014
Cost of net revenues	$223	$1,797	$258	$2,663
Research and development	3,364	4,853	3,518	5,587
Sales and marketing	1,082	1,963	1,875	4,577
General and administrative	1,324	2,197	1,876	3,754
	$5,993	$10,810	$7,527	$16,581

Note 9. Commitments and Contingencies

Commitments

Leases

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

In connection with our taxi solutions business, we enter into operating lease arrangements for the right to place advertising in or on taxicabs. In general, these lease arrangements are non-cancelable for terms ranging from three to eight years, require us to pay minimum lease amounts based on the types and locations of the advertising displays in or on the taxicabs, and are subject to fee escalation clauses. Based upon the number of operational taxicabs with our advertising displays at July 31, 2015, we had total lease commitments of $91.7 million relating to such lease arrangements, which are included in the future minimum lease payments in the table below.

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

Future minimum lease payments under these leases as of July 31, 2015 were as follows (in thousands):

Years Ending October 31:	Minimum Lease Payments
Remainder of fiscal year 2015	$ 11,109
2016	39,888
2017	34,892
2018	19,966
2019	18,257
2020	14,690
Thereafter	17,810
Total	$ 156,612

Rent expense consisted of the following (in thousands):

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2015	2014	2015	2014
Rent expense for non-cancelable taxi operating leases	$9,073	$9,578	$26,374	$27,556
Facility and other rent expense	6,442	7,121	20,328	21,945
Total rent expense	$15,515	$16,699	$46,702	$49,501

Manufacturing Agreements

We work on a purchase order basis with our contract manufacturers, which are located in China, Singapore, Malaysia, Brazil, Germany, and Romania, and component suppliers located throughout the world, to supply nearly all of our finished goods inventories, spare parts, and accessories. We provide each such supplier with a purchase order to cover the manufacturing requirements, which generally constitutes a binding commitment by us to purchase materials and finished goods produced by the manufacturer as specified in the purchase order. Most of these purchase orders are considered to be non-cancelable and are expected to be paid within one year of the issuance date. As of July 31, 2015, the amount of purchase commitments issued to contract manufacturers and component suppliers totaled approximately $130.9 million. Of this amount, $10.5 million has been recorded in Accruals and other current liabilities in our Condensed Consolidated Balance Sheets because these commitments are not expected to have future value to us.

Bank Guarantees

We have issued bank guarantees with maturities ranging from two months to six years to certain of our customers and vendors as required in some countries to support certain performance obligations under our service or other agreements with those parties. As of July 31, 2015, the maximum amount that may become payable under these guarantees was $12.3 million, of which $1.9 million was collateralized by restricted cash deposits.

Letters of Credit

We provide standby letters of credit in the ordinary course of business to third parties as required. As of July 31, 2015, the maximum amounts that may become payable under these letters of credit was $8.0 million, of which $1.0 million was collateralized by restricted cash deposits.

Contingencies

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

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

Brazilian Tax Assessments

State Value-Added Tax

The Brazilian subsidiary we acquired as part of our acquisition of Hypercom in August 2011 received an unfavorable administrative decision on a tax enforcement action against it filed by the São Paulo State Revenue Department for collection of state sales taxes related to purported sales of software for the 1998 and 1999 tax years. In 2004, an appeal against this unfavorable administrative decision was filed in a judicial proceeding. The first level decision in the judicial proceeding was issued in our favor. The São Paulo State Revenue Department filed an appeal of this decision. The second level administrative decision ordered that the case be returned to the lower court in order to allow the production of further evidence. Based on our current understanding of the underlying facts of this matter, we believe it is reasonably possible that we may receive an unfavorable decision in this proceeding. The tax assessment including estimated interest through July 31, 2015 for this matter totals approximately 8.5 million Brazilian reais (approximately $2.6 million at the foreign exchange rate as of July 31, 2015). As of July 31, 2015, we have not accrued for this matter.

Federal Tax Assessments

Brazilian Federal Tax Amnesty

In December 2013, without admitting any fault or liability, we elected to enroll certain of our pending Brazilian tax assessments in the Brazilian Federal Tax Amnesty Program created by Law n. 11.941/2009 in 2009 and reopened for enrollment from October 2013 to December 2013, known as the "REFIS Amnesty.” The REFIS Amnesty is a program administered by the Brazilian tax authorities and allows entities charged with tax assessments that fall within the program’s scope to voluntarily settle such assessments with certain discounts applied to the amounts due. After conducting an evaluation of our existing Brazilian federal tax assessments and the terms offered by the REFIS Amnesty, we determined to voluntarily settle a number of our pending assessments.

Tax assessment matters that fall within the REFIS Amnesty's scope are generally listed in the program's web-based portal for enrollment. Although no formal acceptance by the tax authorities is issued at the time of our enrollment of a matter, we expect the tax authorities to confirm our enrollment as they complete their process to formally consolidate the matters we enrolled in the REFIS Amnesty. In connection with our enrollment of the tax assessments into the REFIS Amnesty, we were required to forego any further legal defense or proceedings with respect to the merits of such assessments. In exchange, the enrolled assessments were closed and we were granted discounts on our payment of the related accrued interest and penalties and are able to pay under an installment plan, subject to our compliance with the terms of the program. For certain assessments, existing net operating loss carryforwards, or net operating losses, may be used to satisfy a portion of the settlement obligation. Under the terms of the REFIS Amnesty, our right to fund the settlement through the installment payment plan would be canceled after three instances of our not timely paying the installment amounts as scheduled, in which case the full amounts of the original tax debts, including interest and penalties without the benefit of discount, would become immediately due and payable. We have included the terms and amounts below for those assessments that we have placed into the REFIS Amnesty.

Federal Tax Assessments related to Brazilian Subsidiaries from Lipman Acquisition

Two of our Brazilian subsidiaries that were acquired as a part of the November 2006 acquisition of Lipman Electronic Engineering Ltd. (“Lipman”) were notified of assessments regarding Brazilian customs penalties that relate to alleged infractions in the importation of goods. The assessments were issued by the Federal Revenue Department in the City of Vitória, the City of São Paulo, and the City of Itajai. In each of these cases, the tax authorities allege that the structure used for the importation of goods was simulated with the objective of evading taxes levied on the importation by under-invoicing the imported goods. The tax authorities allege that the simulation was created through an interposition of parties and that the real sellers and buyers of the imported goods were hidden. In February 2013, the São Paulo assessment was canceled following a favorable second level decision that was not appealed.

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

In the Vitória tax assessment, the fines were reduced from 4.7 million Brazilian reais (approximately $1.4 million at the foreign exchange rate as of July 31, 2015) to 1.5 million Brazilian reais (approximately $440,000 at the foreign exchange rate as of July 31, 2015) on a first level administrative decision on January 26, 2007. Both we and the tax authorities filed appeals of the first level administrative decision. In this appeal, we argued that the tax authorities did not have enough evidence to determine that the import transactions were indeed fraudulent and that, even if there were some irregularities in such importations, they could not be deemed to be our responsibility since all the transactions were performed by the third-party importer of the goods. On June 30, 2010, the Taxpayers Administrative Council of Tax Appeals decided to reinstate the original claim amount of 4.7 million Brazilian reais (approximately $1.4 million at the foreign exchange rate as of July 31, 2015) against us. On February 27, 2013, the Taxpayers Administrative Council of Tax Appeals issued its formal ruling reinstating the original claim amount. On May 31, 2013, we filed a motion to clarify such ruling, which is pending a decision.

In the Itajai tax assessment, we were notified on January 18, 2008, of a first level administrative decision rendered that maintained the total fine of 2.0 million Brazilian reais (approximately $595,000 at the foreign exchange rate as of July 31, 2015) as imposed, excluding interest. On May 27, 2008, we appealed the first level administrative decision to the Taxpayers Council. This matter is pending second level decision.

In December 2013, we sought to enroll the entire amount of tax liabilities in dispute for both the Vitória and Itajai assessments in the REFIS Amnesty. However, because we are named as a jointly-liable party rather than as the primary defendant in these matters, these assessments were not listed in the REFIS Amnesty web-based portal as available for election under the REFIS Amnesty. We believe these matters qualify for inclusion in the REFIS Amnesty and have filed the required notifications to our local tax office and commenced payments to indicate our decision to enroll these matters in the REFIS Amnesty. We expect the tax authorities' confirmation that these matters have been included in the REFIS Amnesty once they complete their procedures to consolidate the enrolled assessments. We elected to make the amnesty payments for these matters in monthly installments over a 30-month period for total payments, inclusive of interest and penalties, of 7.6 million Brazilian reais (approximately $2.3 million at the foreign exchange rate as of July 31, 2015). We accrued the full amount of the payments, plus estimated interest, under the REFIS Amnesty for these matters in December 2013 when we enrolled in the program, and made our first payment on December 26, 2013. As of July 31, 2015, we have remaining installment payments totaling 2.1 million Brazilian reais (approximately $630,000 at the foreign exchange rate as of July 31, 2015).

We had previously accrued the estimated liability for both the Vitória and Itajai assessments. Based on our understanding of the underlying facts of these matters, we believe it is probable we may receive an unfavorable decision for each of these assessments unless we are able to resolve these matters through the REFIS Amnesty. Upon confirmation of acceptance of these matters into the REFIS Amnesty, we will reduce our accrued liabilities related to these matters to reflect the discounted amounts due under the REFIS Amnesty. As of July 31, 2015, we have accruals totaling 12.3 million Brazilian reais (approximately $3.7 million at the foreign exchange rate as of July 31, 2015).

Federal Tax Assessments related to Brazilian Subsidiary from Hypercom Acquisition

The Brazilian subsidiary we acquired as part of our acquisition of Hypercom in August 2011 is the subject of outstanding tax assessments by the federal tax authorities alleging unpaid IRPJ, CSL, COFINS and PIS taxes from 2002 and 2003. The 2002 assessments are the subject of an administrative proceeding and the 2003 assessments are the subject of a civil enforcement action. Three of the four claims for the 2002 assessments were previously settled prior to our acquisition of Hypercom. The first level administrative court issued an unfavorable decision for the remaining claim related to the 2002 tax assessments. Our appeal to the Administrative Tax Appeals Council was denied in December 2013. With respect to the 2003 tax assessments, we received a partially favorable ruling, and our appeal for the remaining assessments is pending decision in the civil courts. In December 2013, we elected to enroll the tax liability for the remaining 2002 assessment in dispute and the portion of the 2003 assessments for which we received an unfavorable ruling in the REFIS Amnesty.

For the 2002 assessment, we applied available net operating losses, to the extent permitted, toward the interest and penalties portion of the settlement obligation under the REFIS Amnesty. For the remaining balance, we elected to make the amnesty payments in monthly installments over a 90-month period for total payments of 2.2 million Brazilian reais (approximately $666,000 at the foreign exchange rate as of July 31, 2015). We accrued the full amount of the payments, plus estimated interest, under the REFIS Amnesty for this matter in December 2013 when we enrolled in the program, and made our first payment on December 26, 2013. In the first quarter of fiscal year 2015, based on new provisions made available under the REFIS Amnesty, we elected to pay all remaining outstanding amounts due under the REFIS Amnesty in relation to the 2002 assessment, and settled such payments using cash and additional available net operating losses.

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For the 2003 assessments, we applied available net operating losses, to the extent permitted, toward the interest and penalties portion of the settlement obligation under the REFIS Amnesty. At the time we initially appealed the 2003 assessments to the civil courts, we were required to make a deposit of 2.8 million Brazilian reais (approximately $855,000 at the foreign exchange rate as of July 31, 2015) to the court in order to perfect our appeal. In light of our enrollment of certain of the 2003 assessments in the REFIS Amnesty, we have notified the civil court of our enrollment and requested the release of the portion of the deposit for the assessments enrolled in the REFIS Amnesty, which totals 675,000 Brazilian reais (approximately $203,000 at the foreign exchange rate as of July 31, 2015). Once approved by the court, the released funds will be applied against the settlement obligation under the REFIS Amnesty. Approximately 2.2 million Brazilian reais (approximately $652,000 at the foreign exchange rate as of July 31, 2015) will remain deposited in connection with the 2003 assessments that will continue in the civil courts and which deposits will be released to the prevailing party after resolution of the underlying assessments.

Excluding the assessments that have been enrolled in the REFIS Amnesty for this matter, which have been accrued as described above, the remaining assessments total 3.6 million Brazilian reais (approximately $1.1 million at the foreign exchange rate as of July 31, 2015), including estimated penalties and interest, as of July 31, 2015. Based on our current understanding of the underlying facts of this matter, we believe it is reasonably possible we may receive an unfavorable decision related to these remaining assessments.

We also elected to enroll a number of outstanding tax offset requests that were previously applied for by the Brazilian subsidiary we acquired as part of our acquisition of Hypercom in August 2011 in the REFIS Amnesty. These outstanding tax offset requests relate to non-income tax debts, primarily for IRPJ, PIS and COFINS for past tax years, and total approximately 2.5 million Brazilian reais (approximately $752,000 at the foreign exchange rate as of July 31, 2015), including estimated penalties and interest. We applied available net operating losses toward the interest and penalties portion of the settlement obligation under the REFIS Amnesty. For the remaining balance, we elected to make the amnesty payments in monthly installments over a 90-month period for total payments of 1.3 million Brazilian reais (approximately $402,000 at the foreign exchange rate as of July 31, 2015). We accrued the full amount of the payments, plus estimated interest, under the REFIS Amnesty for these matters in December 2013 when we enrolled in the program, and made our first payment on December 26, 2013. After further review, the tax authorities agreed to our positions in certain of these cases and reduced our liabilities under the REFIS Amnesty. In the first quarter of fiscal year 2015, based on new provisions made available under the REFIS Amnesty, we elected to pay all remaining outstanding amounts due under the REFIS Amnesty in relation to the remaining tax offset requests, and settled such payments using cash and additional available net operating losses.

Municipality Services Tax Assessments

In December 2009, one of the Brazilian subsidiaries that was acquired as part of the Lipman acquisition was notified of a tax assessment regarding alleged nonpayment of tax on services rendered for the period from September 2004 to December 2004. This assessment was issued by the municipality of São Paulo (the "municipality"), and asserts a services tax deficiency and related penalties totaling 875,000 Brazilian reais (approximately $263,000 at the foreign exchange rate as of July 31, 2015), excluding interest. The municipality claims that the Brazilian subsidiary rendered certain services within the municipality of São Paulo but simulated that those services were rendered in another city. At the end of December 2010 the municipality issued further tax assessments alleging the same claims for 2005 through June 2007. These additional subsequent claims assert services tax deficiencies and related penalties totaling 5.9 million Brazilian reais (approximately $1.8 million at the foreign exchange rate as of July 31, 2015), excluding interest. We received unfavorable decisions from the administrative courts, which ruled to maintain the tax assessments for each of these matters. No further grounds of appeal are available to us for these assessments within the administrative courts. In October 2012, as a result of the decision at the administrative level, the tax authorities filed an enforcement action in the civil courts to collect on the services tax assessments amounts awarded by the administrative court, and seeking other related costs and fees. On March 6, 2013, we filed our defensive claims in the civil courts in response to the tax authorities' enforcement action. In February 2013 the tax authorities filed an additional enforcement action in the civil courts to collect on the penalties related to the services tax assessments amounts awarded by the administrative courts. Based on our understanding of the underlying facts of this matter and our evaluation of the potential outcome at the judicial level, we believe it is reasonably possible that our Brazilian subsidiary will be required to pay some amount of the alleged tax assessments and penalties related to these matters, as well as amounts of interest and certain costs and fees imposed by the court related thereto. As of July 31, 2015, the amount of the alleged tax assessments and penalties related to these matters was approximately 5.8 million Brazilian reais (approximately $1.7 million at the foreign exchange rate as of July 31, 2015), and the estimated interest, costs and fees related thereto were approximately 15.0 million Brazilian reais (approximately $4.5 million at the foreign exchange rate as of July 31, 2015).

The Brazilian subsidiary we acquired as part of our acquisition of Hypercom in August 2011 received an unfavorable administrative decision on a tax enforcement action against it filed by the municipality of Curitiba for collection of alleged services tax deficiency. An appeal against this unfavorable administrative decision was filed in a judicial proceeding and currently the case is pending the municipality of Curitiba's compliance with the writ of summons. As of July 31, 2015, the underlying assessment, including estimated interest, was approximately 5.0 million Brazilian reais (approximately $1.5 million at the foreign exchange rate as of July 31, 2015). Based on our current understanding of the underlying facts of this matter, we believe it is reasonably possible that we may receive an unfavorable decision in this proceeding.

Patent Infringement

Cardsoft, Inc. et al v. VeriFone Holdings, Inc., VeriFone, Inc., Hypercom Corporation, et al.

On March 6, 2008, Cardsoft, Inc. and Cardsoft (Assignment for the Benefit of Creditors), LLC (collectively, “Cardsoft”) commenced an action in the United States District Court for the Eastern District of Texas, Marshall Division, against us and Hypercom Corporation, among others, alleging infringement of U.S. Patents No. 6,934,945 and No. 7,302,683 purportedly owned by Cardsoft. Cardsoft sought, in its complaint, a judgment of infringement, an injunction against further infringement, damages, interest and attorneys' fees. On June 8, 2012, the jury returned an unfavorable verdict finding that Cardsoft's patents were valid and were infringed by the accused VeriFone and Hypercom devices, and further determined that a royalty rate of $3 per unit should be applied. Accordingly, the jury awarded Cardsoft infringement damages and royalties of approximately $15.4 million covering past sales of the accused devices by VeriFone and Hypercom. The jury concluded there was no willful infringement by either VeriFone or Hypercom.

Following the jury's verdict, we determined that it was probable we would incur a loss on this litigation based on the jury's verdict and the status of the litigation proceedings at that time. Accordingly, we accrued for the full amount of the jury's verdict plus estimated pre-judgment interest and, effective from July 31, 2012, we began accruing estimated ongoing royalties of $3 per unit of accused device to Cost of net revenues. During the fiscal quarter ended October 31, 2012, we completed redesigns of the terminals subject to the jury's verdict specifically to address the Cardsoft allegations, and implemented such redesigns in the U.S. We further obtained the legal opinion of independent intellectual property counsel that our terminals, as redesigned, do not infringe the Cardsoft patents-in-suit. We concluded based on the procedures taken and legal reviews obtained, that it was not probable that an ongoing royalty based on the jury's verdict applies to our terminals as redesigned, and ceased accruing an ongoing royalty.

On October 30, 2013, the District Court issued judgment upholding the jury's verdict that the patent was valid and infringed. The judgment confirmed the jury's award of infringement damages and royalties of approximately $15.4 million covering past sales of the VeriFone and Hypercom accused devices, plus pre-judgment interest, post-judgment interest and costs. The court also ruled that an ongoing royalty should be applied for sales of the accused devices after the verdict date and ordered the parties to mediate on the issue of an ongoing royalty rate. The parties participated in mediation but were unable to reach a resolution. In March 2014, Cardsoft filed a motion requesting the court to set an ongoing royalty rate. We opposed, arguing (among other things) that no ongoing royalty applies in light of our redesigns of the products subject to the District Court's infringement ruling.

We appealed the District Court's judgment to the U.S. Court of Appeals for the Federal Circuit. On October 17, 2014, a three-judge panel of the Federal Circuit issued a unanimous opinion in our favor. The Federal Circuit ruling reversed the District Court's judgment and, further, concluded that our products did not infringe the Cardsoft patents as a matter of law. As a result, the District Court's finding of infringement and order of past and ongoing royalties, as well as related interest and costs, have been reversed. Previously, based on our assessment and the status of this matter before the District Court, we had accrued a total estimated loss of approximately $20.0 million, including estimated pre-judgment interest, potential ongoing royalties and statutory post-judgment interest related to this litigation. As a result of the Federal Circuit's favorable opinion reversing the District Court's judgment and ruling that our products do not infringe as a matter of law, in October 2014, we reversed the total estimated loss previously accrued.

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On December 22, 2014, the Federal Circuit denied Cardsoft's petition for rehearing by the panel and hearing en banc, and issued its mandate on December 29, 2014. On March 23, 2015, Cardsoft filed a petition for certiorari with the U.S. Supreme Court, requesting the Court to grant its petition, vacate the Federal Circuit's decision and remand for the Federal Circuit to review using a more deferential standard of review of the District Court’s claim construction. On June 29, 2015, the U.S. Supreme Court granted Cardsoft’s petition, vacated the Federal Circuit's decision and remanded the case to the Federal Circuit for reconsideration under a more deferential standard of review of the District Court’s claim construction. On August 24, 2015, both parties submitted briefs regarding this more deferential standard of review and its applicability to the case.

Cardsoft has also filed motions before the District Court claiming that it was entitled to a new trial to allege infringement under the doctrine of equivalents and seeking to reopen the case before the District Court. We have opposed these motions and have filed a cross motion to dismiss this matter in its entirety. The District Court has not yet scheduled a hearing date on these motions.

Although we have concluded that the likelihood of an unfavorable ruling by the Federal Circuit is remote, if Cardsoft were to prevail before the Federal Circuit, the proceedings could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Class Action and Derivative Lawsuits

In re VeriFone Holdings, Inc. Shareholder Derivative Litigation Proceedings

Beginning on December 13, 2007, several actions were filed against certain current and former directors and officers derivatively on our behalf. These derivative lawsuits were filed in: (1) the U.S. District Court for the Northern District of California, as In re VeriFone Holdings, Inc. Shareholder Derivative Litigation, Lead Case No. C 07-6347 MHP, which consolidates King v. Bergeron, et al. (Case No. 07-CV-6347), Hilborn v. VeriFone Holdings, Inc., et al. (Case No. 08-CV-1132), Patel v. Bergeron, et al. (Case No. 08-CV-1133), and Lemmond, et al. v. VeriFone Holdings, Inc., et al. (Case No. 08-CV-1301); and (2) the Superior Court of California, County of Santa Clara, as In re VeriFone Holdings, Inc. Derivative Litigation, Lead Case No. 1-07-CV-100980, which consolidates Catholic Medical Mission Board v. Bergeron, et al. (Case No. 1-07-CV-100980) and Carpel v. Bergeron, et al. (Case No. 1-07-CV-101449). We prevailed in our motion to dismiss the federal derivative claims before the U.S. District Court for the Northern District of California and, on November 28, 2011, in ruling on lead plaintiff's appeal against the district court's judgment dismissing lead plaintiff's derivative claims, the Ninth Circuit issued judgment affirming the dismissal of lead plaintiff's complaint against us. The time period for the lead plaintiff to appeal the Ninth Circuit's judgment has expired.

On October 31, 2008, the state derivative plaintiffs filed their consolidated derivative complaint in the Superior Court of California, County of Santa Clara naming us as a nominal defendant and bringing claims for insider selling, breach of fiduciary duty, unjust enrichment, waste of corporate assets and aiding and abetting breach of fiduciary duty against certain of our current and former officers and directors and our largest stockholder as of October 31, 2008, GTCR Golder Rauner LLC. On February 18, 2009, plaintiff Catholic Medical Mission Board voluntarily dismissed itself from the action. In November 2008, we filed a motion to stay the state court action pending resolution of the parallel federal actions, and the parties agreed by stipulation to delay briefing on the motion to stay until after the issue of demand futility was resolved in the federal derivative case. On June 2, 2011, the court entered a stipulated order requiring the parties to submit a case status report on August 1, 2011 and periodically thereafter. The parties submitted status reports to the court through February 1, 2013 as requested by the court. On January 30, 2013, counsel for plaintiff informed us that Mr. Carpel, the nominal plaintiff, had sold his shares in the company and therefore no longer had standing to maintain a derivative action against us. On February 15, 2013, plaintiff filed a motion for leave to publish notice to our stockholders seeking a new nominal plaintiff. On May 10, 2013, the court adopted its tentative order granting the motion to publish notice, which was formally entered on May 17, 2013. Under the terms of the order, the parties were ordered to publish notice of the potential dismissal of the action and any qualifying shareholder who wishes to intervene must notify the court within ninety days from the formal entry of the order. Otherwise, the action will be dismissed. On August 14, 2013, counsel for the former nominal plaintiff, Mr. Carpel, filed a notice of intent to substitute a new nominal plaintiff, Joel Gerber, into the action. On September 16, 2013, counsel for former plaintiff Carpel filed a motion to substitute a new plaintiff, Joel Gerber, into the action. On October 16, 2013, the court granted the motion and deemed the amended complaint filed as of the same date. Our demurrer to the amended complaint was filed on April 7, 2014. On May 23, 2014, plaintiff filed a statement of non-opposition to our demurrer and filed a motion to stay the action to allow plaintiff to make a demand on our current Board of Directors. We filed our opposition to the motion to stay on June 18, 2014 and plaintiff filed his reply on July 25, 2014.

On December 3, 2014, the Court issued an order sustaining our demurrer and granting plaintiff's motion to stay. Plaintiff made a demand on the Board of Directors on December 23, 2014.

On June 11, 2015, the parties entered into a stipulation of settlement, pursuant to which we have agreed with the plaintiff to implement certain non-monetary corporate governance reforms within sixty days after the effective date of the stipulation and to provide support for plaintiff’s request for attorneys’ fees. The stipulation is anticipated to become effective once an order from the Court approving the settlement becomes final. On August 28, 2015, the Court granted preliminary approval to the settlement and scheduled an October 30, 2015 final approval.

Israel Securities Class Action

On January 27, 2008, a class action complaint was filed against us in the Central District Court in Tel Aviv, Israel on behalf of purchasers of our stock on the Tel Aviv Stock Exchange. The complaint sought compensation for damages allegedly incurred by the class of plaintiffs due to the publication of erroneous financial reports. We filed a motion to stay the action, in light of the proceedings already filed in the U.S., on March 31, 2008. A hearing on the motion was held on May 25, 2008. Further briefing in support of the stay motion, specifically with regard to the threshold issue of applicable law, was submitted on June 24, 2008. On September 11, 2008, the Israeli District Court ruled in our favor, holding that U.S. law would apply in determining our liability. On October 7, 2008, plaintiffs filed a motion for leave to appeal the Israeli District Court's ruling to the Israeli Supreme Court. Our response to plaintiffs' appeal motion was filed on January 18, 2009. The Israeli District Court stayed its proceedings until the Israeli Supreme Court rules on plaintiffs' motion for leave to appeal. On January 27, 2010, after a hearing before the Israeli Supreme Court, the court dismissed the plaintiffs' motion for leave to appeal and addressed the case back to the Israeli District Court. The Israeli Supreme Court instructed the Israeli District Court to rule whether the Israel class action should be stayed, under the assumption that the applicable law is U.S. law. Plaintiffs subsequently filed an application for reconsideration of the Israeli District Court's ruling that U.S. law is the applicable law. Following a hearing on plaintiffs' application, on April 12, 2010, the parties agreed to stay the proceedings pending resolution of the U.S. securities class action, without prejudice to plaintiffs' right to appeal the Israeli District Court's decision regarding the applicable law to the Israeli Supreme Court. On May 25, 2010, plaintiff filed a motion for leave to appeal the decision regarding the applicable law with the Israeli Supreme Court. In August 2010, plaintiff filed an application to the Israeli Supreme Court arguing that the U.S. Supreme Court's decision in Morrison et al. v. National Australia Bank Ltd., 561 U.S. 247, 130 S. Ct. 2869 (2010), may affect the outcome of the appeal currently pending before the Court and requesting that this authority be added to the Court's record. Plaintiff concurrently filed an application with the Israeli District Court asking that court to reverse its decision regarding the applicability of U.S. law to the Israel class action, as well as to cancel its decision to stay the Israeli proceedings in favor of the U.S. class action in light of the U.S. Supreme Court's decision in Morrison. On August 25, 2011, the Israeli District Court issued a decision denying plaintiff's application and reaffirming its ruling that the law applicable to the Israel class action is U.S. law. The Israeli District Court also ordered that further proceedings in the case be stayed pending the decision on appeal in the U.S. class action.

On November 13, 2011, plaintiff filed an amended application for leave to appeal addressing the Israeli District Court's ruling. We filed an amended response on December 28, 2011. On January 1, 2012, the Israeli Supreme Court ordered consideration of the application by three justices. On July 2, 2012, the Israeli Supreme Court ordered us to file an updated notice on the status of the proceedings in the U.S. securities class action then pending in the U.S. Court of Appeals for the Ninth Circuit by October 1, 2012. On October 11, 2012, we filed an updated status notice in the Israeli Supreme Court on the proceedings in the U.S. securities class action pending at the time in the U.S. Court of Appeals for the Ninth Circuit. On January 9, 2013, the Israeli Supreme Court held a further hearing on the status of the appeal in the U.S. Court of Appeals for the Ninth Circuit and recommended that the parties meet and confer regarding the inclusion of the Israeli plaintiffs in the federal class action pending in the U.S. On February 10, 2013, the Israeli Supreme Court issued an order staying the case pursuant to the joint notice submitted to the court by the parties on February 4, 2013. The plaintiff and putative class members in this action are included in the stipulated settlement of the federal securities class action, In re VeriFone Holdings, Inc., disclosed above unless an individual plaintiff opts out. Following the February 25, 2014 judgment and orders by the U.S. court, in April 2014, the parties in the Israel class action filed a joint motion requesting that the Israeli Supreme Court renew the proceedings on appeal concerning the determination of the applicable law. A hearing was held on June 23, 2014 concerning whether the Israel class action should proceed in light of the settlement in the U.S. class action. On June 29, 2014, the plaintiff filed a supplemental pleading at the court’s request. We filed our reply pleading on August 19, 2014, and plaintiff filed a further response pleading on September 4, 2014. On April 2, 2015, the Israeli Supreme Court ruled that the Israeli class action is estopped by the U.S. class action settlement and dismissed the case.

On May 13, 2015, a new class action complaint was filed against us in Israel alleging similar claims as the dismissed Israeli class action, and alleging that Israeli shareholders were deprived of due process in the U.S. class action settlement proceedings. We intend to move to dismiss the new class action on substantially the same grounds on which the previous case was dismissed.

On June 29, 2015, the plaintiff in the 2008 Israel Securities Class Action filed a motion for award of compensation and attorneys' fees based on the amount of settlement compensation received by Israelis in the U.S. class action. We are opposing that motion.

In re VeriFone Securities Litigation

On March 7, 2013, a putative securities class action was filed in the U.S. District Court for the Northern District of California against us, certain of our former officers and one of our current officers and alleged claims in connection with our February 20, 2013 announcement of preliminary financial results for the fiscal quarter ended January 31, 2013. The action, captioned Sanders v. VeriFone Systems, Inc. et al., Case No. C 13-1038, and subsequently re-captioned In re VeriFone Securities Litigation, was initially brought on behalf of a putative class of purchasers of VeriFone securities between December 14, 2011 and February 19, 2013 and asserted claims under the Securities Exchange Act Sections 10(b) and 20(a) and SEC Rule 10b-5 for securities fraud and control person liability. The claims were based on allegations that we and the individual defendants made false or misleading public statements regarding our business, operations, and financial controls during the putative class period. The complaint sought unspecified monetary damages and other relief. Two additional class actions related to the same matter (Laborers Local 235 Benefit Funds v. VeriFone Systems, Inc. et al., Case No. CV 13-1676 and Bland v. VeriFone Systems, Inc. et al., Case No. CV 13-1853) were filed in April 2013. On May 6, 2013, several putative plaintiffs and plaintiffs' law firms filed motions to consolidate these three securities class actions and requesting appointment as lead plaintiff and lead counsel, respectively. The plaintiffs in Laborers Local 235 Benefit Funds v. VeriFone Systems, Inc. et al. and Bland v. VeriFone Systems, Inc. et al. voluntarily dismissed their respective actions, without prejudice, on July 10, 2013 and July 17, 2013, respectively, and filed motions to be appointed lead plaintiff in the action previously captioned Sanders v. VeriFone Systems, Inc. et al. On October 7, 2013, the court entered an order appointing the Selz Funds as lead plaintiffs and appointing Gold Bennett Cera & Sidener LLP as lead counsel. Lead plaintiffs' first amended complaint was filed on December 16, 2013. The first amended complaint expanded the putative class period to December 14, 2011 and February 20, 2013, inclusive, and removed the current officer who was named in the original complaint from the action. We filed our motion to dismiss the amended complaint on February 14, 2014, lead plaintiffs filed their opposition on April 15, 2014 and we filed our reply on May 16, 2014. On May 27, 2014, the court took the motion to dismiss under submission without oral argument. On August 8, 2014, the court dismissed the amended complaint, with leave to amend. Lead plaintiffs filed their second amended complaint on October 7, 2014. We filed a motion to dismiss the second amended complaint on December 8, 2014. Lead plaintiffs filed their opposition and we filed our reply. The court has taken the motion under submission without a hearing.

Dolled v. Bergeron et al.

On April 19, 2013, a derivative action, Dolled v. Bergeron et al., Case No. 113-CV-245056, was filed in the Superior Court of California, County of Santa Clara in connection with our February 20, 2013 announcement of preliminary financial results for the fiscal quarter ended January 31, 2013. The action, brought derivatively on behalf of VeriFone, names VeriFone as a nominal defendant and brings claims for insider selling, breach of fiduciary duty and unjust enrichment variously against certain of our current and former officers and directors. The complaint seeks unspecified monetary damages, restitution and disgorgement of profits and compensation paid to defendants, injunctive relief directing us to reform its corporate governance, and payment of the plaintiff's costs and attorneys' fees. On May 30, 2013, the court entered the parties' stipulation and proposed order, which appointed plaintiff and plaintiff's counsel as lead plaintiff and lead counsel, respectively, in the consolidated action, captioned In re VeriFone Systems, Inc. Derivative Litigation. The next case management conference is scheduled for September 25, 2015.

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Zoumboulakis v. McGinn et al.

On May 24, 2013, a federal derivative action, Zoumboulakis v. McGinn et al., Case No. 13-CV-02379, was filed in the U.S. District Court for the Northern District of California against certain current and former directors and officers derivatively on our behalf. The complaint, which names us as a nominal defendant, alleges breach of fiduciary duty and abuse of control and asserts claims under Section 14(a) of the Securities Exchange Act of 1934 for false or misleading financial statements and proxy statement disclosures. The complaint seeks unspecified monetary damages, including exemplary damages, restitution from defendants, injunctive relief directing us to make certain corporate governance reforms, and payment of the plaintiff's costs and attorneys' fees. On August 12, 2013, the court entered defendants' motion seeking to relate this action to the pending shareholder class action, Sanders v. VeriFone Systems, Inc. et al. On October 31, 2013, the court entered a stipulation and order setting a December 31, 2013 deadline for the filing of an amended complaint and setting a January 30, 2014 deadline for defendants to move or answer. An initial case management conference was held on January 17, 2014. On January 21, 2014, plaintiff filed an amended complaint, which removed one of our former officers from the action and added an additional former director as a defendant. The amended complaint brings claims against the defendants for breach of fiduciary duty, abuse of control, violations of Securities Exchange Act Section 14(a), and unjust enrichment. The amended complaint also brings claims for insider trading against three of the named former and current directors. We filed our motion to dismiss the amended complaint on March 7, 2014, plaintiff filed an opposition on April 23, 2014, and we filed our reply on May 16, 2014. On May 27, 2014, the court took the motion to dismiss under submission without oral argument. On August 7, 2014, the court dismissed the amended complaint, with leave to amend. Plaintiff filed a second amended complaint on October 17, 2014. We filed a motion to dismiss the second amended complaint on December 18, 2014. Plaintiff filed an opposition and we filed our reply. The court has taken the motion under submission without a hearing.

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

Antitrust Investigation

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

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

On June 15, 2015, we filed appeals and interim applications to stay the CCI orders. On July 30, 2015, the appellate court granted our interim applications to stay all proceedings at least until the next appellate hearing on October 5, 2015.

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

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Other Litigation

After termination of their services, several former contractors of one of our Brazilian subsidiaries filed individual lawsuits in the Labor Court of São Paulo against the subsidiary alleging an employer-employee relationship and wrongful termination, and claiming, among other damages, statutorily-imposed salaries, vacations, severance and bonus amounts, social contributions and penalties and moral damages. In October 2012, we received a partially unfavorable judgment for one of these lawsuits, with the court ruling that an employer-employee relationship existed. We did not prevail in our appeal of the unfavorable judgment and in May 2015 paid this judgment, which amount is not material to our results of operations. We have settled, without admitting any wrongdoing or violation of law, the other filed lawsuits, in each case, for a cash payment. The amounts of these settlements are not material to our results of operations.

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

Note 10. Segment and Geographic Information

Segment Information

Net revenues and operating income of each segment reflect net revenues and expenses that are directly attributable to that segment. Net revenues and expenses not allocated to segment net revenues and segment operating income include amortization of purchased intangible assets, adjustments to contingent consideration, fair value decrease (step-down) in deferred revenue at acquisition, corporate inventory reserves, asset impairments, restructuring expenses, stock-based compensation, as well as corporate research and development, sales and marketing, general and administrative expense (benefits). We do not separately evaluate assets by segment, and therefore assets by segment are not presented below.

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2015	2014	2015	2014
Segment net revenues:				
North America	$208,540	$129,815	$561,916	$377,206
Latin America	73,721	89,165	212,871	240,921
EMEA	172,743	190,198	532,931	567,074
Asia-Pacific	55,044	67,198	179,510	195,100
Total segment net revenues	510,048	476,376	1,487,228	1,380,301
Net revenues not allocated to segment net revenues	(108)	(476)	(918)	(1,918)
Total net revenues	$509,940	$475,900	$1,486,310	$1,378,383

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2015	2014	2015	2014
Operating income by segment:				
North America	$77,210	$38,023	$204,675	$108,798
Latin America	15,551	18,009	40,328	46,870
EMEA	49,576	51,373	145,887	157,707
Asia-Pacific	8,507	14,685	26,890	42,550
Total segment operating income	150,844	122,090	417,780	355,925
Items not allocated to segment operating income:				
Net revenues not allocated to segment net revenues	(108)	(476)	(918)	(1,918)
Amortization of purchased intangible assets	(24,487)	(34,632)	(76,655)	(106,501)
Stock-based compensation expense	(11,181)	(13,245)	(32,208)	(40,855)
Restructuring expense	(5,993)	(10,810)	(7,527)	(16,581)
Litigation settlement and loss contingency expense	—	—	(1,213)	(9,000)
Other expenses not allocated to segments	(88,791)	(70,474)	(226,084)	(208,680)
Total operating income (loss)	$20,284	$(7,547)	$73,175	$(27,610)

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

This section should be read in conjunction with our consolidated financial statements and related notes included in our 2014 Annual Report on Form 10-K and the Condensed Consolidated Financial Statements and Notes included in Part I, Item I of this Quarterly Report on Form 10-Q. This section and other parts of this Quarterly Report on Form 10-Q and certain information incorporated by reference herein contain forward-looking statements that involve risks and uncertainties. In some cases, forward-looking statements can be identified by words such as "may," "should," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "potential," or "continue," the negative of such terms, or comparable terminology. Such forward-looking statements are based on current expectations, estimates, and projections about our industry and management's beliefs and assumptions, and do not reflect the potential impact of any mergers, acquisitions, or other business combinations or divestitures that have not been completed. Forward-looking statements are not guarantees of future performance, and our actual results may differ materially from the results expressed or implied in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part I, Item 1A, Risk Factors, in our 2014 Annual Report on Form 10-K and in Part II, Item 1A, Risk Factors, of this Quarterly Report on Form 10-Q, and elsewhere in these reports, including our disclosures of Critical Accounting Policies and Estimates in Part II, Item 7 in our 2014 Annual Report on Form 10-K and in Part I, Item 2 of this Quarterly Report on Form 10-Q, and our disclosures in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk in our 2014 Annual Report on Form 10-K and in Part I, Item 3, Quantitative and Qualitative Disclosures About Market Risk of this Quarterly Report on Form 10-Q, as well as in our Condensed Consolidated Financial Statements and Notes thereto. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform such statements to actual results or to changes in expectations. We assume no obligation to revise or update any forward-looking statements for any reason, except as required by law.
In this Quarterly Report on Form 10-Q, each of the terms “VeriFone,” "Company," "us," "we," and "our" refers to VeriFone Systems, Inc. and its consolidated subsidiaries.

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

Overview: Discussion of our business and overall financial results, and other highlights related to our results of operations for the periods presented.

Results of Operations:

- Consolidated Results of Operations: An analysis and discussion of our financial results comparing our consolidated results of operations for the three and nine months ended July 31, 2015 to the three and nine months ended July 31, 2014.

- Segment Results of Operations: An analysis and discussion of our financial results comparing the results of operations for each of our four reportable segments, North America, Latin America, EMEA, and Asia-Pacific, for the three and nine months ended July 31, 2015 to the three and nine months ended July 31, 2014.

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

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

Contractual Obligations and Off-Balance Sheet Arrangements: Disclosures related to our contractual obligations, contingent liabilities, commitments, and off-balance-sheet arrangements, as of July 31, 2015.

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

Overview

Our Business

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

We operate in four business segments: North America, Latin America, EMEA, and Asia-Pacific. Our North America segment includes our operations in the U.S. and Canada. Our Latin America segment includes our operations in South America, Central America, Mexico and the Caribbean. Our EMEA segment is comprised of our operations in Europe, Russia, the Middle East, and Africa. Our Asia-Pacific segment consists of our operations in Australia, New Zealand, China, India and throughout the rest of Greater Asia, including other Asia-Pacific Rim countries. We determine our operating segments based on the discrete financial information used by our Chief Executive Officer, who is our chief operating decision maker, to assess performance, allocate resources, and make decisions regarding VeriFone's operations. As a result of new Company leadership and related changes in the structure of our internal organization during July 2015, we realigned our operating segments in the current quarter. All prior period amounts reported by segment have been reclassified to conform to the current presentation. Our Chief Executive Officer is evaluating using global product line financial information to manage the business in the future. If our Chief Executive Officer is provided different financial information to assess performance, allocate resources and make decisions regarding VeriFone's operations, we will reassess our operating segment presentation.

The markets in which we operate are highly competitive. We compete based on various factors, including product functions and features, pricing, product quality and reliability, design innovation, interoperability with third-party systems and brand reputation. We also compete based on product availability and certifications, as well as service offerings and support. We continue to experience intense competition in all of our operating segments from traditional POS terminal providers and we also see new companies entering our markets, including entrants offering various forms of mobile device based payment options. In certain markets, such as China and Brazil, we see customers requiring a choice of offerings for a lower cost. This trend has increased competition and pricing pressures. Our competitors are introducing increasingly aggressive pricing in these markets and clients are relying more on pricing for their purchase decisions.

Our Sources of Revenue

Sales of our point of sale electronic payment devices and systems continue to be a significant source of revenues. These system solutions consist of point of sale electronic payment devices that run our unique operating systems, security and encryption software, and certified payment software, and that are designed to suit our clients' needs in a variety of environments, including traditional multi-lane and countertop implementations, self-service or unattended environments, as well as in-vehicle and portable deployments. Our system solutions can securely process a wide range of payment types including signature and PIN-based debit cards, credit cards, contactless/radio frequency identification cards, smart cards, pre-paid gift and other stored-value cards, electronic bill payment, check authorization and conversion, signature capture and electronic benefits transfer, or EBT. Our unique architecture enables multiple value-added applications, including third-party applications, such as gift card and loyalty card programs, healthcare insurance eligibility, and time and attendance tracking, and allows these applications to reside on the same system without requiring recertification upon the addition of new applications. Security continues to be an important factor for our clients and we have experienced increasing demand for Europay, MasterCard and Visa, or "EMV", capable terminal solutions.

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We continue to invest in developing a broad portfolio of service solutions complementary to our systems solutions and designed to meet a wide range of merchant and partner needs, including removing complexity from payments, increasing ease of use, adding value by enriching the consumer experience at the POS and helping our clients grow their businesses and strengthen their relationships with consumers. Services are an important part of our business and revenues, accounting for approximately 34.7% of our total net revenues in both the three and nine months ended July 31, 2015. Our service offerings include our Payment-as-a-Service solutions, managed services and terminal management solutions, payment-enabled media, in-taxi payment solutions, security solutions, and other value-added services at the point of sale. We also offer a host of support services, including software development, installation and deployment, warranty, post-sale support, repairs, and training.

Timing of Revenue

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

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

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

Significant Matters

Transformation Initiatives

During December 2013 we launched a transformation program that focuses on three initiatives: portfolio management, research and development re-engineering, and cost optimization. Savings from the cost optimization initiatives are being re-invested in the company as we focus on our future product road map and efforts to improve product quality and time-to-market. As part of this transformation program, our management has approved restructuring plans to reduce headcount, and consolidate facilities and data centers during both fiscal year 2014 and fiscal year 2015.

During fiscal year 2014, our management approved, committed to and initiated plans that are expected to cost approximately $20.4 million and are expected to be substantially complete by the end of fiscal year 2015. During July 2015, our management approved, committed to and initiated an additional plan as part of our transformation process that is expected to cost approximately $10.0 million, consisting primarily of employee involuntary termination benefits, and is expected to be substantially complete by the end of fiscal year 2016.

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We have incurred $26.3 million in restructuring charges since these plans were approved, of which $7.5 million was incurred during the nine months ended July 31, 2015. We expect to incur additional charges totaling approximately $6.1 million during the rest of fiscal year 2015 and 2016 as a result of these plans. See Note 8, Restructurings, in the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q for further information on these restructuring plans.

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Financial Results Highlights

Overall

- Our consolidated total net revenues for the three months ended July 31, 2015 were $509.9 million, compared to $475.9 million for the three months ended July 31, 2014, up 7.1% year over year.

- Our consolidated total net revenues for the three months ended July 31, 2015 reflected a $50.0 million unfavorable foreign currency impact compared to the three months ended July 31, 2014.

- Operating income for the three months ended July 31, 2015 was $20.3 million compared to a $7.5 million loss for the three months ended July 31, 2014.

- Net cash provided by operating activities for the nine months ended July 31, 2015 totaled $168.8 million.

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Segment Revenues

The following chart summarizes our total net revenues by segment for the three months ended July 31, 2015 and 2014 (in millions), as well as our System solutions and Services net revenues in each segment as a percentage of total net revenues for that segment in each period.

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Consolidated Results of Operations

Three Months Ended July 31, 2015 compared to July 31, 2014

	Three Months Ended July 31,			
	2015	% of Net revenues (1)	2014	% of Net revenues (1)
	(in thousands, except percentages)			
Net revenues:				
System solutions	$332,980	65.3%	$299,435	62.9%
Services	176,960	34.7%	176,465	37.1%
Total net revenues	509,940	100.0%	475,900	100.0%
Gross margin:				
System solutions	131,773	39.6%	112,602	37.6%
Services	74,768	42.3%	70,168	39.8%
Total gross margin	206,541	40.5%	182,770	38.4%
Operating expenses:				
Research and development	54,195	10.6%	53,217	11.2%
Sales and marketing	56,635	11.1%	54,136	11.4%
General and administrative	55,442	10.9%	58,447	12.3%
Amortization of purchased intangible assets	19,985	3.9%	24,517	