VERIFONE SYSTEMS, INC.
Form 10-Q
June 11, 2012
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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 April 30, 2012

Or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-32465

VERIFONE SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 04-3692546 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

2099 Gateway Place, Suite 600
San Jose, CA 95110
(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

At May 31, 2012, the number of shares outstanding of the registrant's common stock, $0.01 par value was 107,822,685.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (Unaudited)

VERIFONE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (Unaudited) (In thousands, except per share data) | | | |
| Net revenues: | | | | |
| System Solutions | $340,443 | $235,334 | $653,084 | $461,041 |
| Services | 131,575 | 57,112 | 238,458 | 115,170 |
| Total net revenues | 472,018 | 292,446 | 891,542 | 576,211 |
| Cost of net revenues: | | | | |
| System Solutions | 202,273 | 137,596 | 401,025 | 277,736 |
| Services | 77,586 | 32,265 | 141,720 | 64,399 |
| Total cost of net revenues | 279,859 | 169,861 | 542,745 | 342,135 |
| Gross profit | 192,159 | 122,585 | 348,797 | 234,076 |
| Operating expenses: | | | | |
| Research and development | 37,849 | 25,402 | 72,928 | 47,044 |
| Sales and marketing | 46,141 | 31,139 | 86,127 | 59,445 |
| General and administrative | 48,696 | 27,041 | 94,734 | 51,057 |
| Patent litigation loss contingency expense (Note 13) | 17,632 | — | 17,632 | — |
| Amortization of purchased intangible assets | 23,757 | 1,665 | 37,372 | 3,981 |
| Total operating expenses | 174,075 | 85,247 | 308,793 | 161,527 |
| Operating income | 18,084 | 37,338 | 40,004 | 72,549 |
| Interest expense | (18,636) | (7,465) | (33,270) | (15,035) |
| Interest income | 1,143 | 287 | 2,150 | 570 |
| Other expense, net | (1,780) | (1,736) | (22,629) | (161) |
| Income (loss) before income taxes | (1,189) | 28,424 | (13,745) | 57,923 |
| Provision for (benefit from) income taxes | (4,598) | 3,086 | (14,381) | 630 |
| Net income | 3,409 | 25,338 | 636 | 57,293 |
| (Income) loss attributable to noncontrolling interest in subsidiaries | 68 | (138) | (282) | (62) |
| Net income attributable to VeriFone Systems, Inc. stockholders | $3,477 | $25,200 | $354 | $57,231 |
| Net income per share attributable to VeriFone Systems, Inc. stockholders: | | | | |
| Basic | $0.03 | $0.29 | $— | $0.65 |
| Diluted | $0.03 | $0.27 | $— | $0.62 |
| Weighted average shares used in computing net income per share attributable to VeriFone Systems, Inc. stockholders: | | | | |
| Basic | 106,898 | 88,418 | 106,359 | 87,744 |
| Diluted | 111,148 | 93,434 | 110,349 | 92,368 |

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

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VERIFONE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| | April 30, 2012 | October 31, 2011* |
|---|---|---|
| | (Unaudited) | |
| | (In thousands, except par value) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $361,037 | $594,562 |
| Accounts receivable, net of reserves of $6,004 and $5,658 | 336,671 | 294,440 |
| Inventories | 162,107 | 144,316 |
| Restricted cash | 280,116 | 4 |
| Deferred income tax assets | 41,532 | 39,040 |
| Prepaid expenses and other current assets | 103,200 | 88,086 |
| Total current assets | 1,284,663 | 1,160,448 |
| Property, plant and equipment, net | 75,419 | 65,504 |
| Purchased intangible assets, net | 814,273 | 263,767 |
| Goodwill | 1,199,498 | 561,414 |
| Deferred tax assets | 222,331 | 205,496 |
| Debt issuance costs, net | 38,612 | 2,749 |
| Other assets | 110,877 | 54,183 |
| Total assets | $3,745,673 | $2,313,561 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $138,107 | $144,278 |
| Income taxes payable | 8,226 | 9,116 |
| Accrued compensation | 55,921 | 51,515 |
| Accrued warranty | 15,401 | 20,358 |
| Deferred revenue, net | 98,698 | 68,824 |
| Deferred tax liabilities | 9,168 | 4,960 |
| Accrued expenses | 76,066 | 74,775 |
| Other current liabilities | 98,189 | 57,399 |
| Senior convertible notes | 275,163 | 266,981 |
| Short-term debt | 54,313 | 5,074 |
| Total current liabilities | 829,252 | 703,280 |
| Deferred revenue, net | 31,446 | 31,467 |
| Long-term debt | 1,282,783 | 211,756 |
| Deferred tax liabilities | 244,483 | 92,594 |
| Other long-term liabilities | 76,277 | 78,971 |
| Total liabilities | 2,464,241 | 1,118,068 |
| Commitments and contingencies (Note 13) | | |
| Temporary equity | 2,997 | 855 |
| Stockholders' equity: | | |
| VeriFone Systems, Inc. stockholders' equity: | | |
| Preferred Stock: 10,000 shares authorized as of April 30, 2012 and October 31, 2011; no shares issued and outstanding as of April 30, 2012 and October 31, 2011 | — | — |
| Common stock: $0.01 par value, 200,000 shares authorized as of April 30, 2012 and October 31, 2011; 107,778 and 105,826 shares issued and 107,649 and 105,697 | 1,078 | 1,058 |

| | | |
|---|---|---|
| outstanding as of April 30, 2012 and October 31, 2011 | | |
| Additional paid-in capital | 1,513,767 | 1,468,862 |
| Accumulated deficit | (268,702 ) | (269,056 ) |
| Accumulated other comprehensive loss | (3,598 ) | (6,671 ) |
| Total VeriFone Systems, Inc. stockholders’ equity | 1,242,545 | 1,194,193 |
| Noncontrolling interests in subsidiaries | 35,890 | 445 |
| Total stockholders' equity | 1,278,435 | 1,194,638 |
| Total liabilities and equity | $3,745,673 | $2,313,561 |

* Derived from audited consolidated financial statements.
The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

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VERIFONE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Six Months Ended April 30, | |
|---|---|---|
| | 2012 | 2011 |
| | (Unaudited) (In thousands) | |
| Cash flows from operating activities | | |
| Net income | $636 | $57,293 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization, net | 83,525 | 16,774 |
| Stock-based compensation expense | 21,726 | 16,757 |
| Non-cash interest expense | 10,652 | 7,579 |
| Deferred income taxes | (13,321) | 1,271 |
| Other non-cash items | 1,043 | (2,420) |
| Net cash provided by operating activities before changes in operating assets and liabilities | 104,261 | 97,254 |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable, net | (18,128) | (56,836) |
| Inventories, net | 8,212 | 11,394 |
| Prepaid expenses and other assets | (18,632) | (17,736) |
| Accounts payable | (25,098) | 21,377 |
| Income taxes payable | (659) | 3,098 |
| Accrued compensation | (9,305) | 1,415 |
| Accrued warranty | (5,968) | 3,427 |
| Deferred revenue, net | 27,343 | 3,266 |
| Accrued expenses | (6,190) | 1,088 |
| Other liabilities | 7,085 | 1,084 |
| Net change in operating assets and liabilities | (41,340) | (28,423) |
| Net cash provided by operating activities | 62,921 | 68,831 |
| | | |
| Cash flows from investing activities | | |
| Purchases of property, plant and equipment | (12,012) | (5,302) |
| Cash expenditures for revenue generating assets | (12,670) | — |
| Acquisitions of businesses, net of cash and cash equivalents acquired | (1,069,762) | (14,237) |
| Other, net | (2,431) | (510) |
| Net cash used in investing activities | (1,096,875) | (20,049) |
| | | |
| Cash flows from financing activities | | |
| Proceeds from debt, net of issuance costs | 1,412,028 | 73 |
| Repayments of debt | (339,873) | (2,701) |
| Proceeds from issuance of common stock through equity incentive plans | 27,423 | 37,446 |
| Cash placed in escrow for Convertible Notes | (279,159) | — |
| Payments of acquisition related contingent consideration | (14,209) | — |
| Distribution to non-controlling interest owners | (1,543) | (142) |
| Net cash provided by financing activities | 804,667 | 34,676 |
| | | |
| Effect of exchange rate fluctuations on cash and cash equivalents | (4,238) | 2,947 |
| | | |
| Net change in cash and cash equivalents | (233,525) | 86,405 |

| | | |
|---|---|---|
| Beginning cash and cash equivalents | 594,562 | 445,137 |
| Ending cash and cash equivalents | $361,037 | $531,542 |
| | | |
| Supplemental disclosures of cash flow information | | |
| Cash paid for interest | $18,170 | $5,285 |
| Cash paid for income taxes, net of refunds | $23,907 | $9,177 |

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

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VERIFONE SYSTEMS, INC. AND SUBSIDIARIES
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 of VeriFone Systems, Inc. (“we,” “us,” “our,” "VeriFone," and “the Company” refer to VeriFone Systems, Inc. and all of its subsidiaries) as of April 30, 2012 and October 31, 2011, and for the three and six months ended April 30, 2012 and 2011, have been prepared in accordance with generally accepted accounting principles ("GAAP") in the United States of America for interim financial information and with the instructions on Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). 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, except as otherwise noted, 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, 2011. The results of operations for the three and six months ended April 30, 2012 are not necessarily indicative of the results expected for the entire fiscal year. All significant intercompany accounts and transactions have been eliminated. Amounts pertaining to the noncontrolling ownership interests held by third parties in the operating results and financial position of our majority-owned subsidiaries are reported as noncontrolling interests.
The condensed consolidated balance sheet at October 31, 2011 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

Certain amounts reported in our Notes to the Condensed Financial Statements in previous periods have been reclassified to conform to the current period presentation.
Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and judgments affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities.

On an ongoing basis, we evaluate our estimates including those related to product returns, bad debts, inventories, goodwill and intangible assets, income taxes, warranty obligations, contingencies, share-based compensation and litigation, among others. We base our estimates on historical experience and information available to us at the time that these estimates are made. Actual results could differ materially from these estimates.
Summary of Significant Accounting Policies

There have been no changes to our significant accounting policies during the six months ended April 30, 2012 as compared to the significant accounting policies described in our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2011, except for the two additions below.
Debt Issuance Costs

Debt issuance costs are stated at cost, net of accumulated amortization in Other assets on the Condensed Consolidated Balance Sheets. Amortization expense is calculated using the effective interest method over the period of the loans and is recorded in Interest expense in the accompanying Condensed Consolidated Statements of Operations. At April 30, 2012, interest amortization periods range from 5 to 7 years based upon the maturity date of outstanding debt.

Revenue generating assets, net

Revenue generating assets consist of long-term assets that we place with third parties in order to generate revenues, such as advertising fees, payment processing transaction revenues, or rental revenues. Revenue generating assets are stated at

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cost, net of accumulated amortization, and are depreciated on a straight-line basis over the estimated useful lives of the assets, generally five years. Payments to acquire revenue generating assets are treated as a cash flow from investing activities on our Statements of Cash Flows.

Concentrations of Credit Risk

No customer accounted for more than 10% of net revenues in any of our reportable segments for the six months ended April 30, 2012. For the three months ended April 30, 2012, one customer, Redecard S/A, accounted for 10% of net revenues in the International segment. For the three and six months ended April 30, 2011, no customer accounted for more than 10% of net revenues in any of our reportable segments. As of April 30, 2012, no customer accounted for more than 10% of accounts receivable in any of our reportable segments. At October 31, 2011, one customer, Cielo S.A. and its affiliates, accounted for 10% of our total accounts receivable in the International segment.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standard Board (“FASB”) issued Accounting Standards Update No. (“ASU”) 2011-05, Comprehensive Income (Topic 220)—Presentation of Comprehensive Income, which requires an entity to present the total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. This new guidance is effective for us in our first quarter of fiscal year 2013. The guidance will only affect our financial statement presentation.

In May 2011, ASU 2011-04, Fair Value Measurement (Topic 820)- Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, amended the fair value accounting standard to change fair value measurement principles and disclosure requirements. The key changes in measurement principles include limiting the concepts of highest and best use and valuation premise to non-financial assets, providing a framework for considering whether a premium or discount can be applied in a fair value measurement, and aligning the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. Disclosures are required for all transfers between Levels 1 and 2 within the Valuation Hierarchy, the use of a non-financial asset measured at fair value if its use differs from its highest and best use, the level in the Valuation Hierarchy of assets and liabilities not recorded at fair value but for which fair value is required to be disclosed, and for Level 3 measurements, quantitative information about unobservable inputs used, a description of the valuation processes used, and qualitative discussion about the sensitivity of the measurements. We adopted the revised accounting standard effective February 1, 2012 via prospective adoption, as required. The adoption had no impact on our financial position or results of operations.

Note 2. Business Combinations

Point Acquisition

On December 30, 2011, we completed our acquisition of Electronic Transaction Group Nordic Holding AB, a Swedish company operating the Point International business (collectively, "Point"), Northern Europe's largest provider of payment and gateway services and solutions for retailers, for a purchase price of approximately €600.0 million plus repayment of Point's outstanding debt for a total purchase price of $1,024.5 million. The source of funds for the cash consideration was a new credit agreement provided by a syndicate of banks ("the 2011 Credit Agreement"). See Note 5. Financings in the Notes to Condensed Consolidated Financial Statements for information on the 2011 Credit Agreement.

As a result of the acquisition, Point became a wholly-owned subsidiary of VeriFone. The acquisition was accounted for using the acquisition method of accounting.  One subsidiary of Point, Babs Paylink AB, is owned 51% by Point and 49% by a third party that has a noncontrolling interest. The results of operations for the acquired businesses have been included in our financial results since the acquisition date.

We acquired Point to, among other things, provide a broader set of product and service offerings to customers globally, especially in the Northern European markets. For the three and six months ended April 30, 2012, we estimate that our total net revenues increased by approximately $57.5 million and $72.0 million, respectively, due to the sale of products and services by Point entities. For the three and six months ended April 30, 2012, the acquisition of Point negatively impacted our earnings by approximately $16.0 million and $21.9 million, respectively, which included management's allocations and estimates of expenses that were not separately identifiable due to our integration activities, non-recurring charges associated with the step down in deferred revenue, amortization, and acquisition and integration

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expenses.

The fair value of consideration transferred for Point was comprised of (in thousands):

| | |
|---|---|
| Cash paid to Point stockholders | $774,268 |
| Cash for repayment of long-term debt | 250,264 |
| Total | $1,024,532 |

Recording of Assets Acquired and Liabilities Assumed

The acquisition of Point was accounted for using the acquisition method of accounting under ASC 805, Business Combinations. The acquisition method of accounting requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. We recorded the net tangible and intangible assets acquired and liabilities assumed based upon their preliminary fair values as of December 30, 2011, the close date, as set forth below. The fair values were based upon a preliminary valuation, and our estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date). The primary areas of the preliminary purchase price allocation that are not yet finalized are the fair values of certain acquired tangible and intangible assets and liabilities, such as inventories and fixed assets, as well as pre-acquisition contingencies including acquisition and divestiture related claims, income and non-income based taxes and residual goodwill. We expect to continue to obtain information to assist us in determining the fair values assigned to the above assets acquired and liabilities assumed at the acquisition date during the measurement period.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the acquisition date. As described above, fair values assigned to certain assets acquired and liabilities assumed are preliminary and thus subject to change (in thousands):

| | | |
|---|---|---|
| Cash and cash equivalents | $25,314 | |
| Accounts receivable (gross contractual value of $24.5 million, of which $1.7 million is not expected to be collected) | 22,785 | |
| Inventories | 25,543 | |
| Deferred tax assets | 13,031 | |
| Prepaid expense and other assets | 48,032 | |
| Property, plant and equipment | 12,185 | |
| Intangible assets | 567,007 | |
| Accounts payable and other liabilities | (51,126 | ) |
| Contingent consideration payable | (21,233 | ) |
| Deferred revenues | (1,855 | ) |
| Deferred tax liabilities | (157,411 | ) |
| Noncontrolling interests | (36,764 | ) |
| Total identifiable net assets | 445,508 | |
| Goodwill | 579,024 | |
| Total consideration transferred | $1,024,532 | |

During the three months ended April 30, 2012, new information was obtained about the acquisition date fair values of certain of the above assets acquired and liabilities assumed. We have increased our fair value estimates for acquired intangible assets by $16.5 million, decreased the fair value estimate of noncontrolling interests by $0.4 million, and decreased the fair value estimates of other net tangible assets acquired by $1.3 million. Goodwill decreased by $15.6 million due to these changes in fair value estimates.

Goodwill is calculated as the excess of the consideration transferred over the identifiable net assets and represents future benefits arising from other assets acquired that could not be individually identified and separately recognized. Specifically, the goodwill recorded as part of the acquisition of Point includes the expected synergies and other benefits that we believe will result from combining the operations of Point with the operations of VeriFone and the value of the going-concern element of Point's business (which represents the higher rate of return on the assembled collection of net assets versus if VeriFone acquired all of the net assets separately). We generally do not expect the goodwill recognized to be deductible for income tax purposes.

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The estimated fair value of acquired contingent consideration owed by Point related to its prior acquisitions was $21.2 million as of the close date. This contingent consideration will be payable in cash if certain operating and financial targets are achieved in the two years following the dates of those acquisitions. The payout criteria for the contingent consideration contains provisions for prorated payouts of the contingent consideration if the target criteria are not met, provided that certain minimum thresholds are achieved. The USD equivalent maximum payout for this contingent consideration as of the date the Point acquisition closed was $24.4 million.

The fair value of the noncontrolling interest in a Point subsidiary of $36.8 million was estimated by employing an income approach. The fair value estimate was based on (i) an assumed discount rate of 17% and (ii) an assumed terminal value based on a range of terminal stabilized cash flow multiples between 8 to 9 times.

Valuations of Intangible Assets Acquired

The following table sets forth the components of intangible assets acquired in connection with the Point acquisition (in thousands, except for estimated useful life):

| | Fair Value | Estimated Useful Life (Years) |
|---|---|---|
| Customer relationships | $498,503 | 9.6 |
| Developed software technology | 54,783 | 4.4 |
| Trade names | 13,721 | 4.0 |
| Total | $567,007 | |

Customer relationships represent the fair value of the underlying relationship and agreement with Point customers.

Developed software technology represents the fair values of Point's proprietary technologies, processes, patents and trade secrets related to the design of Point's products that have reached technological feasibility and are a part of Point's product lines.

Trade names represents the fair value of the Point and other trademarks owned by Point.

Some of the more significant estimates and assumptions inherent in the estimates of the fair values of identifiable intangible assets include all assumptions associated with forecasting product profitability from the perspective of a market participant. Specifically:

- Revenue - we use historical, forecast and industry or other sources of market data, including the number of units to be sold, selling prices, market penetration, market share and year-over-year growth rates over the product life cycles.

- Cost of sales, research and development expenses, sales and marketing expenses and general administrative expenses - we use historical, forecast, industry and other sources of market data, including any expected synergies that can be realized by a market participant.

- Estimated life of the asset - we assess the asset's life cycle by considering the impact of technology changes and applicable payment security compliance/regulatory requirements.

- Discount rates - we use a discount rate that is based on the weighted average cost of capital with adjustments to reflect the risks associated with the specific intangible assets, such as country risks and commercial risks.

- Customer attrition rates - we use historical and forecast data to determine the customer attrition rates and the expected customer life.

The discount rates used in the intangible asset valuations ranged from 14% to 20%. The customer attrition rates used in our valuation of customer relationship intangible assets ranged from zero to 7% depending on the geographic region. The estimated life of developed software technology intangible assets ranged from 2 years to 10 years. The royalty rate used in the valuation of the trade name intangible asset ranged from 1% to 2%. All of these judgments and estimates can materially impact the fair values of intangible assets.

Preliminary Pre-Acquisition Contingencies Assumed

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We have evaluated and will continue to evaluate pre-acquisition contingencies relating to Point that existed as of the acquisition date. We have preliminarily determined that certain of these pre-acquisition contingencies are probable in nature and estimable as of the acquisition date and, accordingly, have preliminarily recorded our best estimates for these contingencies. If we make changes to the amounts recorded or identify additional pre-acquisition contingencies during the remainder of the measurement period, such amounts recorded will be included in the purchase price allocation during the measurement period and, subsequently, in our results of operations. The largest recorded contingent obligations relate to earn-out obligations associated with Point's prior acquisitions.

Other Fiscal Year 2012 Acquisitions

During the six months ended April 30, 2012, in addition to Point, we completed the acquisitions of other businesses for an aggregate purchase price of $81.5 million. The $81.5 million aggregate purchase price includes $6.4 million of holdback payments that will be paid out between 12 to 15 months from the date the acquisitions closed and also includes contingent consideration having a fair value of $4.4 million.

The holdback amounts will be paid out to selling shareholders unless the general representations and warranties made by the sellers at acquisition date were invalid. The contingent consideration will be payable in cash for the ChargeSmart (now known as VeriFone Commerce Solutions, Inc.) and LIFT acquisitions, if certain operating and financial targets are achieved in the first three years of operations post acquisition. The payout criteria for the contingent consideration contain provisions for prorated payouts of the contingent consideration if the target criteria are not met, provided that certain minimum thresholds are achieved. The contingent consideration was valued at $0.4 million and $4.0 million for the ChargeSmart and LIFT acquisitions, respectively. The maximum payouts for the contingent consideration under the purchase agreements are $11.0 million and $8.0 million for the ChargeSmart and LIFT acquisitions, respectively.

The acquisition of each company was accounted for using the acquisition method of accounting. No VeriFone equity interests were issued, and in each transaction 100% of the voting equity interests of the applicable business was acquired except for Show Media, which was structured as an acquisition of assets and assumption of certain liabilities. The results of operations for the acquired businesses have been included in our financial results since their respective acquisition dates.

The below table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date of each transaction. Certain fair values assigned are preliminary and thus subject to change. In particular, the estimated fair values of income and non-income based taxes, LIFT contingent consideration and residual goodwill are preliminary.

| (in thousands) | LIFT | ChargeSmart | Show Media | Global Bay | Total |
|---|---|---|---|---|---|
| Acquisition date | March 1, 2012 | January 3, 2012 | November 1, 2011 | November 1, 2011 | |
| Assets acquired (liabilities assumed), net | $(10) | $(4,225) | $1,593 | $(5,028) | $(7,670) |
| Intangible assets (1) | 1,600 | 9,770 | 6,660 | 14,490 | 32,520 |
| Goodwill (2) | 4,904 | 13,829 | 19,871 | 18,050 | 56,654 |
| Total purchase price | $6,494 | $19,374 | $28,124 | $27,512 | $81,504 |

Explanatory notes:

(1) Intangible assets included developed technology, customer relationships, non-compete agreement, trademarks and in process research and development of $21.3 million, $6.5 million, $3.0 million, $0.9 million and $0.8 million, respectively, which are amortized over their estimated useful lives of 1 to 10 years.

(2) Goodwill is generally not expected to be tax deductible for LIFT, ChargeSmart and Global Bay, but is expected to be deductible for tax purposes for Show Media. The amount of goodwill resulted primarily from our expectation of increased value resulting from the integration of the acquired companies' product offerings with our product offerings.

Fiscal Year 2011 Acquisitions

Hypercom Corporation

On August 4, 2011, we completed our acquisition of Hypercom, a provider of electronic payment solutions and value-added services at the point of transaction, by means of a merger of one of our wholly-owned subsidiaries with and into

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Hypercom such that Hypercom became a wholly-owned subsidiary of VeriFone following the merger. We acquired Hypercom to, among other things, provide a broader set of product and service offerings to customers globally. We have included the financial results of Hypercom in our Consolidated Financial Statements from the date of acquisition. For the three and six months ended April 30, 2012, we estimate that our total net revenues increased by approximately $81.0 million and $154.5 million, respectively, due to the sale of Hypercom products and services. Other revenues and earnings contributions from Hypercom were not separately identifiable due to our integration activities. The total fair value of consideration transferred was $644.6 million which consisted of $557.1 million of VeriFone stock issued, $16.2 million for the fair value of stock options assumed and $71.2 million for the cash used to repay Hypercom's long-term debt. We recorded the preliminary fair value of assets acquired and liabilities assumed of approximately $362.1 million of goodwill, $210.7 million of intangible assets and $71.8 million of net tangible assets. During the six months ended April 30, 2012, we adjusted the preliminary valuation of the acquired net tangible assets of Hypercom based upon new information that was received about acquisition date fair values. The adjustments primarily related to finalizing the fair value assessment of sales-type lease receivables, which resulted in a $2.4 million increase in the value of those lease receivables, recording a tax receivable of $2.6 million for tax refunds related to pre-acquisition tax periods, reflecting a $2.1 million increase in the fair value estimate for pre-acquisition liabilities associated with Hypercom's divestiture of the UK and Spain operations, and reducing the fair value estimate for certain fixed assets by $1.1 million following completion of the fair value assessment and an increase in fair value of other liabilities of $0.4 million. As a result of these changes and other immaterial items, goodwill decreased by $1.4 million.
The primary areas of the preliminary fair values that are not yet finalized relate to the working capital adjustment receivable associated with Hypercom's divestiture of the UK and Spain operations as we are still finalizing the closing date net asset values with the buyers, certain legal matters, income and non-income taxes and residual goodwill. We expect to continue to obtain information to assist us in finalizing these preliminary valuations during the measurement period.

Pro Forma Financial Information

The supplemental pro forma financial information below was prepared using the acquisition method of accounting and is based on the historical financial information of VeriFone, Point, Hypercom and other acquired companies, reflecting results of operations for the three and six month periods ended April 30, 2012 and 2011 on a comparative basis as though the aforementioned companies were combined as of the beginning of fiscal year 2011. The pro forma financial information includes adjustments to reflect one time charges and amortization of fair value adjustments in the appropriate pro forma periods as though the companies were combined as of the beginning of fiscal year 2011. These adjustments include:

- Net adjustments to amortization expense related to the fair value of acquired identifiable intangible assets totaling $(1.0) million and $7.7 million for the three and six months ended April 30, 2012, respectively and $29.5 million and $58.0 million for three and six months ended April 30, 2011, respectively.

- Additional interest expense of $4.1 million for the period from November 2011 through December 2011, and $6.3 million and $8.1 million for the three and six months ended April 30, 2011, respectively, that would be incurred on additional borrowings made to fund the acquisitions, offset by elimination of acquired business interest expense on borrowings that were settled as part of the acquisitions. No adjustment is included for interest after December 2011 as the additional interest is reflected in our operating results following the date the borrowings actually occurred.

- Adjustments for other (charges)/benefits, such as deal costs, one time professional fees, foreign currency losses related to deal consideration, amortization of fair market value adjustments and net tax effect of all of these, totaling $12.2 million and $50.0 million for the three and six months ended April 30, 2012, respectively, and $(3.8) million and $(29.0) million for the three and six months ended April 30, 2011, respectively.

The supplemental pro forma financial information for the three and six months ended April 30, 2012 combined the historical results of VeriFone for the three and six months ended April 30, 2012, the historical results of Point and ChargeSmart for the two months ended December 31, 2011, the historical results of LIFT for the four months ended February 29, 2012, and the effects of the pro forma adjustments listed above. The results of each acquired company is included as part of VeriFone historical results following the closing date of the particular acquisition.

The supplemental pro forma financial information for the three and six months ended April 30, 2011 combined the historical results of VeriFone for three and six months ended April 30, 2011, the historical results of all fiscal year 2011

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and fiscal year 2012 acquired businesses for the three and six months ended April 30, 2011 based upon their respective previous reporting periods, the dates that these companies were acquired by us, and the effects of the pro forma adjustments listed above.

The following table presents supplemental pro forma financial information as if all fiscal 2012 and 2011 acquisitions occurred on November 1, 2010 (in thousands except per share data):

| | For the Three Months Ended April 30, | | For the Six Months Ended April 30, | |
|---|---|---|---|---|
| (Unaudited) | 2012 | 2011 | 2012 | 2011 |
| Total revenues | $478,437 | $434,785 | $938,859 | $882,446 |
| Net income | $16,636 | $(16,755 ) | $39,778 | $(46,655 ) |
| Net income per share attributable to VeriFone Systems, Inc. stockholders - basic | $0.16 | $(0.16 ) | $0.37 | $(0.45 ) |
| Net income per share attributable to VeriFone Systems, Inc. stockholders - diluted | $0.15 | $(0.16 ) | $0.36 | $(0.45 ) |

Acquisition-related Costs

Acquisition-related costs consist of (i) transaction costs, which represent external costs directly related to our acquisitions and primarily include expenditures for professional fees such as banking, legal, accounting and other directly related incremental costs incurred to close the acquisition and (ii) integration costs, which represent personnel related costs for transitional and certain other employees, integration related professional services, additional asset write offs and other integration activity related expenses. The following table presents a summary of acquisition-related costs for the three and six months ended April 30, 2012 as follows (in thousands):

| | For the three months ended April 30, 2012 | | | For the six months ended April 30, 2012 | | |
|---|---|---|---|---|---|---|
| | Transaction Costs | Integration Costs | Total | Transaction Costs | Integration Costs | Total |
| Cost of net revenues | $9 | $2,305 | $2,314 | $9 | $4,673 | $4,682 |
| Research and development | — | 1,043 | 1,043 | — | 2,902 | 2,902 |
| Sales and marketing | 65 | 263 | 328 | 183 | 1,040 | 1,223 |
| General and administrative | 655 | 7,497 | 8,152 | 7,589 | 13,065 | 20,654 |
| | $729 | $11,108 | $11,837 | $7,781 | $21,680 | $29,461 |

The following table presents a summary of acquisition related costs for the three and six months ended April 30, 2011 as follows (in thousands):

| | For the three months ended April 30, 2011 | | | For the six months ended April 30, 2011 | | |
|---|---|---|---|---|---|---|
| | Transaction Costs | Integration Costs | Total | Transaction Costs | Integration Costs | Total |
| Cost of net revenues | $128 | $178 | $306 | $128 | $199 | $327 |
| Research and development | 5 | 15 | 20 | 6 | 18 | 24 |
| Sales and marketing | 111 | 11 | 122 | 193 | 25 | 218 |
| General and administrative | 2,434 | 1,106 | 3,540 | 5,095 | 1,204 | 6,299 |
| | $2,678 | $1,310 | $3,988 | $5,422 | $1,446 | $6,868 |

Note 3. Goodwill and Purchased Intangible Assets

Goodwill

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

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| | Six Months Ended April 30, 2012 | Year Ended October 31, 2011 |
|---|---|---|
| Balance at beginning of period | $561,414 | $169,322 |
| Additions related to current period acquisitions | 635,697 | 392,723 |
| Adjustments related to prior fiscal year acquisitions | (1,405) | 622 |
| Currency translation adjustments | 3,792 | (1,253) |
| Balance at end of period | $1,199,498 | $561,414 |

Based on our review for potential indicators of impairment performed during the six months ended April 30, 2012 and the fiscal year ended October 31, 2011, there were no indicators of impairment.

As of both April 30, 2012 and October 31, 2011, we had accumulated goodwill impairment losses of $372.4 million and $65.5 million in our International and North America segments, respectively.

Purchased Intangible Assets

Purchased intangible assets consisted of the following (in thousands, except weighted-average useful life):

| | April 30, 2012 | | | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Weighted-Average Useful Life |
| Customer relationships | $702,937 | $(55,779) | $647,158 | 8.5 |
| Developed and core technology | 259,308 | (129,175) | 130,133 | 4.2 |
| In-process research and development | 18,514 | — | 18,514 | Indefinite |
| Trade name | 18,021 | (2,657) | 15,364 | 4.0 |
| Internal use software | 3,031 | (2,777) | 254 | 3.6 |
| Non-Compete | 3,000 | (150) | 2,850 | 10.0 |
| | $1,004,811 | $(190,538) | $814,273 | |

| | October 31, 2011 | | | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Weighted-Average Useful Life |
| Customer relationships | $185,872 | $(16,615) | $169,257 | 5.5 |
| Developed and core technology | 187,193 | (114,112) | 73,081 | 4.0 |
| In-process research and development | 19,021 | — | 19,021 | Indefinite |
| Trade name | 2,692 | (897) | 1,795 | 3.3 |
| Internal use software | 3,031 | (2,418) | 613 | 3.6 |
| Non-Compete | — | — | — | |
| | $397,809 | $(134,042) | $263,767 | |

Amortization of purchased intangible assets for the three and six months ended April 30, 2012 and 2011 was allocated as follows (in thousands):

| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Included in cost of net revenues | $10,715 | $3,165 | $19,203 | $8,024 |
| Included in general and administrative expenses | 23,757 | 1,665 | 37,372 | 3,981 |
| | $34,472 | $4,830 | $56,575 | $12,005 |

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Total future amortization expense for purchased intangible assets that have finite lives, based on our existing intangible assets and their current estimated useful lives as of April 30, 2012, is estimated as follows (in thousands):

| Fiscal Years Ending October 31: | Cost of Net Revenues | Operating Expenses | Total |
|---|---|---|---|
| Remainder of fiscal 2012 | $21,277 | $47,704 | $68,981 |
| 2013 | 39,736 | 93,082 | 132,818 |
| 2014 | 38,879 | 92,471 | 131,350 |
| 2015 | 18,264 | 91,195 | 109,459 |
| 2016 | 10,665 | 86,300 | 96,965 |
| Thereafter | 1,137 | 255,049 | 256,186 |
| | $129,958 | $665,801 | $795,759 |

Note 4. Balance Sheet and Statement of Income Details

Restricted Cash

The 2011 Credit Agreement required that we fund an escrow account to repay, at maturity, the principal and interest of our 1.375% Senior Convertible Notes due June 2012. As a result, during December 2011, $279.2 million was deposited in the escrow account. This amount is included in Restricted cash in the Condensed Consolidated Balance Sheets.

We had $15.0 million and $4.8 million of long-term restricted cash as of April 30, 2012 and October 31, 2011, respectively. The long-term restricted cash consists mainly of deposits pledged for bank guarantees, irrevocable standby letters of credit and borrowings. The long-term Restricted cash is included in Other assets in the Condensed Consolidated Balance Sheets.

Inventories

Inventories consisted of the following (in thousands):

| | April 30, 2012 | October 31, 2011 |
|---|---|---|
| Raw materials | $56,357 | $45,716 |
| Work-in-process | 885 | 859 |
| Finished goods | 104,865 | 97,741 |
| Total inventories | $162,107 | $144,316 |

Prepaid Expenses and Other Current Assets

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

| | April 30, 2012 | October 31, 2011 |
|---|---|---|
| Prepaid taxes | $40,909 | $18,490 |
| Prepaid expenses | 39,118 | 34,115 |
| Other receivables | 14,887 | 27,020 |
| Investments in equity securities and warrants | 5,366 | 6,132 |
| Other current assets | 2,920 | 2,329 |
| Total prepaid expenses and other current assets | $103,200 | $88,086 |

Other Assets

Other assets consisted of the following (in thousands):

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| | April 30, 2012 | October 31, 2011 |
|---|---|---|
| Revenue generating assets, net | $62,332 | $18,130 |
| Restricted cash | 15,000 | 4,804 |
| Other long-term receivables | 10,110 | 8,275 |
| Deposits | 8,777 | 8,662 |
| Capitalized software development costs, net | 8,493 | 6,795 |
| Other | 6,165 | 7,517 |
| Total other assets | $110,877 | $54,183 |

Accrued Warranty

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

| | Six Months Ended April 30, 2012 | Year Ended October 31, 2011 |
|---|---|---|
| Balance at beginning of period | $22,032 | $12,747 |
| Warranty charged to cost of net revenues | 6,018 | 17,888 |
| Utilization of warranty accrual | (11,758) | (16,573) |
| Acquired warranty obligations | 348 | 7,139 |
| Change in estimates | (180) | 831 |
| Balance at end of period | 16,460 | 22,032 |
| Less current portion | (15,401) | (20,358) |
| Long-term portion | $1,059 | $1,674 |

Deferred Revenue, net

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

| | April 30, 2012 | October 31, 2011 |
|---|---|---|
| Deferred revenue | $144,552 | $113,154 |
| Deferred cost of revenue | (14,408) | (12,863) |
| | 130,144 | 100,291 |
| Less current portion | (98,698) | (68,824) |
| Long-term portion | $31,446 | $31,467 |

Other Current Liabilities

Other current liabilities consisted of the following (in thousands):

| | April 30, 2012 | October 31, 2011 |
|---|---|---|
| Accrued liabilities for contingencies | $24,122 | $30,561 |
| Deferred acquisition consideration payable - current portion | 20,203 | 5,681 |
| Accrued patent litigation loss contingency | 17,632 | — |
| Sales and VAT taxes payable | 16,326 | 6,725 |
| Other current liabilities | 19,906 | 14,432 |
| Total other current liabilities | $98,189 | $57,399 |

Other Long-Term Liabilities

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

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| | April 30, 2012 | October 31, 2011 |
|---|---|---|
| Other tax liabilities | $44,159 | $51,918 |
| Statutory retirement and pension obligations | 10,001 | 10,292 |
| Deferred acquisition consideration payable - non-current portion | 9,002 | 5,125 |
| Other liabilities | 13,115 | 11,636 |
| Total other long-term liabilities | $76,277 | $78,971 |

Noncontrolling Interests in Subsidiaries

Changes in our Noncontrolling interest in subsidiaries are set forth below (in thousands):

| | Six Months Ended April 30, 2012 | Year Ended October 31, 2011 |
|---|---|---|
| Noncontrolling interests in subsidiaries at beginning of period | $445 | $572 |
| Additions due to acquisitions | 36,764 | — |
| Distributions to non-controlling interest owners | (1,543) | (418) |
| Net income attributable to noncontrolling interests in subsidiaries, net | 224 | 291 |
| Noncontrolling interests in subsidiaries at end of period | $35,890 | $445 |

Other Income (Expense), net

Other income (expense), net consisted of the following (in thousands):

| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Foreign currency exchange losses, net | $(1,430) | $(2,719) | $(22,436) | $(2,978) |
| Gain (loss) on adjustments to acquisition related liabilities | (111) | 700 | (199) | 1,391 |
| Gain on bargain purchase of a business, net | — | 251 | — | 1,727 |
| Other income (expense), net | (239) | 32 | 6 | (301) |
| Total other income (expense), net | $(1,780) | $(1,736) | $(22,629) | $(161) |

We recorded a $22.5 million foreign currency loss during December 2011 related to the difference between the forward rate on contracts purchased to lock in the U.S. dollar equivalent purchase price for our Point acquisition, and the actual rate on the date of derivative settlement. This loss was partially offset by a $1.5 million gain on the currency we held from the date of the derivative settlement until the funds were transferred to purchase Point.

Note 5. Financings

Borrowings under our financing arrangements as of April 30, 2012 and October 31, 2011 consisted of the following (in thousands):

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| | April 30, 2012 | October 31, 2011 |
|---|---|---|
| 2011 Credit Agreement | | |
| Term A loan | $907,019 | $— |
| Term B loan | 230,921 | — |
| Revolving loan | 190,000 | — |
| 2006 Credit Agreement - Term B loan | — | 216,250 |
| Senior Convertible Notes | 275,163 | 266,981 |
| Point overdraft facility | 5,812 | — |
| Other | 3,344 | 580 |
| Total borrowings | 1,612,259 | 483,811 |
| Short-term debt | (329,476 ) | (272,055 ) |
| Long-term debt | $1,282,783 | $211,756 |

2011 Credit Agreement

On December 28, 2011 (the "Effective Date"), VeriFone entered into the 2011 Credit Agreement, which initially consisted of a $918.5 million Term A loan, $231.5 million Term B loan, and $350.0 million Revolving loan, of which $300.0 million was initially funded. At April 30, 2012, our outstanding borrowings under the 2011 Credit Agreement consisted of a $907.0 million Term A loan, $230.9 million Term B loan and $350.0 million Revolving loan, of which $190.0 million was drawn and outstanding.

The key terms of the 2011 Credit Agreement are as follows:

- At VeriFone, Inc.'s option, the Term A loan, Term B loan and Revolving loan bear interest at a “Base Rate” or “Eurodollar Rate” plus an applicable margin, as described below. Base Rate loans bear interest at a per annum rate equal to a margin over the greater of the Federal Funds rate plus 0.50% or the JP Morgan prime rate or the one-, two-, three- or six-month (or, in certain circumstances, nine-, twelve- or less than one month) LIBOR rate plus 1.00%. For the Base Rate Term A loan and Revolving loan, the margin varies between 1.00% to 2.00% depending upon our consolidated leverage ratio. For the Base Rate Term B loan, the margin varies between 2.00% to 2.25% depending upon our consolidated leverage ratio with a minimum floor rate of 1.00%. Eurodollar Rate loans bear interest at a margin over the one-, two-, three- or six-month LIBOR rate. For the Eurodollar Term A Loan and Revolving loan, the margin varies between 2.00% to 3.00% depending upon our consolidated leverage ratio. The margin for the Eurodollar Rate Term B loan varies between 3.00% to 3.25% depending upon our consolidated leverage ratio with a minimum LIBOR floor rate of 1.00%.

- The terms of the 2011 Credit Agreement require VeriFone, Inc. to comply with financial maintenance covenants starting April 30, 2012. VeriFone, Inc. may not permit its total Leverage Ratio to exceed (i) 4.25 to 1.00, in the case of any fiscal quarter ending on or after November 1, 2012, but prior to November 1, 2012, (ii) 3.75 to 1.00 in the case of any fiscal quarter ending prior to November 1, 2013 and (iii) 3.50 to 1.00, in the case of any fiscal quarter ending on or after November 1, 2013. In addition, VeriFone, Inc. must maintain an interest coverage ratio of at least (i) 3.50 to 1.00, in the case of any fiscal quarter ending prior to November 1, 2012 and (ii) 4.00 to 1.00, in the case of any fiscal quarter ending thereafter. Noncompliance with any of the financial covenants without cure or waiver would constitute an event of default under the 2011 Credit Agreement. The 2011 Credit Agreement also contains customary events of default that include, among others, non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations and warranties, bankruptcy and insolvency events, material judgments, cross defaults to material indebtedness and events constituting a change of control. The occurrence of an event of default could result in the termination of commitments under the 2011 Credit Agreement, the declaration that all outstanding loans are immediately due and payable in whole or in part and the requirement of cash collateral deposits in respect of outstanding letters of credit.

The 2011 Credit Agreement contains certain representations and warranties, certain affirmative covenants, certain negative covenants, certain financial covenants and certain conditions that are customarily required for similar financings. These covenants include, among others:

- A restriction on incurring additional indebtedness, subject to specified permitted debt;
- A restriction on creating certain liens;

- A restriction on mergers and consolidations, subject to specified exceptions;
- A restriction on certain investments, subject to certain exceptions and a suspension if VeriFone, Inc. achieves certain credit ratings; and
- A restriction on entering into certain transactions with affiliates.

Pursuant to a Guaranty, dated as of December 28, 2011 (the "Guaranty"), among certain wholly-owned domestic subsidiaries of VeriFone, Inc. identified therein (the "Guarantors"), obligations under the 2011 Credit Agreement are guaranteed by the Guarantors. Pursuant to a Security Agreement and a Pledge Agreement, each dated as of December 28, 2011 (the "Collateral Agreements") among VeriFone, Inc. and the Guarantors on the one hand and JPMorgan, as collateral agent, on the other hand, obligations under the 2011 Credit Agreement, and the guarantees of such obligations are also secured by a first priority lien and security interest, subject to customary exceptions, in certain assets of VeriFone, Inc. and the Guarantors and equity interests owned by VeriFone, Inc. and the Guarantors in certain of their respective domestic and foreign subsidiaries (limited, in the case of foreign subsidiaries, to 65% of the voting stock of such subsidiaries). Certain equity interests owned by existing and subsequently acquired subsidiaries may also be pledged in the future. Other existing and subsequently acquired or newly-formed domestic subsidiaries of VeriFone, Inc. and the Guarantors, may become Guarantors in the future.

VeriFone, Inc. will pay an undrawn commitment fee ranging from 0.25% to 0.50% per annum (depending on VeriFone, Inc.'s leverage ratio) on the unused portion of the Revolving loan. For letters of credit issued under the Revolving loan, VeriFone, Inc. will pay upon the aggregate face amount of each letter of credit a fronting fee to be agreed to the issuer of the letter of credit together with a fee on all outstanding letters of credit at a per annum rate equal to the margin then in effect with respect to LIBOR-based loans under the Revolving loan.

The outstanding principal balance of the Term A loan is required to be repaid in quarterly installments of the following percentages of the original balance outstanding under the Term A loan: 1.25% for each of the first eight calendar quarters after the Effective Date through the quarter ending December 31, 2013; 2.50% for each of the next eight calendar quarters through the quarter ending December 31, 2015 and 5.00% for each of the calendar quarters ending March 31, 2016, June 30, 2016 and September 30, 2016 with the balance being due at maturity on December 28, 2016. The outstanding principal balance of the Term B loan is required to be repaid in equal quarterly installments of 0.25% with the balance being due at maturity on December 28, 2018. The Revolving loan will terminate on December 28, 2016. Outstanding amounts may also be subject to mandatory prepayment with the proceeds of certain asset sales and debt issuances and, in the case of the Term B loan only, from a portion of annual excess cash flows (as determined under the 2011 Credit Agreement) depending on VeriFone, Inc.'s leverage ratio.

On December 28, 2011, VeriFone, Inc. utilized a portion of the proceeds from the 2011 Credit Agreement to repay in full all of its previously outstanding loans, together with accrued interest and all other amounts due in connection with such repayment, under the credit agreement entered into on October 31, 2006. The amount of this repayment totaled $216.8 million and following such repayment this credit agreement was terminated. No penalties were due in connection with such repayments.

In addition, the 2011 Credit Agreement required that we fund an escrow account to repay at maturity, or upon earlier conversion at the option of the holders thereof, our 1.375% Senior Convertible Notes due June 15, 2012. As a result, during December 2011, $279.2 million was deposited in the escrow account. This amount, which includes interest payable at maturity, is reported as short-term Restricted Cash in our Condensed Consolidated Balance Sheets.

We incurred $41.6 million of issuance costs in connection with the 2011 Credit Agreement. These costs were capitalized in Other assets on the Condensed Consolidated Balance Sheets, and the costs are being amortized to interest expense using the effective interest method over the term of the credit facilities, which is 5 or 7 years.

As of April 30, 2012, VeriFone has elected the "Eurodollar Rate" margin option under our borrowings under the 2011 Credit Agreement. As such, the interest rate on the Term A and Revolving loan was 2.74%, which was one month LIBOR plus 2.50% margin, and the interest rate on the Term B loan was 4.25%, which was the higher of one month LIBOR or 1.00% plus 3.25% margin. The unused revolving loan facility's commitment fee was 0.375% and the amount available to draw under the Revolving loan was $160.0 million.

As of April 30, 2012 interest margins are 2.50% for the Term A loan and the Revolving loan, and 3.25% for the Term B loan.

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We were in compliance with all financial covenants as of April 30, 2012.

On March 23, 2012, we entered into a number of interest rate swap agreements to effectively convert $500.0 million of the Term Loan A from a floating rate to a 0.71% fixed rate plus applicable margin. The interest rate swaps qualify for hedge accounting treatment as cash flow hedges. The interest rate swaps are effective for the period from March 30, 2012 to March 31, 2015 or 36 months.

Senior Convertible Notes

On June 22, 2007, we issued and sold $316.2 million aggregate principal amount of 1.375% Senior Convertible Notes due in June 2012 (the "Notes".) The net proceeds from the offering, after deducting transaction costs, were approximately $307.9 million. We incurred approximately $8.3 million of debt issuance costs. The transaction costs, consisting of the initial purchasers' discounts and offering expenses, were primarily recorded in debt issuance costs, net and are being amortized to interest expense using the effective interest method over five years. The Notes are effectively subordinated to any secured indebtedness to the extent of the value of the related collateral and structurally subordinated to indebtedness and other liabilities of our subsidiaries including any secured indebtedness of such subsidiaries.

Each $1,000 of principal of the Notes is initially convertible into 22.719 shares of our common stock, which is equivalent to a conversion price of approximately $44.02 per share, subject to adjustment upon the occurrence of specified events. Upon conversion, we would pay the holder an amount in cash up to the principal amount of the Notes. The value of the applicable number of shares of our common stock that are issuable on conversion of the Notes, if any, that exceeds the principal amount will be paid in shares of stock.

We separately account for the liability and equity components of the Notes. The principal amount of the liability components of the Notes was $236.0 million as of the date of issuance, which was recognized at the present value of its cash flows using a discount rate of 7.6%, our approximate borrowing rate at the date of the issuance for a similar debt instrument without the conversion feature. The carrying value of the equity component was $80.2 million.

Through April 30, 2012, we had repurchased and extinguished $38.9 million in aggregate principal amount of our outstanding Notes. As of April 30, 2012, the remaining principal amount of the outstanding Notes was $277.2 million.

The following table presents the carrying value of the Notes (in thousands):

| | April 30, 2012 | October 31, 2011 |
|---|---|---|
| Accounting amount of the equity component | $77,903 | $77,903 |
| Principal amount of the Notes | $277,250 | $277,250 |
| Unamortized debt discount (1) | (2,087) | (10,269) |
| Net carrying value of the liability component | $275,163 | $266,981 |

(1) As of April 30, 2012, the remaining period over which the unamortized debt discount will be amortized is 2 months.

Holders of the Notes may convert their Notes prior to maturity at any time on or after March 15, 2012. There were no conversions as of April 30, 2012.

The Notes were convertible as of April 30, 2012 at the option of the holders and our stock price on that date was $47.64. Hence, the if-converted value of the Notes as of April 30, 2012 was $300.0 million. The principal amount that would be paid in cash would have been $277.2 million and the if-converted value above the principal was $22.8 million, which would have been settled in shares of our common stock. Our note hedge would reduce the share amount by 50% to $11.4 million or 239,292 shares. Accordingly, the total cash and value of our stock that would be required to be paid to holders upon conversion at the balance sheet date was $288.6 million.

In accordance with ASC 480-10-S99-3A, we determine the amount that would be payable in cash assuming a conversion as of the relevant balance sheet date and record such amount as temporary equity on our Condensed Consolidated Balance Sheets. As of April 30, 2012, the amount of cash payable was determined using the market price of our stock as of April 30, 2012 for the shares subject to conversion less the net carrying value of the liability component of the Notes as of that same date. At April 30, 2012, the $2.1 million of cash principal that would be required to be paid to holders upon conversion in excess of the net carrying value of the liability component of the Notes was recorded as Temporary equity in the accompanying

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Condensed Consolidated Balance Sheets.

If a fundamental change, as defined in the indenture, occurs prior to the maturity date, holders of the Notes may require us to repurchase all or a portion of their Notes for cash at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest (including additional interest, if any) up to, but excluding, the repurchase date.

We pay 1.375% interest per annum on the principal amount of the Notes, semi-annually in arrears on June 15 and December 15 of each year, subject to increase in certain circumstances.

A summary of interest expense and interest rate on the liability component related to the Notes for the three and six months ended April 30, 2012 and 2011 is as follows (in thousands, except percentages):

| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Interest rate on the liability component | 7.6 % | 7.6 % | 7.6 % | 7.6 % |
| Interest expense related to contractual interest coupon | $953 | $953 | $1,906 | $1,906 |
| Interest expense related to amortization of debt discount | 4,083 | 3,748 | 8,182 | 7,554 |
| Total interest expense recognized | $5,036 | $4,701 | $10,088 | $9,460 |

In connection with the offering of the Notes, we entered into note hedge transactions with affiliates of the initial purchasers (the "counterparties"), consisting of Lehman Brothers OTC Derivatives ("Lehman Derivatives") and JPMorgan Chase Bank, National Association, London Branch. These note hedge transactions serve to reduce the potential dilution upon conversion of the outstanding Notes in the event that the volume weighted average price of our common stock on each trading day of the relevant conversion period or other relevant valuation period for the Notes is greater than $44.02 per share. We terminated the note hedge transaction with Lehman Derivatives during June 2011. The remaining note hedge transactions, which reduce the potential dilution by one half upon conversion of the outstanding Notes in the event certain conditions are met, are set to expire on the earlier of the last day on which any Notes remain outstanding and June 14, 2012.

In addition, we sold warrants to the counterparties whereby they have the option to purchase up to approximately 7.2 million shares of our common stock at a price of $62.356 per share. The warrants expire in equal amounts on each trading day from December 19, 2013 to February 3, 2014.

The cost incurred in connection with the note hedge transactions and the proceeds from the sale of the warrants are included as a net reduction in Additional paid-in capital in the accompanying Condensed Consolidated Balance Sheets as of April 30, 2012 and October 31, 2011.

Point Overdraft Facility

The 51% majority owned subsidiary of Point, Babs Paylink AB, has an unsecured overdraft facility with Swedbank, the 49% shareholder of Babs Paylink AB, that terminates in December 2012. The overdraft facility limit is Swedish Krona ("SEK") 60.0 million (approximately $8.9 million). The interest rate is the bank's published rate plus a margin of 2.55%. At April 30, 2012, the interest rate was 4.67%. There is a 0.25% commitment fee payable annually in advance, and the overdraft facility is renewable annually on December 31. As of April 30, 2012, SEK 39.0 million (approximately $5.8 million) was outstanding and SEK 21.0 million (approximately $3.1 million) was available.

Other

In July 2011 we entered into an agreement with a bank in Mexico whereby we jointly operate certain automated teller machines (“ATMs”) in Mexico. In connection with this agreement, we agreed to install and maintain these ATMs at third party locations and the bank agreed to provide interest-free cash funding for those ATMs. The total funding, which is reflected on our Condensed Consolidated Balance Sheets as restricted cash and other long-term liabilities, was $2.5 million as of April 30, 2012 and zero as of October 31, 2011. Also, in connection with this agreement, we were required to provide an irrevocable standby letter of credit in favor of the bank to guarantee our performance under the agreement. During the quarter ended January 31, 2012, we deposited $2.0 million as collateral for this letter of credit, which is reflected as restricted cash on our Condensed Consolidated Balance Sheets as of April 30, 2012. The initial term of the agreement expires on July 14, 2012.

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Thereafter, this agreement automatically renews for successive one year periods unless either party gives notice of its intent not to renew as required under the agreement.

Principal Payments

Principal payments due for financings as of April 30, 2012 over the next five years are as follows (in thousands):

| Fiscal Years Ending October 31: | |
|---|---|
| 2012 (Remainder of the fiscal year) | $301,904 |
| 2013 | 54,252 |
| 2014 | 82,788 |
| 2015 | 94,192 |
| 2016 | 163,071 |
| Thereafter | 916,052 |
| | $1,612,259 |

Note 6. Fair Value Measurements

For assets and liabilities measured at fair value such amounts are based on an expected exit price, representing the amount that would be received on the sale of an asset or paid to transfer a liability, as the case may be, in an orderly transaction between market participants. As such, fair value may be based on assumptions that market participants would use in pricing an asset or liability. The authoritative guidance on fair value measurements establishes a consistent framework for measuring fair value on either a recurring or nonrecurring basis whereby inputs, used in valuation techniques, are assigned a hierarchical level. The following are the hierarchical levels of inputs to measure fair value:

| | |
|---|---|
| Level 1 - | Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets. |
| Level 2 - | Observable inputs that reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the assets or liabilities; or inputs that are derived principally from or corroborated by observable market data by correlation or other means. |
| Level 3 - | Unobservable inputs reflecting our own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available. |

Assets Measured and Recorded at Fair Value on a Recurring Basis

There have been no transfers between fair value measurement levels during the six months ended April 30, 2012. The following table presents our assets and liabilities that were measured at fair value on a recurring basis as of April 30, 2012 and October 31, 2011, classified by the level within the fair value hierarchy (in thousands):

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| | April 30, 2012 | | | |
|---|---|---|---|---|
| | Carrying Value | Quoted Price in Active Market for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets | | | | |
| Money market funds (1) | $2,271 | $ 2,271 | $ — | $— |
| Marketable equity investment (2) | 4,831 | 4,831 | — | — |
| Israeli severance funds (3) | 2,008 | — | 2,008 | — |
| Equity warrants (4) | 535 | — | 535 | — |
| Foreign exchange forward contracts (5) | 58 | | 58 | — |
| Total assets measured and recorded at fair value | $9,703 | $ 7,102 | $ 2,601 | $— |
| Liabilities | | | | |
| Acquisition related earn-out payables (6) | $20,828 | $ — | $ — | $20,828 |
| Interest rate swaps (7) | 3,102 | — | 3,102 | — |
| Foreign exchange forward contracts (5) | 196 | — | 196 | — |
| Total liabilities measured and recorded at fair value | $24,126 | $ — | $ 3,298 | $20,828 |

| | October 31, 2011 | | | |
|---|---|---|---|---|
| | Carrying Value | Quoted Price in Active Market for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets | | | | |
| Money market funds (1) | $186,530 | $ 186,530 | $ — | $— |
| Marketable equity investment (2) | 5,450 | 5,450 | — | — |
| Israeli severance funds (3) | 2,097 | — | 2,097 | — |
| Equity warrants (4) | 682 | — | 682 | — |
| Foreign exchange forward contracts (5) | 58 | — | 58 | — |
| Total assets measured and recorded at fair value | $194,817 | $ 191,980 | $ 2,837 | $— |
| Liabilities | | | | |
| Acquisition related earn-out payables (6) | $6,728 | $ — | $ — | $6,728 |
| Foreign exchange forward contracts (5) | 314 | — | 314 | — |
| Total liabilities measured and recorded at fair value | $7,042 | $ — | $ 314 | $6,728 |

Explanatory footnotes:

1.Money market funds are classified as Level 1 because the funds are valued using quoted market prices in markets that are active.

2.The marketable equity investment is classified as Level 1 because it is valued using quoted market prices in markets that are active.

3.The Israeli severance funds are classified as Level 2 because there are no quoted market prices, but the fund managers provide a daily redemption value for each of the investments that make up the funds.

4.The equity warrants are classified as Level 2 because they are valued using the Black-Scholes valuation model considering quoted market prices for the underlying shares, the treasury risk free interest rate, historic volatility and the remaining contractual term of the warrant.

5.The foreign exchange forward contracts are classified as Level 2 because they are valued using quoted market prices and other observable data for similar instruments in an active market.

6.The acquisition related earn-out payables are classified as Level 3 because we use a probability-weighted expected payout model to determine the expected payout and an appropriate discount rate to calculate the fair value. The key assumptions in applying the approach are the internally forecasted sales and contributions for the acquired businesses, the probability of achieving the sales and contribution targets and an appropriate discount rate. Significant increases in the probability of achieving sales and contribution targets in isolation would result in a significantly higher fair value measurement while significant decreases in the probability of success in isolation would result in a significantly lower fair value measurement. Similarly, significant increases in the discount rate in isolation would result in a significantly lower

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fair value measurement while significant decreases in the discount rate in isolation would result in a significantly higher fair value measurement. We evaluate changes in each of the assumptions used to calculate fair values of our earn-out payable at the end of each period.

7. Interest rate swaps are classified as Level 2 because the fair value of interest rate swaps is determined using observable market inputs, such as the one month LIBOR forward pricing curve, as well as credit default spreads reflecting nonperformance risks of VeriFone and that of its counterparties.

Fair Value of Acquisition-Related Earn-out Payables

The following table presents a reconciliation for our earn-out payables measured and recorded at fair value on a recurring basis, using Level 3 significant unobservable inputs (in thousands):

| | Six Months Ended April 30, 2012 | Fiscal Year Ended October 31, 2011 |
|---|---|---|
| Balance at beginning of period | $6,728 | $2,960 |
| Increase due to business acquisitions | 25,651 | 7,334 |
| Changes in estimates and interest accretion, included in Other income (expense), net and interest expense | 332 | (2,443) |
| Other, including the impact of fluctuations in foreign currency exchange rates | 437 | (623) |
| Earn-out paid | (12,320) | (500) |
| Balance at end of period | $20,828 | $6,728 |

As of April 30, 2012, the total gross earn-out payable, if all the financial performance targets were met as of April 30, 2012 would have been $39.3 million.

Note 7. Investment in Equity Securities

On February 9, 2010, we invested in Trunkbow International Holdings Ltd. ("Trunkbow"), a Jinan, People's Republic of China-based mobile payments and value-added service applications company. We paid $5.0 million for 2.5 million shares of common stock and warrants to purchase 500,000 shares of common stock. The warrants have a strike price of $2.00 per share and are exercisable anytime up to 5 years from the closing date. The investment was originally accounted for using the cost-method and reflected in Other assets in our Condensed Consolidated Balance Sheets. The allocated costs of the shares and warrants were approximately $4.7 million and $0.3 million, respectively.

On February 3, 2011, Trunkbow's shares began trading on the NASDAQ Global Market. As a result, our investment in Trunkbow shares became marketable, and we reclassified this investment as available-for-sale. Accordingly, our investment in the Trunkbow shares is recorded at fair value which is the quoted market price of the shares. Any unrealized gains on the shares are included in Accumulated other comprehensive income, a component of Stockholders' equity. Realized gains (losses) on the sale of available-for-sale securities, which will be calculated based on the specific identification method, and declines in value below cost judged to be other-than-temporary, if any, will be recorded in Other income (expense), net as incurred.

Trunkbow Shares: The fair value of our Trunkbow shares as of April 30, 2012 and October 31, 2011 was estimated at $4.8 million and $5.5 million, respectively. The net unrealized gain as of April 30, 2012 was $0.2 million. We reduced the unrealized gain in accumulated other comprehensive income by $0.5 million and $0.6 million during the three and six months ended April 30, 2012, respectively.

Trunkbow Warrants: The Trunkbow warrants are derivatives. Accordingly, the warrants are recorded at fair value. We estimated the fair value of the warrants using the Black-Scholes valuation model. The changes in fair value are recorded as Other income (expense), net, in our Condensed Consolidated Statements of Operations. The fair value of our Trunkbow warrants as of April 30, 2012 and October 31, 2011 was estimated at $0.5 million and $0.7 million, respectively. We reflected a $0.1 million and $0.2 million mark-to-market loss in other income (expense), net in our Condensed Consolidated Statements of Operations for the three and six months ended April 30, 2012, respectively.

Note 8. Derivative Financial Instruments

We use derivative financial instruments, primarily forward contracts and swaps, to manage our exposure to foreign currency exchange rate and interest rate risks. Our primary objective in holding derivatives is to reduce the volatility of

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earnings and cash flows associated with changes in foreign currency exchange rates and interest rates.

Our derivatives expose us to credit risk to the extent that the counterparties may be unable to meet the terms of the agreement. However, we do seek to mitigate such risks by limiting our counterparties to major financial institutions. We do not expect losses as a result of defaults by counterparties. We do not use derivative financial instruments for speculative or trading purposes, nor do we hold or issue leveraged derivative financial instruments.

As discussed above, we hold warrants to purchase equity securities of Trunkbow. These warrants are derivative financial instruments, and are included in Prepaid expenses and other current assets in our Condensed Consolidated Balance Sheets. Accordingly, gains or losses resulting from changes in the fair value of these warrants are recorded as Other income (expense), net, in the Condensed Consolidated Statements of Income.

The fair value of the outstanding derivative instruments as of April 30, 2012 and October 31, 2011 is as follows (in thousands):

| | Balance Sheet Location | As of April 30, 2012 | As of October 31, 2011 |
|---|---|---|---|
| Derivative Assets | | | |
| Derivatives not designated as hedging instruments: | | | |
| Foreign exchange forward contracts | Prepaid expenses and other current assets | $58 | $58 |
| Equity warrants | Prepaid expenses and other current assets | 535 | 682 |
| Total | | $593 | $740 |
| Derivative Liabilities | | | |
| Derivatives designated as hedging instruments: | | | |
| Interest rate swap contracts | Other current liabilities | $2,141 | $— |
| Interest rate swap contracts | Other liabilities | 961 | — |
| Total | | $3,102 | $— |
| Derivatives not designated as hedging instruments: | | | |
| Foreign exchange forward contracts | Other current liabilities | $196 | $314 |
| Total | | $196 | $314 |

Foreign Currency Exchange Risk

Foreign exchange forward contracts, both designated and not designated as hedging instruments pursuant to ASC 815 Derivatives and Hedging, are recognized either as assets or liabilities on the Condensed Consolidated Balance Sheets at fair value at the end of each reporting period. We primarily utilize foreign exchange forward contracts to offset the risks associated with certain foreign currency balance sheet exposures. Under this program, foreign exchange forward contracts are arranged and maintained so as to yield gains or losses to offset changes in foreign currency denominated assets or liabilities due to movements in foreign exchange rates, thus mitigating the volatility associated with foreign currency transaction gains or losses. Our foreign currency exposures are predominantly intercompany receivables and payables arising from product sales from one of our entities to another. Foreign exchange forward contracts generally settle within 90 days. We do not use these foreign exchange forward contracts for trading purposes. We have not entered into any foreign currency derivative financial instruments which qualify as hedging instruments since November 1, 2009.

Interest Rate Risk

Interest rate swap agreements, both designated and not designated as hedging instruments pursuant to ASC 815 Derivatives and Hedging, are recognized either as assets or liabilities on the Condensed Consolidated Balance Sheets at fair value at the end of each reporting period. We use interest rate swaps to hedge the variability in cash flows related to interest rate payments. On March 23, 2012, we entered into a number of interest rate swap agreements to effectively convert $500.0 million of the Term Loan A from a floating rate to a 0.71% fixed rate plus applicable margin. The interest rate swaps qualify for hedge accounting treatment as cash flow hedges. The interest rate swaps are effective for the period

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from March 30, 2012 to March 31, 2015 or 36 months.

Derivatives Designated as Hedging Instruments

The effective portion of changes in the fair value of interest rate swaps that are designated and qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

The aggregate unrealized net loss for interest rate swaps, recorded as a component of comprehensive income, for the three and six months ended April 30, 2012 was $3.1 million. There were no interest rate swaps for the three and six months ended April 30, 2011.

There was no gain (loss) reclassified from accumulated other comprehensive income into interest expense for the three and six months ended April 30, 2012 and 2011.

During the three months ended April 30, 2012 and 2011, we recorded no hedge ineffectiveness in earnings, which would have been included in interest expense on the consolidated statements of operations.

Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the associated variable-rate debt. Over the next twelve months, we estimate that an additional $2.1 million will be reclassified as an increase to interest expense. We are hedging our exposure to the variability in future cash flows for forecasted transactions over a maximum period of 36 months.

Derivatives Not Designated as Hedging Instruments

Gains or losses resulting from changes in the fair value of these foreign exchange forward contracts are not designated as hedging instruments and are recorded as Other income (expense), net, in the Condensed Consolidated Statements of Operations.

As of April 30, 2012, the notional amount of the forward contracts we held to purchase U.S. dollars in exchange for other major international currencies was $167.2 million. As of October 31, 2011, the notional amount of the forward contracts we held to purchase U.S. dollars in exchange for other major international currencies was $87.3 million.

We incurred a net loss on foreign exchange forward contracts, not designated as hedging instruments, of $1.2 million and $24.4 million for the three and six months ended April 30, 2012, respectively. The net loss on foreign exchange forward contracts for the six months ended April 30, 2012 includes a $22.5 million loss for the difference between the forward rate and the actual rate on the date of settlement of foreign exchange forward contracts to lock in the U.S. dollar equivalent purchase price for our Point acquisition. For the comparable periods last year, we incurred a $2.7 million and a $3.2 million net loss on foreign exchange contracts, not designated as hedging instruments, in the three and six months ended April 30, 2011, respectively. These losses are included in Other income (expense), net in our Condensed Consolidated Statements of Income.

Fair Value of Other Financial Instruments

Other financial instruments consist principally of cash, accounts receivable, accounts payable and long-term debt. The estimated fair value of cash, accounts receivable, and accounts payable approximates their carrying value. The estimated fair value of long-term debt related to the Term A, Term B, and Revolving loan approximates the carrying value since the rate of interest on the long-term debt adjusts to market rates on a periodic basis. The fair value of the

Notes, using level one inputs of the closing trading price as of April 30, 2012 and October 31, 2011 was $306.2 million and $304.6 million, respectively.

Note 9. Comprehensive Income/(Loss)

The components of comprehensive income/(loss), consisted of the following (in thousands):

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| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net income attributable to VeriFone Systems, Inc. stockholders | $3,477 | $25,200 | $354 | $57,231 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments, net of tax | (1,520) | 8,026 | 5,437 | 10,064 |
| Cash flow interest rate hedge loss, net of tax | (1,937) | — | (1,937) | — |
| Unrealized gain (loss) on marketable equity investment, net of tax | (501) | 5,750 | (601) | 5,750 |
| Benefit plan adjustments | 31 | — | 174 | — |
| Total comprehensive income (loss) before allocation to noncontrolling interests | $(450) | $38,976 | $3,427 | $73,045 |
| Less: comprehensive income attributable to noncontrolling interest | 888 | 94 | 1,024 | 84 |
| Other comprehensive income (loss) attributable to VeriFone Systems, Inc. stockholders | $(1,338) | $38,882 | $2,403 | $72,961 |

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive loss, net of tax, consisted of the following (in thousands):

| | April 30, 2012 | October 31, 2011 |
|---|---|---|
| Foreign currency translation adjustments | $(513) | $(5,950) |
| Unrealized gain on marketable equity investment | 149 | 750 |
| Unrealized gain (loss) on cash flow hedge | (1,924) | 13 |
| Unfunded portion of pension plan obligations | (1,310) | (1,484) |
| Accumulated other comprehensive loss | $(3,598) | $(6,671) |

Note 10. Income Taxes

We recorded income tax benefits of $4.6 million and $14.4 million for the three and six months ended April 30, 2012, respectively. We recorded income tax provision of $3.1 million and $0.6 million for the three and six months ended April 30, 2011, respectively. The effective tax rates for the three and six months ended April 30, 2012 and 2011 are lower than the U.S. statutory tax rate due to earnings in countries where we are taxed at lower rates compared to the U.S. federal and state statutory rates and reversal of uncertain tax position liabilities as statutes of limitations expired. The income tax benefit for the six months ended April 30, 2012 includes the discrete tax benefit of $8.5 million related to the foreign exchange loss on futures contracts which was incurred during the first three months of the period and $6.6 million related to a patent litigation loss contingency expense which was incurred during June 2012.

During January 2012, the Company entered into a formal settlement with the Israeli tax authorities for the calendar year 2006 audit and, accordingly, has released $2.6 million of excess accrued tax liabilities associated with this audit.

As of April 30, 2012, we remain in a net deferred tax asset position. The realization of our deferred tax assets depends primarily on our ability to generate sufficient U.S. and foreign taxable income in future periods. The amount of deferred tax assets considered realizable may increase or decrease in subsequent quarters as we reevaluate the underlying basis for our estimates of future domestic and certain foreign taxable income.

We have recorded our uncertain tax position liability as a long-term liability as we do not expect significant payments to occur over the next twelve months. The amount of unrecognized tax positions could be reduced upon closure of tax examinations or if the statute of limitations on certain tax filings expire without assessment from the tax authorities. We believe that it is reasonably possible that there could be a reduction in unrecognized tax benefits due to statute of limitation expirations in multiple tax jurisdictions during the next twelve months of approximately $1.6 million. Interest and penalties accrued on these uncertain tax positions will also be released upon the expiration of statutes of limitations.

Note 11. Stock-based Compensation

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We grant stock awards, including stock options, restricted stock units ("RSUs") and restricted stock awards ("RSAs") pursuant to stockholder approved equity incentive plans. These equity incentive plans are described in further detail in Note 12. Stockholders' Equity of Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended October 31, 2011. All stock awards granted during the six months ended April 30, 2012 were granted under the 2006 Equity Incentive Plan, as amended.

Valuation Assumptions

The grant-date fair value of RSUs is equal to the market value of our common stock on the date of grant. The grant-date fair value of stock options is estimated using the Black-Scholes valuation model. We used the following weighted-average assumptions for the three and six months ended April 30, 2012 and 2011:

| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Expected term of the options (in years) | 3.6 | 4.0 | 3.6 | 4.0 |
| Risk-free interest rate | 0.8 % | 1.8 % | 0.7 % | 1.7 % |
| Expected stock price volatility | 66.7 % | 69.6 % | 67.3 % | 70.9 % |
| Expected dividend rate | 0.0 % | 0.0 % | 0.0 % | 0.0 % |

The Black-Scholes valuation model incorporates several subjective assumptions including expected term and expected volatility. The expected term of options granted is derived from the historical actual term of option grants and an estimate of future exercises during the remaining contractual period of the option. In determining expected volatility for options, we include the elements listed below at the weighted percentages presented:

| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Historical volatility of our common stock | 75.0 % | 60.0 % | 75.0 % | 60.0 % |
| Historical volatility of comparable companies' common stock | 20.0 % | 35.0 % | 20.0 % | 35.0 % |
| Implied volatility of our traded common stock options | 5.0 % | 5.0 % | 5.0 % | 5.0 % |

We placed the greatest weighting on the historic volatility of our common stock because we believe that, in general, it is representative of our expected volatility. However, our stock price during the second half of calendar year 2007 and most of calendar year 2008 was significantly impacted by our announcement on December 3, 2007 of a restatement of certain of our financial statements. Our restated financial statements were filed on August 19, 2008. Given that our historic volatility includes the volatility during this period, which we do not believe is representative of our expected volatility, we also used peer group data and implied volatility. We included peer group data in an effort to capture a broader view of the marketplace over the last four years. We included the implied volatility of our traded options to capture market expectations regarding our stock price. In determining the weighting between our peer group data and implied volatility, we accorded less weighting to our implied volatility because there is a relatively low volume of trades and the terms of the traded options are shorter than the expected term of our share options. Beginning with our fiscal quarter ending July 31, 2012, we have historical volatility data for our stock for a period of time that covers the length of our expected term of 3.6 years, and that we believe provides a reasonable basis for an estimation of our expected volatility. Accordingly, we will no longer use historic volatility of comparable companies' common stock in our weighting percentages. For the fiscal quarter ending July 31, 2012, we will increase the weighting of the historical volatility of our common stock from 75.0% to 95.0%, with the remaining 5.0% based on the implied volatility of our traded stock options.

Stock-based Compensation Expense

The following table presents the stock-based compensation expense recognized during the three and six months ended April 30, 2012 and 2011 (in thousands):

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| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Cost of net revenues | $463 | $394 | $942 | $791 |
| Research and development | 1,201 | 939 | 2,454 | 1,814 |
| Sales and marketing | 4,405 | 3,550 | 8,667 | 6,579 |
| General and administrative | 4,954 | 4,435 | 9,664 | 7,573 |
| Total stock-based compensation | $11,023 | $9,318 | $21,727 | $16,757 |

As of April 30, 2012, total unrecognized compensation expense adjusted for estimated forfeitures related to unvested stock options, and RSUs and RSAs was $44.3 million and $31.1 million, respectively, which is expected to be recognized over the remaining weighted-average vesting periods of 2.0 years for stock options and 2.6 years for RSUs and RSAs.

Stock Option Activity

The following table provides a summary of stock option activity under our equity incentive plans for the six months ended April 30, 2012:

| | Number of Shares (in thousands) | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Balance at October 31, 2011 | 8,201 | $18.38 | | |
| Granted | 1,239 | $37.52 | | |
| Exercised | (1,807) | $15.18 | | |
| Canceled | (193) | $22.53 | | |
| Expired | (46) | $24.07 | | |
| Balance at April 30, 2012 | 7,394 | $22.23 | 4.8 | $188,260 |
| Vested or expected to vest at April 30, 2012 | 7,027 | $21.55 | 4.7 | $183,674 |
| Exercisable at April 30, 2012 | 2,621 | $14.71 | 3.7 | $86,390 |

The total proceeds received as a result of stock option exercises under all plans for each of the six months ended April 30, 2012 and 2011 were $27.4 million and $37.4 million, respectively. We recognized $0.1 million of tax benefits in the six months ended April 30, 2012. We did not recognize any tax benefits in connection with the exercises during the six months ended April 30, 2011.

The weighted average fair value per share of options granted during the six months ended April 30, 2012 and 2011 was $18.16 and $26.24, respectively. The total intrinsic value of options exercised was $58.3 million and $73.0 million during the three months ended April 30, 2012 and 2011, respectively.

Restricted Stock Units and Restricted Stock Awards

The following table summarizes RSU and RSA activity for the six months ended April 30, 2012:

| | Shares (in thousands) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|

| | | |
|---|---|---|
| Outstanding at October 31, 2011 | 1,398 | |
| Granted | 547 | |
| Vested | (242 | ) |
| Outstanding at April 30, 2012 | 1,703 | $81,131 |
| Vested and expected to vest at April 30, 2012 | 1,410 | $67,172 |
| Ending exercisable (vested and deferred) | 559 | $26,631 |

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The weighted average grant date fair value per share of RSUs granted during the six months ended April 30, 2012 and 2011 was $44.20 and $39.89, respectively. The total fair value of RSUs that vested in the six months ended April 30, 2012 and 2011 was $9.3 million and $11.6 million, respectively. All RSAs were granted on April 1, 2010 with a grant date fair value of $20.35.

Note 12. Net Income (Loss) Per Common Share

Basic net income (loss) per share of common stock is computed by dividing net income (loss) 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 the assumed exercise of outstanding stock options and equivalents and the assumed exercise of the warrants relating to the convertible senior notes are determined using the treasury stock method. Under the treasury stock method, an increase in the fair market value of our common stock can result in a greater number of dilutive securities.

The following details the computation of net income per common share (in thousands, except per share data):

| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Basic and diluted net income per share attributable to VeriFone Systems, Inc. stockholders: | | | | |
| Numerator: | | | | |
| Net income attributable to VeriFone Systems, Inc. stockholders | $3,477 | $25,200 | $354 | $57,231 |
| Denominator: | | | | |
| Weighted average shares attributable to VeriFone Systems, Inc. stockholders - basic | 106,898 | 88,418 | 106,359 | 87,744 |
| Weighted average effect of dilutive securities: | | | | |
| Stock options, RSUs and RSAs | 3,508 | 4,241 | 3,619 | 4,237 |
| Notes (1) | 742 | 775 | 371 | 387 |
| Weighted average shares attributable to VeriFone Systems, Inc. stockholders - diluted | 111,148 | 93,434 | 110,349 | 92,368 |
| Net income per share attributable to VeriFone Systems, Inc. stockholders: | | | | |
| Basic | $0.03 | $0.29 | $— | $0.65 |
| Diluted | $0.03 | $0.27 | $— | $0.62 |

(1) The diluted shares from the Notes do not include the effects of our Note hedge, as described in Note 5. Financings in the Notes to the Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q. The Note hedge will reduce the dilution attributable to the Notes by 50% if and when the Notes are redeemed and the Note hedge is exercised.

For the three and six months ended April 30, 2012, stock awards to purchase 2.3 million and 2.7 million shares of common stock, respectively, were excluded from the calculation of earnings per share as they were anti-dilutive. For the three and six months ended April 30, 2011 stock awards to purchase 0.4 million and 0.4 million shares of common stock, respectively, were excluded from the calculation of earnings per share as they were anti-dilutive, respectively. These awards could be included in future calculations if the market value of the common shares increases.

The Notes are considered to be Instrument C securities, and therefore, only the conversion spread relating to the Notes is included in our diluted earnings per share calculation, if dilutive. Under such method, the settlement of the conversion spread of the Notes has a dilutive effect when the average share price of our common stock during any quarter in the fiscal years exceeds $44.02. The average share prices of our common stock during the three months ended April 30, 2012 and 2011 were $49.89 and $50.19, respectively, and therefore, the Notes were dilutive for the three and six months ended April 30, 2012 and 2011.

Warrants to purchase 7.2 million shares of our common stock were outstanding at April 30, 2012 and October 31, 2011 but were not included in the computation of diluted earnings per share because the warrants' exercise price of $62.36 was greater than the average share price of our common stock during the three and six months ended April 30, 2012 and 2011, and

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therefore, the warrants were anti-dilutive for those periods.
Note 13. Commitments and Contingencies

Commitments

We lease certain facilities under non-cancelable operating leases that contain free rent periods, leasehold improvement rebates and/or rent escalation clauses. Rent expense under these leases has been recorded on a straight-line basis over the lease term. We are committed to pay a portion of the related actual operating expenses under certain of these lease agreements. These operating expenses are not included in the table below. The difference between amounts paid and rent expense is recorded as deferred rent and the short-term and long-term portions are included in Other Current Liabilities and Other Long-term Liabilities, respectively, in the Consolidated Balance Sheets. Additionally, we sublease certain real property to third parties.

In connection with our taxi media businesses, we enter into operating lease arrangements for the right to place advertising in and/or on taxicabs. In general, these lease arrangements are non-cancelable for terms ranging from 3 to 10 years, require us to pay minimum lease amounts based on the type and locations of the advertising displays on the taxicabs and are subject to fee escalation clauses. Considering the advertising on operational taxicabs at April 30, 2012, we had total lease commitments of $101.0 million for taxi media leases including leases assumed in our acquisition of Show Media. This amount includes one significant lease with a total minimum commitment of $41.5 million as of April 30, 2012 based on the number of operational taxicabs at that date, subject to fee escalation clauses. This lease has a 10 year term expiring October 31, 2021 and provides us with exclusive rights to place advertising on the taxicabs subject to the lease.

Future minimum lease payments and sublease rental income under operating leases, including the taxi media leases described above and the number of operational taxicabs as of April 30, 2012, were as follows (in thousands):

| Fiscal Years Ending October 31: | Minimum Lease Payments | Sublease Rental Income | | Net Minimum Lease Payments |
|---|---|---|---|---|
| 2012 (remaining 6 months) | $26,053 | $(154 | ) | $25,899 |
| 2013 | 38,597 | (316 | ) | 38,281 |
| 2014 | 28,357 | (326 | ) | 28,031 |
| 2015 | 19,710 | (336 | ) | 19,374 |
| 2016 | 15,420 | (259 | ) | 15,161 |
| Thereafter | 45,074 | — | | 45,074 |
| Total | $173,211 | $(1,391 | ) | $171,820 |

Rent expense for the three and six months ended April 30, 2012 and 2011 was as follows (in thousands):

| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net rent expense for non-cancelable taxi operating leases | $7,112 | $5,735 | $13,716 | $11,365 |
| Other rent expense | 6,155 | 3,435 | 13,264 | 7,254 |
| | $13,267 | $9,170 | $26,980 | $18,619 |

Manufacturing Agreements

We work on a purchase order basis with our primary electronic manufacturing services providers, which are located in China, Singapore, Malaysia, Brazil, Germany, Romania, and Israel, and component suppliers located throughout the world to supply nearly all of our finished goods inventories, spare parts, and accessories. We generally provide each such supplier with a purchase order to cover the manufacturing requirements, which 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 April 30, 2012, the amount of purchase commitments issued to contract manufacturers and component suppliers totaled approximately $149.1 million. Of this amount, $17.6 million has been recorded in Accrued Expenses in the accompanying Condensed Consolidated Balance Sheets because these commitments are not expected to have future value to us.

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

Employee Health and Dental Costs

We are primarily self-insured for employee health and dental costs, but have stop-loss insurance coverage to limit per-incident liability. We believe that adequate accruals are maintained to cover the retained liability. The accrual for self-insurance is determined based on claims filed and an estimate of claims incurred but not yet reported.

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 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 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 did not believe that loss is probable or that there was a reasonable possibility that a material loss may have been incurred with respect to the matters disclosed.

Accrued Warranty

We provide reserves for the estimated costs of product warranty obligations based on a number of factors including the size of the installed base of products subject to warranty protection, historical and projected warranty claim rates, historical and projected costs associated with claims, and knowledge of specific product failures that are outside of our typical experience. We assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary based on our actual experience and any changes in future estimates. As of April 30, 2012 and October 31, 2011, our warranty accrual included product specific warranty accruals of approximately $4.1 million and $7.9 million, respectively, related to specific issues with our products. The amount accrued represents our best estimate of the costs expected to be incurred based on currently available information. We may incur additional warranty expense related to these products in future periods.

Brazilian State 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 has filed an appeal of this decision and the proceeding is now pending second level decision. 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 April 30, 2012 for this matter totals approximately 7.0 million Brazilian reais (approximately $3.7 million). As of April 30, 2012, we have not accrued for this matter.

Importation of Goods Assessments

Two of our Brazilian subsidiaries that were acquired as a part of the November 2006 Lipman Electronic Engineering Ltd ("Lipman") acquisition have been 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 a fraudulent interposition of parties, where the real sellers and buyers of the imported goods were hidden.

In the Vitória tax assessment, the fines were reduced from 4.7 million Brazilian reais (approximately $2.5 million) to 1.5 million Brazilian reais (approximately $0.8 million) on a first level administrative decision on January 26, 2007. Both the tax authorities and the Company 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 $2.5 million) against us. A formal ruling on the decision of the Administrative Council has not yet been issued. In addition, the federal attorney in this proceeding has filed a motion to clarify, which is also pending a decision. Once a formal ruling is issued by the Administrative Council, we will decide whether or not to appeal to the judicial level. Based on our current understanding of the underlying facts, we believe that it is probable that our Brazilian subsidiary will be required to pay some amount of fines. At April 30, 2012, we have accrued 4.7 million Brazilian reais (approximately $2.5 million) for this matter, plus interest.

On July 12, 2007, we were notified of a first administrative level decision rendered in the São Paulo tax assessment, which maintained the total fine of 20.2 million Brazilian reais (approximately $10.7 million) as imposed. On August 10, 2007, we appealed the first administrative level decision to the Taxpayers Council. A hearing was held on August 12, 2008 before the Taxpayers Council, and on October 14, 2008, the Taxpayers Council granted our appeal and dismissed the São Paulo assessment based upon the assessment being erroneously calculated on the value of the sale of the products in question to end customers in the local market rather than on the declared importation value of such products. We were subsequently notified of the Taxpayers Council's decision and the case was dismissed on May 19, 2009. In August 2009, the Brazilian tax authorities requested additional materials from us. In October 2009, we received a revised assessment in this matter of $1.9 million Brazilian reais (approximately $1.0 million). On May 20, 2010, we were notified of a first level decision canceling the revised tax assessment. This decision is currently pending second level review. The administrative proceeding for judgment before the Administrative Council of Tax Appeals was originally scheduled for May 24, 2012, but has been postponed pending personal inspection of the records at the request of one of the council members. At April 30, 2012, we have accrued 1.6 million Brazilian reais (approximately $0.9 million) for this matter.

On January 18, 2008, we were notified of a first administrative level decision rendered in the Itajai assessment, which maintained the total fine of 2.0 million Brazilian reais (approximately $1.0 million) as imposed, excluding interest. On May 27, 2008, we appealed the first level administrative level decision to the Taxpayers Council. This matter is currently pending second level decision. Based on our current understanding of the underlying facts, we believe that it is probable that our Brazilian subsidiary will be required to pay some amount of fines. Accordingly, at April 30, 2012, we have accrued 2.0 million Brazilian reais (approximately $1.0 million) for this matter, plus interest.

Municipality Tax on Services Assessment

In December 2009, one of the Brazilian subsidiaries that was acquired as part of the Lipman acquisition was notified of a tax assessment regarding alleged nonpayment of tax on services rendered for the period from September 2004 to December 2004. This assessment was issued by the municipality of São Paulo (the “municipality”), and asserts a services tax deficiency and related penalties totaling 0.9 million Brazilian reais (approximately $0.5 million) 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. In January 2010, we presented our administrative defense to the claim and related penalties. On April 18, 2012, we received an unfavorable second administrative level decision maintaining the tax assessment. No further grounds of appeal are available to us for this matter within the administrative courts, and we are considering the possibility of appealing the tax assessment in the civil courts. 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 $3.1 million) excluding interest. In January 2011, we presented our administrative defense to these subsequently issued claims. On August 12, 2011, we were notified of a first administrative level decision maintaining all of the services tax assessments asserted by the municipality. On August 20, 2011, we filed our appeal of the decision and the proceeding is now pending the second administrative level decision. At April 30, 2012, we have accrued for these alleged services tax deficiencies and penalties plus estimated interest.

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. The underlying assessment including estimated interest as of April 30, 2012 is approximately 5.8 million Brazilian reais (approximately $3.1 million). 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. As of April 30, 2012, we have not accrued for this matter.

Patent Infringement and Commercial Litigation

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 (“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 is seeking a judgment of infringement, and an injunction against further infringement, damages, interest and attorneys' fees. The Markman hearing was held August 8, 2011. Based on the court's ruling after the Markman hearing we filed motions for summary judgment on the claims prior to the scheduled trial, moving that, based on the court's construction of the key claims of the patents-in-suit, our products do not infringe on the patents-in-suit and moving for summary judgment based on our contentions the patents-in-suit are invalid. However, the court did not rule on these motions before trial, nor did the court rule on Cardsoft's summary judgment motions. Similarly, the court did not rule on the substantive pre-trial motions in favor of ruling on the matters at trial. The jury trial for this case commenced on June 4, 2012. On June 8, 2012, the jury completed its deliberations and 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 $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. We moved for judgment as a matter of law prior to the submission of the case to the jury, but the District Court did not rule on those motions. We plan to file additional motions challenging the jury verdict and/or to move for a new trial. We expect that Cardsoft will seek pre-judgment interest on the damages amount and, notwithstanding the jury's finding of no willful infringement, to recover its attorneys' fees. Judgment has not yet been entered in this case. The District Court will rule on these matters before it enters judgment. We intend to appeal this verdict, and are currently also evaluating our other alternatives, including post-judgment motions. Based on the trial verdict and current status of this litigation, we have determined that it is probable we will incur a loss on this litigation, and we estimate such loss to be approximately $17.6 million, including estimated pre-judgment interest. As a result of the jury verdict issued on June 8, 2012, we have recorded an accrual of $17.6 million as of April 30, 2012 for this ongoing litigation. In addition, we expect Cardsoft will claim further royalties on our future U.S. sales of the accused products based on the awarded royalty rate and the jury's verdict that the patents-in-suit, which have an expiration date of March 16, 2018, are valid. As noted above, judgment has not yet been entered in this case and it is reasonably possible that Cardsoft may seek amounts higher than what we have included in our estimate of pre-judgment interest, may claim further royalties and damages on future U.S. sales at a rate higher than the royalty rate awarded by the jury or may appeal the finding of non-willful infringement. Any damages award that is maintained after appeal would be additionally subject to post-judgment interest. We intend to vigorously pursue our appeal of this verdict and to defend any further claims related to this litigation. At this time we are unable to estimate the range of additional loss, if any, related to any further amounts Cardsoft may seek and the District Court may award in post-trial motions. Unfavorable rulings on such motions could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Class Action and Derivative Lawsuits

On or after December 4, 2007, several securities class action claims were filed against us and certain of our officers, former officers, and a former director. These lawsuits were consolidated in the U.S. District Court for the Northern

District of California as In re VeriFone Holdings, Inc. Securities Litigation, C 07-6140 MHP. The original actions were: Eichenholtz v. VeriFone Holdings, Inc. et al., C 07-6140 MHP; Lien v. VeriFone Holdings, Inc. et al., C 07-6195 JSW; Vaughn et al. v. VeriFone Holdings, Inc. et al., C 07-6197 VRW (Plaintiffs voluntarily dismissed this complaint on March 7, 2008); Feldman et al. v. VeriFone Holdings, Inc. et al., C 07-6218 MMC; Cerini v. VeriFone Holdings, Inc. et al., C 07-6228 SC; Westend Capital Management LLC v. VeriFone Holdings, Inc. et al., C 07-6237 MMC; Hill v. VeriFone Holdings, Inc. et al., C 07-6238 MHP; Offutt v. VeriFone Holdings, Inc. et al., C 07-6241 JSW; Feitel v. VeriFone Holdings, Inc., et al., C 08-0118 CW. On August 22, 2008, the court appointed plaintiff National Elevator Fund lead plaintiff and its attorneys lead counsel. Plaintiff filed its consolidated amended class action complaint on October 31, 2008, which asserts claims under the Securities Exchange Act Sections 10(b), 20(a), and 20A and Securities and Exchange Commission Rule 10b-5 for securities fraud and control person liability against us and certain of our current and former officers and directors, based on allegations that we and the individual defendants made false or misleading public statements regarding our business and operations during the putative class periods and seeks unspecified monetary damages and other relief. We filed our motion to dismiss on December 31, 2008. The court granted our motion on May 26, 2009 and dismissed the consolidated amended class action complaint with leave to amend within 30 days of the ruling. The proceedings were stayed pending a mediation held in October 2009 at which time the parties

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failed to reach a mutually agreeable settlement. Lead plaintiff's first amended complaint was filed on December 3, 2009 followed by a second amended complaint filed on January 19, 2010. We filed a motion to dismiss the second amended complaint and the hearing on our motion was held on May 17, 2010. In July 2010, prior to any court ruling on our motion, lead plaintiff filed a motion for leave to file a third amended complaint on the basis that it had newly discovered evidence. Pursuant to a briefing schedule issued by the court we submitted our motion to dismiss the third amended complaint and lead plaintiff filed its opposition, following which the court took the matter under submission without further hearing. On March 8, 2011, the court ruled in our favor and dismissed the consolidated securities class action without leave to amend. On April 5, 2011, lead plaintiff filed its notice of appeal of the district court's ruling to the U.S. Court of Appeals for the Ninth Circuit. On June 24 and June 27, 2011, lead plaintiff dismissed its appeal as against defendants Paul Periolat, William Atkinson, and Craig Bondy. Lead plaintiff filed its opening brief on appeal on July 28, 2011. We filed our answering brief on September 28, 2011 and lead plaintiff filed its reply brief on October 31, 2011. A hearing on oral arguments for this appeal was held before a judicial panel of the Ninth Circuit on May 17, 2012. There has been no ruling on this appeal to date.

Beginning on December 13, 2007, several actions were also 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) California Superior Court, Santa Clara County, 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). On May 15, 2008, the court in the federal derivative action appointed Charles R. King as lead plaintiff and his attorneys as lead counsel. On October 31, 2008, lead plaintiff in the federal action filed this consolidated amended derivative complaint, which names us as a nominal defendant and brings claims for insider selling, breach of fiduciary duty, unjust enrichment, waste of corporate assets and aiding and abetting breach of fiduciary duty against us and certain of our current and former officers and directors. On December 15, 2008, we and the other defendants filed a motion to dismiss. The parties agreed by stipulation that briefing on this motion would relate only to the issue of lead plaintiff's failure to make a pre-suit demand on our Board of Directors. The court granted our motion on May 26, 2009 and dismissed the consolidated amended derivative complaint with leave to amend within 30 days of the ruling. The proceedings were stayed pending a mediation held in October 2009 at which time the parties failed to reach a mutually agreeable settlement. Lead plaintiff's second amended complaint was filed on December 10, 2009. We filed our motion to dismiss the second amended complaint on January 25, 2010 and a hearing on our motion to dismiss was held on May 17, 2010. On August 25, 2010, the federal district court ruled in our favor and dismissed lead plaintiff's second amended derivative complaint without leave to amend. Lead plaintiff appealed the District Court's judgment to the U.S. Court of Appeal for the Ninth Circuit, filing his opening brief on April 14, 2011. We filed our answering brief on May 31, 2011 and lead plaintiff filed his reply on July 1, 2011, following which the Ninth Circuit took the matter under submission without oral argument. On November 28, 2011, the Ninth Circuit issued an order in our favor, and entered judgment affirming the District Court's dismissal of lead plaintiff's second amended complaint. Lead plaintiff did not appeal the Ninth Circuit's judgment and this federal derivative action is now closed.

On June 9, 2009, lead plaintiff in the federal derivative action made a demand to inspect certain of our books and records. In response to this demand, we provided certain of our books and records, including minutes and materials for our Board of Directors, Audit Committee and Compensation Committee meetings for the relevant period. We produced documents responsive to each category of lead plaintiff's request except that we withheld production, on the basis of privilege, of the Audit Committee's report of the independent investigation into the events leading to the restatement of our fiscal year 2007 interim financial statements. On November 6, 2009, lead plaintiff filed a complaint in Delaware Chancery Court seeking to compel production of the independent investigation report. We filed a motion to dismiss this complaint on December 3, 2009, and briefs on this motion were submitted during January 2010. A hearing on our motion to dismiss was held on March 10, 2010 and on May 12, 2010, the court issued an opinion dismissing with prejudice lead plaintiff's complaint seeking to compel production of the independent investigation report. Lead plaintiff appealed the dismissal. The parties filed their respective briefs on the appeal and a hearing on the appeal was held November 17, 2010 before the Delaware Supreme Court. The case was submitted before the Delaware Supreme Court en Banc without further briefing or oral argument. In January 2011, the Delaware Supreme Court issued a ruling which accepted certain legal arguments made by lead plaintiff, reversed the order of the Chancery Court, and remanded the case to the Chancery Court for further proceedings, while noting that lead plaintiff's claim may still be subject to dismissal under the applicable legal standard because the underlying derivative complaint in the federal district court had been dismissed with prejudice. On December 12, 2011, the Delaware Chancery Court entered an order dismissing the action by stipulation of the parties in light of the Ninth Circuit's November 28, 2011 order affirming the dismissal of the federal derivative action.

On October 31, 2008, the state derivative plaintiffs filed their consolidated derivative complaint in California Superior

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Court for the 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 shareholder as of October 31, 2008, GTCR Golder Rauner LLC. In November 2008, we filed a motion to stay the state court action pending resolution of the parallel federal actions, and the parties have agreed by stipulation to delay briefing on the motion to stay until after the issue of demand futility is 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 June 4, 2012 as requested by the court, and have also begun to meet and confer regarding next steps in the state derivative action in light of the final dismissal of the federal derivative action. The next status report is due August 3, 2012.

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 seeks 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 United States, 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 District Court's ruling to the Israeli Supreme Court. Our response to plaintiffs' appeal motion was filed on January 18, 2009. The District Court has stayed its proceedings until the Supreme Court rules on plaintiffs' motion for leave to appeal. On January 27, 2010, after a hearing before the Supreme Court, the court dismissed the plaintiffs' motion for leave to appeal and addressed the case back to the District Court. The Supreme Court instructed the District Court to rule whether the Israeli 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 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 District Court's decision regarding the applicable law to the 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. __, 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 Israeli 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 Israeli 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.

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. An unfavorable outcome in any of these matters 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.

Litigation Related to Acquisition of Hypercom

In connection with the announcement of our merger with Hypercom, several purported class action lawsuits were filed in Arizona and Delaware state courts alleging variously, among other things, that the board of directors of Hypercom breached its fiduciary duties in not securing a higher price in the merger and that VeriFone, Hypercom, FP Hypercom

Holdco, LLC and Francisco Partners II, L.P. aided and abetted that alleged breach. The actions seek injunctive relief and unspecified damages. An agreement in principle has been reached to resolve the litigation based on confirmatory discovery, enhanced public disclosures, and, reimbursement by Hypercom of a portion of the plaintiffs' attorneys fees which we do not expect to be material to our results of operations. The terms of settlement between the parties are subject to court approval.

On May 30, 2012, we were notified by the Spanish competition authority (La Comisión Nacional de la Competencia, or "CNC") that CNC intends to formally review our completion of our merger with Hypercom for alleged non-compliance with notification requirements under Spanish merger control law.

Other Litigation

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

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course of business against the Hypercom Brazilian subsidiary prior to our acquisition of Hypercom. 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, 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 14. Segment and Geographic Information

Segment Information

We operate in two business segments: North America and International. North America segment is defined as the United States of America and Canada, and International segment is defined as the other countries from which we derive revenues. Our reporting segments are the same as our operating segments. Total assets and goodwill by segment are based on the location of the assets. Point and the other entities we have acquired have been assimilated into our existing segments based on the countries in which the entities' derive revenues.

Net revenues and operating income (loss) of each business segment reflect net revenues and expenses that directly benefit only that segment. Examples of these segment expenses are: supply chain standard inventory costs of System Solutions net revenues, actual costs of Services net revenues, distribution center costs, royalty and warranty expense.

Corporate net revenues and operating income (loss) reflect amortization of purchased intangible assets, step-up of inventory, step-down in deferred revenue, impairment, stock-based compensation, acquisition, integration and restructuring costs, and other Corporate charges, including inventory obsolescence and scrap, rework, specific warranty provisions, non-standard freight and over-and-under absorption of materials management overhead. Since corporate costs are generally incurred on a company-wide basis, it is impractical to allocate them to either the North America or International segments.

The following table sets forth net revenues and operating income for our segments (in thousands):

| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net revenues: | | | | |
| International | $350,159 | $172,148 | $655,394 | $327,609 |
| North America | 129,206 | 120,629 | 249,173 | 249,106 |
| Corporate | (7,347) | (331) | (13,025) | (504) |
| Total net revenues | $472,018 | $292,446 | $891,542 | $576,211 |
| Operating income: | | | | |
| International | $102,432 | $45,750 | $188,152 | $89,760 |
| North America | 44,478 | 43,345 | 85,455 | 90,001 |
| Corporate | (128,826) | (51,757) | (233,603) | (107,212) |
| Total operating income | $18,084 | $37,338 | $40,004 | $72,549 |

Our goodwill by segment was as follows (in thousands):

| | April 30, 2012 | October 31, 2011 |
|---|---|---|
| International | $982,215 | $398,855 |
| North America | 217,283 | 162,559 |
| Total | $1,199,498 | $561,414 |

Our total assets by segment were as follows (in thousands):

| | April 30, 2012 | October 31, 2011 |
|---|---|---|
| International | $2,590,362 | $1,362,402 |
| North America | 1,155,311 | 951,159 |
| Total | $3,745,673 | $2,313,561 |

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Geographic Information

The net revenues by geographic area were as follows (in thousands):

| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| United States and Canada | $128,907 | $120,734 | $248,537 | $249,038 |
| Europe, Middle East and Africa | 198,941 | 93,263 | 353,848 | 171,970 |
| Latin America | 96,205 | 56,217 | 196,494 | 106,348 |
| Asia | 47,965 | 22,232 | 92,663 | 48,855 |
| Total net revenues | $472,018 | $292,446 | $891,542 | $576,211 |

Revenues are allocated to the geographic areas based on the shipping destination of customer orders.

Note 15. Restructuring Charges

There were no new restructuring plans approved during the three and six months ended April 30, 2012.

The following table summarizes restructuring expenses under existing restructuring plans during the three and six months ended April 30, 2012 (in thousands):

| | Three months ended April 30, 2012 | Six months ended April 30, 2012 |
|---|---|---|
| Cost of net revenues | $ 143 | $506 |
| Sales and marketing | (51) | (126) |
| General and administrative | 748 | 1,098 |
| Total restructuring expense | $ 840 | $1,478 |

For the comparable periods in 2011 the restructuring expenses were not material.

During the fourth quarter of fiscal year 2011, our management approved, committed to, and initiated a plan estimated to cost up to $14.7 million to restructure our operations due to our acquisition of Hypercom in order to improve the cost efficiencies in our merged operations. During the three months ended April 30, 2012, we recorded an additional $0.8 million of employee restructuring expense and paid another $1.3 million under this plan. Since the inception of this plan, we have expensed $9.9 million and paid $8.5 million.

We have a $1.3 million and $4.9 million restructuring liability as of April 30, 2012 and October 31, 2011 for the Hypercom related restructuring plan.

Other prior years' restructuring plans liabilities as of April 30, 2012 and October 31, 2011 were $1.1 million and $1.3 million, respectively. The change in the liability for those plans was mainly due to payments for facilities-related restructuring costs.

Restructuring activity for the six months ended April 30, 2012 was as follows (in thousands):

| | Employee Severance and Benefit Arrangements | Facilities Related Costs | Total |
|---|---|---|---|
| Balance at October 31, 2011 | $4,864 | $1,291 | $6,155 |
| Current year charges and adjustments | 1,318 | 160 | 1,478 |
| Other adjustments | (147) | (3) | (150) |
| Cash payments | (4,715) | (408) | (5,123) |
| Balance at April 30, 2012 | $1,320 | $1,040 | $2,360 |

As of April 30, 2012, $1.7 million of restructuring accruals were included in Other current liabilities and $0.7 million of restructuring accruals were included in Other long-term liabilities in the Condensed Consolidated Balance Sheets.

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Note 16. Related-Party Transactions

For the three months ended April 30, 2012 and 2011, we recorded $2.9 million and $3.0 million, respectively, of sales to certain companies of which members of our Board of Directors also serve on the board. For the six months ended April 30, 2012 and 2011, we recorded $5.1 million and $8.6 million, respectively, of net revenues on sales to certain companies of which members of our Board of Directors also serve on the board. As of April 30, 2012 and October 31, 2011, we have outstanding accounts receivable balances of $0.7 million and $1.8 million, respectively, related to such companies.

The 51% majority owned subsidiary of Point, Babs Paylink AB, has an unsecured overdraft facility with Swedbank, the 49% shareholder of Babs Paylink AB. As of April 30, 2012, SEK 39.0 million ($5.8 million) was outstanding and SEK 21.0 million ($3.1 million) was available. See Note 5. Financings in the Notes to Condensed Consolidated Financial Statements for information on the Point Overdraft Facility. For the three and six months ended April 30, 2012, we recorded $0.1 million and $0.4 million, respectively, of net revenues on sales to certain affiliates of Swedbank.

Note 17. Subsequent Event

On June 8, 2012, VeriFone received an unfavorable trial verdict related to an ongoing patent infringement litigation that commenced trial on June 4, 2012. As a result of this verdict, we have determined that it is probable we will incur a loss on this litigation, and we estimate such loss to be approximately $17.6 million, including estimated pre-judgment interest. We have accrued $17.6 million for this litigation as of April 30, 2012. See further discussion in Note 13. Commitments and Contingencies.

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

This section and other parts of this Quarterly Report on Form 10-Q contain forward-looking statements that involve risks and uncertainties. In some cases, forward-looking statements can be identified by words such as “anticipates,” “expects,” “believes,” “intends,” “potential,” “continues,” “plans,” “predicts,” and similar terms. Such forward-looking stateme 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 significantly from the results discussed in the forward-looking statements. Our statements regarding future performance also incorporate our estimates, projections and assumptions concerning the performance of recently acquired businesses, including Electronic Transaction Group Nordic Holding AB which operate the Point International business (“Point"), which we acquired on December 30, 2011, as described in Note 2. Business Combinations in the Notes to Condensed Consolidated Financial Statements of this report on Form 10-Q, including assumptions about the prospects for the acquired businesses' products and markets, the ability to retain customer relationships and key employees, successful integration of key technologies and operations, and the potential for unexpected liabilities. In addition, as we integrate these businesses into our operations, our understanding of the financial and operational performance of the acquired businesses may change. Factors that might cause such differences include, but are not limited to, those discussed in Part I, Item 1A Risk Factors in our 2011 Annual Report on Form 10-K and in Part II, Item 1A Risk Factors of this Quarterly Report on Form 10-Q. The following discussion should be read in conjunction with our consolidated financial statements and related notes included in our 2011 Annual Report on Form 10-K and the Condensed Consolidated Financial Statements and Notes thereto included in Part I, Item I of this Quarterly Report on Form 10-Q. Unless required by law, we expressly disclaim any obligation to update publicly any forward-looking statements, whether as result of new information, future events, or otherwise.
When we use the terms “VeriFone,” “we,” “us,” "the Company," and “our” in this item, we mean VeriFone Systems, Inc., a Delaware corporation, and its consolidated subsidiaries.

Overview

Our Business

We are a global leader in secure electronic payment solutions and services. We provide expertise, solutions, and services that add value to the point of sale with merchant-operated, consumer-facing, and self-service payment systems for the financial, retail, hospitality, petroleum, government, transportation, and healthcare vertical markets.

Our system solutions consist of point of sale ("POS") electronic payment devices that run our proprietary and third-party operating systems, security and encryption software, and certified payment software as well as other third-party value-added applications, and that are able to process a wide range of payment types designed to meet the demanding requirements of our direct and indirect customers. We are an industry leader in multi-application payment system deployments and we believe we have the largest selection of certified value-added applications. An increasing number of our electronic payment devices are directly connected to VeriFone operated processing gateways where we integrate traditional payment and non-payment functionality such as couponing, advertising and mobile near field communications ("NFC") based services for our customers.

Services are an increasingly important part of our overall revenue mix. Our offerings include new services such as Point's Payment-as-a-Service offering, our SAIL micro-merchant payment acceptance service and our services deploying media-related equipment in taxis and at gas stations, as well as several existing service offerings spanning different aspects of the payments ecosystem, including equipment repair/maintenance, advertising publishing, gateway processing, remote terminal management, software maintenance, customized application development, helpdesk, customer service, and encryption/tokenization. We also offer our customers support for installed systems, consulting and project management services for system deployment, and customization of integrated software solutions.

Our customers include financial institutions, payment processors, petroleum companies, large retailers, taxi fleets, to a limited extent, merchants, government organizations, healthcare companies, independent sales organizations (“ISO”) and advertisers. The functionality of our system solutions includes the capture of electronic payment data, certified transaction security, connectivity, compliance with regulatory standards and the flexibility to execute a variety of payment and nonpayment applications on a single system solution.

We believe that we benefit from a number of competitive advantages gained through our over 30-year history of

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success in our industry. These advantages include our globally trusted brand name, large installed base, significant involvement in the development of industry standards, security infrastructure, global operating scale, customizable platforms, and investment in research and development. We believe that these advantages position us well to capitalize on the continuing global shift toward electronic payment transactions.

Our Industry Trends

Our industry's growth continues to be driven by the long-term shift toward electronic payment transactions and away from cash and checks, the rapid penetration of electronic payments in emerging markets as those economies modernize, the potential expansion of EMV Smartcard-based payments into the United States, increasing proliferation of IP connectivity and wireless communication, an increasing focus on security to reduce fraud and identity theft, and a growing emphasis on contactless payments and mobile phone initiated payments based on NFC, as well as unattended self-service kiosks and outdoor payment systems and the merging of marketing capabilities such as advertising and couponing with payment devices. We believe that these trends will continue to drive demand for electronic payment systems.

Internationally, growth rates have generally been higher than in the United States ("US") because of the relatively lower penetration rates of electronic payment transactions in many countries, as well as increasing governmental efforts to modernize economies and to encourage electronic payments as a means of improving collection of value-added tax (“VAT”) and sales tax.

Security is a driving factor in our business as our customers endeavor to meet escalating governmental requirements directed toward the prevention of identity theft as well as operating safeguards imposed by the credit and debit card associations, members of which include Visa International (“Visa”), MasterCard Worldwide (“MasterCard”), American Express, Discover Financial Services, and JCB Co., Ltd. In September 2006, these card associations established the Payment Card Industry Security Standards Council (“PCI SSC”) to oversee and unify industry standards in the areas of payment card data security, referred to as the PCI standards, which consist of PIN Transaction Security (“PTS”), the PCI Data Security Standard (“PCI-DSS”) for enterprise data security, and the Payment Application Data Security Standard (“PA-DSS”) for payment application data security. These standards continually evolve to become more stringent and increasingly dependent on complex hardware-based measures to protect all payment related data, not just PIN data as in previous versions of these standards.

Our Operating Segments

We operate in two business segments: North America and International. We define North America as the United States and Canada, and International as all other countries from which we derive revenues. Our reportable segments are the same as our operating segments.

Net revenues and operating income (loss) of each business segment reflect net revenues and expenses that directly benefit only that segment. Corporate net revenues and operating income (loss) generally reflect costs incurred on a company-wide basis and it is impractical to allocate them to either the North America or International segments.

During the past year we completed acquisitions for the purpose of expanding our product and service offerings, as well as expanding our geographic reach. We expect that our two largest acquisitions, Hypercom in August 2011 and Point in December 2011, will significantly increase our International segment revenues and operating results. Additionally, our other acquisitions during the first half of fiscal 2012 are expected to contribute to future North America results through new product and service offerings that we intend to also expand internationally. These acquisitions are discussed further below.

We are experiencing revenue growth in both developed and emerging countries. In developed countries, we experience revenue growth driven mainly by customers upgrading and replacing their systems to address best-practice security in more stable economic conditions. We experience revenue growth in emerging geographies, such as Latin America, especially Brazil, the Middle East and Africa, and Russia, due to factors including growing demand as a result of improvements in economic conditions and efforts to modernize. We expect demand to continue to grow in the remainder of fiscal year 2012, with particular strength in emerging economies. We continue to devote research and development ("R&D") resources to address the market needs of both emerging and developed economies.

We recorded $18 million of loss contingency expense for the three months ended April 30, 2012 as a result of an unfavorable jury verdict issued on June 8, 2012, just prior to the filing of this Form 10-Q, related to an ongoing patent

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infringement litigation captioned, Cardsoft, Inc. and Cardsoft (Assignment for the Benefit of Creditors), LLC v. VeriFone Holdings, Inc. et al. Following trial, the jury issued a verdict for damages which was based on a royalty rate of $3 per unit for past U.S. sales of our products accused of infringement. The financial statements included in this report on Form 10-Q have been updated to reflect the June 8, 2012 verdict. In addition, as a result of this verdict, Cardsoft may seek and the court may order a royalty on our future sales of the accused products in the U.S. at the $3 per unit applied by the jury or at such other rate as the court may determine. If the court decides to order a royalty for future periods at a rate of $3 per unit of U.S. sales, we would expect our earnings per diluted share may be negatively impacted by one-half cent per quarter. See further discussion in Note 13. Commitments and Contingencies and Note 17. Subsequent Event in the Notes to Condensed Consolidated Financial Statements included in this report on Form 10-Q.

Our Revenue Timing

Timing of our revenue recognition may cause our revenue to vary from quarter to quarter. Specifically, revenues recognized in our fiscal quarters can be back-end weighted when we receive sales orders and deliver a higher proportion of our System Solutions toward the end of such fiscal quarters. This 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 a high volume of orders in a concentrated time at quarter-end. 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 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 price discussions with our customers, operating costs, 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. These factors may affect timing of shipment and consequently revenues recognized for a particular period.

Our Business Acquisitions

During the first half of fiscal 2012 we completed several acquisitions of businesses and assets. See Note 2. Business Combinations in the Notes to Condensed Consolidated Financial Statements included in this report on Form 10-Q. The results of operations from each of these acquisitions have been included in our Condensed Consolidated Financial Statements from the date of acquisition. These acquisitions and their respective purchase prices are:

•On November 1, 2011, we completed the acquisition of the business assets and assumed certain liabilities of the Show Media taxi advertising business based in New York City (“Show Media”). The total purchase price for Show Media was $28 million.

•On November 1, 2011, we completed the acquisition of the business assets, and assumed certain liabilities, of the Global Bay mobile point of sale software business (“Global Bay”) based in South Plainfield, New Jersey. The total purchase price for Global Bay was $28 million.

•On December 30, 2011 we completed our acquisition of Electronic Transaction Group Nordic Holding AB, a Swedish company operating the Point International business (collectively, "Point"). Point was previously one of our distributors and is Northern Europe's largest provider of payment and gateway services and solutions for retailers. We paid cash consideration of approximately EUR 600 million plus payment of outstanding debt (total purchase price of $1,025 million at the close date.)

•On January 3, 2012, we completed our acquisition of the ChargeSmart (now known as VeriFone Commerce Solutions, Inc.) payments solutions business (“ChargeSmart”) based in San Francisco, California. The total purchase price for ChargeSmart was $19 million.

•On March 1, 2012, we completed our acquisition of the Lift Retail Marketing Technology, Inc. digital marketing business ("LIFT") based in Atlanta, Georgia. The total purchase price for LIFT was $6 million.

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Our Credit Agreements

On December 28, 2011, our main operating subsidiary, VeriFone, Inc., closed a financing arrangement (“2011 Credit Agreement”) from a syndicate of banks led by JP Morgan and including Bank of America Merrill Lynch, Wells Fargo Bank, Barclays Capital and RBC Capital Markets, of which a portion along with existing cash balances, financed the cash consideration to the sellers of Point and refinanced certain existing debt at Point and at the Company. On December 28, 2011, in connection with entering into the 2011 Credit Agreement, we repaid in full all loans outstanding as of that date, together with interest and all other amounts due in connection with such repayment under our 2006 Credit Agreement totaling an aggregate of $217 million and funded a $279 million escrow account to pay the interest and principal of the 1.375% Senior Convertible Notes due June 2012. No penalties were due in connection with such repayments. See Note 5. Financings in the Notes to Condensed Consolidated Financial Statements included in this report on Form 10-Q.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America.

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

There were no significant changes to our critical accounting policies during the three and six months ended April 30, 2012.

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

Results of Operations
Net Revenues

We generate net revenues through the sale of our electronic payment systems and solutions that enable electronic payment transactions, which we identify as System Solutions. Additionally, we generate net revenues through our managed service offerings such as our Point "All-In-One" Payment-as-a-Service solution, warranty and support services, field deployment, advertising, and transaction fees in our taxi media solutions business, installation and upgrade services, and customer-specific application development, which we identify as Services.

Net revenues, which include System Solutions and Services, are summarized in the following table (in thousands, except percentages):

| | Three Months Ended April 30, | | | | | Six Months Ended April 30, | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | Net Change | % Change | | 2012 | 2011 | Net Change | % Change | |
| System Solutions | $340,443 | $235,334 | $105,109 | 44.7 | % | $653,084 | $461,041 | $192,043 | 41.7 | % |
| Services | 131,575 | 57,112 | 74,463 | 130.4 | % | 238,458 | 115,170 | 123,288 | 107.0 | % |
| Total Net Revenues | $472,018 | $292,446 | $179,572 | 61.4 | % | $891,542 | $576,211 | $315,331 | 54.7 | % |

Total net revenues for the three months ended April 30, 2012 compared to the three months ended April 30, 2011

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increased by $180 million, or 61.4%, due to expanded global reach and product and service offerings. For the three months ended April 30, 2012, net revenue contributions from acquired companies were $144 million, net of Corporate revenues related to the acquired companies.

For the three months ended April 30, 2012 and 2011 System Solutions net revenues comprised 72.1% and 80.5% of total net revenues, respectively. The lower proportion of System Solutions net revenues in the second quarter of fiscal year 2012 compared to the same period in fiscal year 2011 reflects growth in our Services revenues primarily as a result of acquiring the Point business, which has a significant proportion of services business, in addition to our putting more emphasis on the sale of Services within our existing businesses.

Total net revenues for the six months ended April 30, 2012 compared to the six months ended April 30, 2011 increased by $315 million, or 54.7%, due to expanded global reach and product and service offerings. For the six months ended April 30, 2012, net revenue contributions from acquired companies were $250 million, net of Corporate revenues related to the acquired companies.

For the six months ended April 30, 2012 and 2011, Systems Solutions net revenues comprised 73.3% and 80.0% of total net revenues, respectively. The lower proportion of System Solutions net revenue in the six months of fiscal year 2012 compared to the same period in fiscal year 2011 reflects growth in our Services revenues primarily as a result of acquiring the Point business which has a significant proportion of services business, in addition to putting more emphasis on the sale of Services within our existing businesses.

We expect to see a continued shift towards a higher proportion of service revenues in fiscal year 2012 following the acquisition of Point and our continued development and sales of our services business offerings. We expect to expand the roll out of Point's Payment-as-a-Service model beyond Point's traditional markets and also expect to deploy media related equipment in taxis and gas pumps to generate advertising and other service fee or rental revenue streams.

System Solutions Revenues

| | Three Months Ended April 30, | | | | Six Months Ended April 30, | | | |
|---|---|---|---|---|---|---|---|---|
| (in thousands, except percentages) | 2012 | 2011 | Net Change | % Change | 2012 | 2011 | Net Change | % Change |
| International | $258,635 | $149,497 | $109,138 | 73.0 % | 500,276 | $284,320 | $215,956 | 76.0 % |
| North America | 85,118 | 85,836 | (718) | -0.8 % | 158,148 | 176,720 | (18,572) | -10.5 % |
| Corporate | (3,310) | 1 | (3,311) | nm | (5,340) | 1 | (5,341) | nm |
| Total | $340,443 | $235,334 | $105,109 | 44.7 % | 653,084 | $461,041 | $192,043 | 41.7 % |

nm - not meaningful

System Solutions net revenues increased due to the growth in our International operations and the acquisition and growth of businesses in new geographies. In addition, economic improvements in certain existing territories and new product launches increased demand. For the three months ended April 30, 2012, System Solutions net revenue contributions from acquired companies were $61 million for Hypercom (which we acquired on August 4, 2011), $19 million for Point (which we acquired on December 30, 2011) and $3 million for other fiscal year 2011 and fiscal year 2012 acquisitions.

For the six months ended April 30, 2012, System Solutions net revenue contributions from acquired companies were $116 million for Hypercom, $24 million for Point and $12 million for other fiscal year 2011 and fiscal year 2012 acquisitions

International System Solutions Net Revenues

International System Solutions net revenues increased $109 million, or 73.0%, for the three months ended April 30, 2012 compared to the three months ended April 30, 2011. On a regional basis, excluding historical sales to companies we have acquired, Europe, Middle East and Africa increased $61 million, Latin America increased $34 million, and Asia increased $20 million. International System Solutions net revenues in the three months ended April 30, 2011 included $6 million of sales to Point that will not recur because they became a wholly owned subsidiary following the closing of our acquisition on December 30, 2011.

International System Solutions net revenues increased $216 million, or 76.0%, for the six months ended April 30, 2012 compared to the six months ended April 30, 2011. On a regional basis, excluding historical sales to companies we have acquired, Europe, Middle East and Africa increased $111 million, Latin America increased $80 million, and Asia increased $34 million. International System Solutions net revenues for the six months ended April 30, 2011 included $9 million of sales to Point.

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System Solutions net revenues for Europe, Middle East and Africa increased $55 million or 68.4% including acquisitions and historical sales to companies noted above and increased $5 million, or 6%, excluding acquisitions, for the three months ended April 30, 2012 compared to the three months ended April 30, 2011. The $5 million increase in net revenues excluding acquisitions was primarily due to a $15 million increase in the Middle East and Africa, primarily Nigeria, United Arab Emirates, and South Africa, due to our efforts to expand in the region and demand for electronic payment solutions as this region moves towards a less cash-dominant economy, offset by a $10 million decrease elsewhere in the region primarily due to the timing of orders from customers.

Latin America System Solutions net revenues increased $34 million, or 69.0%, including acquisitions, as noted above, and $26 million, or 53.4%, excluding acquisitions, for the three months ended April 30, 2012 compared to the three months ended April 30, 2011, primarily as a result of increased demand throughout the region driven by continued economic growth and the expansion of the electronic payment card industry.

Asia System Solutions net revenues increased $20 million, or 100.7% including the acquisitions, as noted above, and $6 million, or 30.7%, excluding acquisitions, for the three months ended April 30, 2012 compared to the three months ended April 30, 2011. The increase in net revenues was due to $10 million increased demand as a result of our efforts to develop markets within the region and the timing of the Lunar holiday season which generally reduces demand in China and Greater Asia. In fiscal 2012 the Lunar holiday season fell during our first fiscal quarter, but in fiscal 2011 it fell during our second fiscal quarter. Partially offsetting this were $4 million lower sales in Australia and New Zealand compared to fiscal year 2011 as a result of a compliance driven upgrade cycle that benefited fiscal year 2011 revenues.

For the six months ended April 30, 2012 and 2011, International Systems Solutions net revenues for EMEA increased $102 million, or 69.1%, including the acquisitions and historical sales to companies noted above and increased $15 million, or 9.9%, excluding acquisitions. The $15 million increase in net revenue excluding acquisitions was mainly due to a $26 million increase in the Middle East and Africa, primarily Nigeria, United Arab Emirates, and South Africa, due to our efforts to develop markets within the region and growing demand as the region moves towards a less cash-dominant society, offset by an $11 million decrease elsewhere in the region primarily due to the timing of orders from customers.

Latin America System Solutions net revenues increased $80 million, or 86.9%, including the acquisitions, as noted above, and increased $59 million, or 64.8%, excluding acquisitions, for the six months ended April 30, 2012 and 2011, primarily as a result of increased demand throughout the region driven by continued economic growth and the expansion of the electronic payment card industry.

Asia System Solutions net revenues increased $34 million, or 76.2%, including the acquisitions, as noted above, and increased $6 million, or 15.0%, excluding acquisitions, for the six months ended April 30, 2012 and 2011, primarily due to $13 million increased demand as a result of our efforts to develop markets within the region partially offset by $7 million lower sales in Australia and New Zealand compared to fiscal year 2011 as a result of a compliance driven upgrade cycle that benefited fiscal year 2011 revenues.

North America System Solutions Net Revenues

North America System Solutions net revenues decreased $1 million, or 0.8%, including acquisitions and $6 million, or 6.5% excluding acquisitions, for the three months ended April 30, 2012 compared to the three months ended April 30, 2011. During the three months ended April 30, 2012, there was a $9 million decrease in net revenues from our North American Financial Solutions business, which sells payment systems to small and medium-sized businesses through ISOs and payment processors, due primarily to the timing of our distributors' purchases which generally varies based on distributor decisions on inventory levels, desired product mix, and timing of new product introductions, and stronger sales in Canada a year ago due to a mandated EMV upgrade cycle. This decline was partially offset by a $3 million increase in our Vertical Markets and Petroleum businesses driven by adoption of newer technologies and timing of customer upgrades.

For the six months ended April 30, 2012 and 2011, North American Systems Solutions net revenues decreased $19 million, or 10.5%, including acquisitions and decreased $26 million, or 14.8%, excluding acquisitions. Net revenues in our North American Financial Solutions business decreased by $22 million primarily due to the timing of our distributors' purchases, which generally varies based on distributor decisions on inventory levels, desired product mix, and timing of new product introductions, and stronger sales in Canada a year ago due to a mandated EMV upgrade cycle. Net revenues in our Petroleum business decreased by $7 million, primarily driven by the timing of PCI compliance efforts of later adopting customers to address the July 2010 PCI-PED compliance deadlines which benefited our fiscal year 2011 revenues. These

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declines were partially offset by a $3 million increase in our Vertical Markets driven by adoption of newer technologies and timing of customer upgrades.

Outlook for System Solutions Net Revenues

Over the last several quarters, improving economic conditions in some parts of the world have favorably impacted demand for our products, particularly in Latin America, especially Brazil, the Middle East and Africa, and Russia. We are unable to predict whether this demand will be sustained. Moreover, many economies that have experienced economic improvements since the global recession in 2008, including the U.S., continue to experience some volatility and challenges in achieving sustained economic growth. In particular, Europe, one of the most significant economies globally and an important trading partner of the U.S., continues to experience significant economic volatility and uncertainty, including restrictive credit conditions due to the ongoing European sovereign debt crisis. Any sustained economic weakness or deterioration in economic conditions, particularly if persistent, would adversely affect our business, operating results, and financial condition. We expect International revenues to benefit from the addition of our global acquisitions, as well as continued overall demand for our products internationally, including growth in emerging markets which continue to adopt electronic payments and create retail establishments for the growing middle class. We expect North American System Solutions growth over the next several years to be driven by anticipated customer refreshes to replace aging terminals and merchant purchases of more advanced systems in anticipation of the adoption of new technologies such as NFC and other Smartphone enabled payments at the point of sale, the EMV standard that we expect will be adopted in the US over the next several years, and as the petroleum market continues to adopt new and more secure payment devices for gasoline dispensers to improve security.

Services Revenues

(in thousands, except percentages):

| | Three Months Ended April 30, | | | | Six Months Ended April 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | Net Change | % Change | 2012 | 2011 | Net Change | % Change |
| International | $91,524 | $22,651 | $68,873 | 304.1 % | $155,118 | $43,290 | $111,828 | 258.3 % |
| North America | 44,088 | 34,793 | 9,295 | 26.7 % | 91,025 | 72,386 | 18,639 | 25.7 % |
| Corporate | (4,037 ) | (332 ) | (3,705 ) | nm | (7,685 ) | (506 ) | (7,179 ) | nm |
| Total | $131,575 | $57,112 | $74,463 | 130.4 % | $238,458 | $115,170 | $123,288 | 107.0 % |

nm – not meaningful

International Services Net Revenues

For the three months ended April 30, 2012, International Services net revenues increased $69 million, or 304.1%, due primarily to our acquisition of service oriented businesses in global territories, as well as, to a lesser extent, organic growth of various service initiatives in our existing regions. Contributions to International Services net revenues for this period from acquired businesses were as follows: Point (which we acquired on December 30, 2011) added $38 million which includes the Payment-as-a-Service offering "All-In-One" solution, Hypercom (which we acquired on August 4, 2011) added $20 million which primarily includes terminal maintenance services, and other acquisitions added $6 million, primarily taxi advertising revenues and maintenance revenues

International Services net revenues increased $5 million, or 20.8%, excluding acquisitions, for the three months ended April 30, 2012 compared to the three months ended April 30, 2011 as we continued to develop our services offerings and expand them globally.

For the six months ended April 30, 2012 and 2011, International Services net revenues increased $112 million, or 258.3%, due to our acquisition of service oriented businesses in global territories, as well as growth of various service initiatives in our existing regions. Contributions to International Services net revenues for this period from acquired businesses were as follows: Point added $52 million, Hypercom added $38 million and other acquisitions added $13 million.

International Services net revenues increased $9 million, or 21.8%, excluding acquisitions, for the six months ended April 30, 2012 and 2011, as we continued to develop our Services offerings and expand them globally.

North America Services Net Revenues

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For the three months ended April 30, 2012, North America Services net revenues increased 9 million, or 26.7% due to U.S. businesses that we acquired and grew, as well as organic growth of various service initiatives across North America. Net revenue contributions from acquired companies were $4 million, primarily taxi advertising, mobile point of sale, and payment solutions business.

North America Services net revenues increased $5 million, or 15.6% excluding acquisitions, as a result of our efforts to increase service offerings. Taxi payments and advertising services net revenues increased by $2 million due to an increase in advertising revenue and higher transaction revenue, and a $2 million increase due to software maintenance programs launched in the Petroleum Services business.

For the six months ended April 30, 2012 and 2011, North America Services revenues increased $19 million, or 25.7%, due to U.S. businesses that we acquired and grew, as well as organic growth of various service initiatives across North America. Net revenue contributions from acquired companies were $8 million, primarily taxi advertising, mobile point of sale, and payment solutions business.

North America Services net revenues increased $11 million, or 15.4%, excluding acquisitions, for the six months ended April 30, 2012 and 2011, as a result of our efforts to increase service offerings. Taxi payments and advertising services net revenues increased by $5 million due to an increase in advertising revenue and higher transaction revenue, and a $5 million increase due to software maintenance programs launched in the Petroleum Services business.

Outlook for Services Net Revenues

Worldwide, we have a variety of programs underway which we believe will continue to grow services revenues. Internationally, we expect increased activity over the next few quarters in our VeriFone media and taxi payments and advertising businesses in London, as well as expansion of those businesses in other countries to increase credit card transaction and advertising revenues. We expect Services revenues in North America to be driven by continued growth in Petroleum software maintenance programs, our media solutions business and system deployment projects and our expanded deployment of media related equipment at gas pumps to generate advertising and other service fee or rental revenue streams. In addition, we expect incremental services revenues as a result of the inclusion of a full year of results and growth from acquired businesses, and continued development and sales of our Services business offerings with an emphasis on expanding the roll out of Point's Payment-as-a Service model beyond Point's traditional markets.

Gross Profit

The following table shows the gross profit for System Solutions and Services (in thousands, except percentages):

| | Three Months Ended April 30, | | | | | | Six Months Ended April 30, | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | | Gross Profit Percentage | | | | Amount | | Gross Profit Percentage | | | |
| | 2012 | 2011 | 2012 | | 2011 | | 2012 | 2011 | 2012 | | 2011 | |
| System Solutions | $ 138,170 | $ 97,738 | 40.6 | % | 41.5 | % | 252,059 | 183,305 | 38.6 | % | 39.8 | % |
| Services | 53,989 | 24,847 | 41.0 | % | 43.5 | % | 96,738 | 50,771 | 40.6 | % | 44.1 | % |
| Total | $ 192,159 | $ 122,585 | 40.7 | % | 41.9 | % | 348,797 | 234,076 | 39.1 | % | 40.6 | % |

System Solutions

Gross profit on System Solutions increased $40 million, or 41.4%, for the three months ended April 30, 2012, compared to the three months ended April 30, 2011. For the three months ended April 30, 2012, International gross profit percentage increased slightly, while North American gross profit percentage had no change and corporate costs including acquisition related charges increased in absolute dollars and as a percentage of total Systems Solutions Revenues. International System Solutions gross profit percentage benefited from a favorable product mix impact due to a proportional increase in the sales of the Vx Evolution product solutions, which carry higher margins compared to certain previous generation solutions, as well as an improved geographic and customer mix in some regions.

Gross profit on System Solutions increased $69 million, or 37.5%, for the six months ended April 30, 2012 and 2011. For the six months ended April 30, 2012 the International gross profit percentage increased, mainly driven by a favorable product mix impact due to increased sales of the Vx Evolution product solutions, as well as an improved geographic and customer mix

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in some regions. North America System Solutions gross profit percentage remained unchanged in the six months ended April 30, 2012 and 2011. Corporate costs including acquisition related charges increased in absolute dollars and as a percentage of total Systems Solutions Revenues as discussed below.

As described above in the Overview to this Item 2, as a result of the unfavorable verdict we received in the ongoing Cardsoft patent litigation, Cardsoft may seek and the court may order a royalty be applied to our future sales of the accused products in the U.S., which may be at the $3 per unit applied by the jury or at such other rate as the court may determine. If the court decides to order such a royalty, the cost per unit of our sales in the U.S. of the products subject to this litigation would be increased by the royalty ordered by the court, which may be the $3 per unit applied by the jury or such other rate as the court may determine, and our gross profit may be materially adversely impacted.

Services

Gross profit on Services increased $29 million, or 117.3%, for the three months ended April 30, 2012 compared to the three months ended April 30, 2011 largely attributable to increases in Services revenues in both the North America and International businesses partially offset by corporate adjustment primarily related to the step down in deferred revenue on acquisition.

International Services gross margin percentages increased during the three months ended April 30, 2012 compared to the three months ended April 30, 2011, primarily driven by the higher margins associated with the Point business. These increases were partially offset by lower margins associated with the Hypercom services business in Latin America and Australia and New Zealand. North America Services gross margin percentages decreased slightly during the three months ended April 30, 2012 compared to the three months ended April 30, 2011, primarily driven by reduced gross margin percentage in the taxi payment and advertising business due to the higher renewal costs on taxi leases.

Gross profit on Services increased $46 million, or 90.5%, for the six months ended April 30, 2012 and 2011. International Service gross margin percentage increased during the six months ended April 30, 2012 compared to the six months ended April 30, 2011, primarily driven by the Point acquisition, offset by lower margins associated with the Hypercom Services business in Latin America and Asia Pacific. North America Services gross margin percentage decreased slightly during the six month period ended April 30, 2012 and 2011, mainly due to decreased gross margin percentage in the taxi payment and advertising business due to the higher renewal costs on taxi leases.

Research and Development Expenses

Research and development ("R&D") expenses for the three and six months ended April 30, 2012 and 2011 are summarized in the following table (in thousands, except percentages):

| | Three Months Ended April 30, | | | | Six Months Ended April 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | Net Change | Percentage Change | 2012 | 2011 | Net Change | Percentage Change |
| Research and development | $37,849 | $25,402 | $12,447 | 49.0 % | $72,928 | $47,044 | $25,884 | 55.0 % |
| Percentage of net revenues | 8.0 % | 8.7 % | | | 8.2 % | 8.2 % | | |

R&D expenses for the three months ended April 30, 2012 increased $12 million, or 49.0%, compared to the three months ended April 30, 2011. This increase was primarily due to $11 million of additional personnel related expenses associated with headcount growth from acquired businesses and hiring to expand development of new products on new platforms and in new geographies. In addition, R&D expenses increased $1 million due to transition costs associated with the integration of our acquisitions.

R&D expenses for the six months ended April 30, 2012 increased $26 million, or 55.0%, compared to the six months ended April 30, 2011. This increase was primarily due to a $20 million increase in personnel related expenses associated with headcount growth from acquired businesses and hiring to expand development of new products on new platforms and in new geographies. In addition, R&D expenses increased $3 million in outside development services in developing our product portfolio, and $3 million due to an increase in transition costs associated with the integration of our acquisitions.

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We expect R&D expenses, assuming a stable currency environment, to grow in absolute amounts primarily as a result of the additional costs of businesses acquired during 2012, and higher product development activities for a larger portfolio of product and service offerings.

Sales and Marketing Expenses

Sales and marketing expenses for the three and six months ended April 30, 2012 and 2011 are summarized in the following table (in thousands, except percentages):

| | Three Months Ended April 30, | | | | Six Months Ended April 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | Net Change | Percentage Change | 2012 | 2011 | Net Change | Percentage Change |
| Sales and marketing Expenses | $46,141 | $31,139 | $15,002 | 48.2 % | 86,127 | 59,445 | 26,682 | 44.9 % |
| Percentage of net revenues | 9.8 % | 10.6 % | | | 9.7 % | 10.3 % | | |

Sales and marketing expenses for the three months ended April 30, 2012 increased $15 million, or 48.2%, compared to the three months ended April 30, 2011. This increase was primarily due to a $10 million increase in personnel related expenses and facilities costs associated with headcount growth from acquired businesses and hiring to support general business growth and the launch of new products and initiatives. In addition, sales and marketing expenses increased $3 million due to increased expenses for travel, and marketing programs as our business expands globally.

Sales and marketing expenses for the six months ended April 30, 2012 increased $27 million, or 44.9%, compared to the six months ended April 30, 2011. This increase was primarily due to an $18 million increase in personnel related expenses and facilities costs associated with headcount growth from acquired businesses and hiring to support general business growth and the launch of new products and initiatives. In addition, sales and marketing expenses increased $5 million due to increased expenses for travel, and marketing programs, and $2 million due to increased stock-based compensation.

We expect sales and marketing expenses, assuming a stable currency environment, to grow in absolute amounts as the result of the additional costs of businesses acquired during 2012, and, as required, to launch and support new business initiatives.