VERIFONE SYSTEMS, INC.
Form 10-Q
March 12, 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 January 31, 2012

Or

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

Commission file number: 001-32465

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

| | |
|---|---|
| Delaware | 04-3692546 |
| (State or other jurisdiction of 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 February 29, 2012, the number of shares outstanding of the registrant's common stock, $0.01 par value was 106,700,887.

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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 January 31, | |
|---|---|---|
| | 2012 | 2011 |
| | (Unaudited) (In thousands, except per share data) | |
| Net revenues: | | |
| System Solutions | $312,641 | $225,707 |
| Services | 106,883 | 58,058 |
| Total net revenues | 419,524 | 283,765 |
| Cost of net revenues: | | |
| System Solutions | 198,752 | 140,140 |
| Services | 64,134 | 32,134 |
| Total cost of net revenues | 262,886 | 172,274 |
| Gross profit | 156,638 | 111,491 |
| Operating expenses: | | |
| Research and development | 35,079 | 21,642 |
| Sales and marketing | 39,986 | 28,306 |
| General and administrative | 46,038 | 24,016 |
| Amortization of purchased intangible assets | 13,615 | 2,316 |
| Total operating expenses | 134,718 | 76,280 |
| Operating income | 21,920 | 35,211 |
| Interest expense | (14,634) | (7,570) |
| Interest income | 1,007 | 283 |
| Other income (expense), net | (21,198) | 1,651 |
| Income (loss) before income taxes | (12,905) | 29,575 |
| Benefit from income taxes | (9,782) | (2,456) |
| Net income (loss) | (3,123) | 32,031 |
| (Income) loss attributable to noncontrolling interest in subsidiaries | 350 | (76) |
| Net income (loss) attributable to VeriFone Systems, Inc. stockholders | $(2,773) | $31,955 |
| Net income (loss) per share attributable to VeriFone Systems, Inc. stockholders: | | |
| Basic | $(0.03) | $0.37 |
| Diluted | $(0.03) | $0.35 |
| Weighted average shares used in computing net income (loss) per share attributable to VeriFone Systems, Inc. stockholders: | | |
| Basic | 105,833 | 87,090 |
| Diluted | 105,833 | 91,321 |

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

| | January 31, 2012 (Unaudited) | October 31, 2011* |
|---|---|---|
| | (In thousands, except par value) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $379,979 | $594,562 |
| Accounts receivable, net of reserves of $5,613 and $5,658 | 302,559 | 294,440 |
| Inventories | 171,414 | 144,316 |
| Restricted cash and cash equivalents | 279,965 | 4 |
| Deferred income tax assets | 40,607 | 39,040 |
| Prepaid expenses and other current assets | 106,510 | 88,086 |
| Total current assets | 1,281,034 | 1,160,448 |
| Property, plant and equipment, net | 77,884 | 65,504 |
| Purchased intangible assets, net | 828,952 | 263,767 |
| Goodwill | 1,203,287 | 561,414 |
| Deferred tax assets | 221,404 | 205,496 |
| Debt issuance costs, net | 40,998 | 2,749 |
| Other assets | 94,639 | 54,183 |
| Total assets | $3,748,198 | $2,313,561 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $152,279 | $144,278 |
| Income taxes payable | 9,066 | 9,116 |
| Accrued compensation | 49,697 | 51,515 |
| Accrued warranty | 17,055 | 20,358 |
| Deferred revenue, net | 97,715 | 68,824 |
| Deferred tax liabilities | 9,297 | 4,960 |
| Accrued expenses | 80,690 | 74,775 |
| Other current liabilities | 88,188 | 57,399 |
| Senior convertible notes | 271,080 | 266,981 |
| Short-term debt | 53,191 | 5,074 |
| Total current liabilities | 828,258 | 703,280 |
| Deferred revenue, net | 33,178 | 31,467 |
| Long-term debt | 1,313,175 | 211,756 |
| Deferred tax liabilities | 243,801 | 92,594 |
| Other long-term liabilities | 75,435 | 78,971 |
| Total liabilities | 2,493,847 | 1,118,068 |
| Commitments and contingencies (Note 13) | | |
| Redeemable noncontrolling interest | 900 | 855 |
| Stockholders' equity: | | |
| VeriFone Systems, Inc. stockholders' equity: | | |
| Preferred Stock: 10,000 shares authorized as of January 31, 2012 and October 31, 2011; no shares issued and outstanding as of January 31, 2012 and October 31, 2011 | — | — |
| Common stock: $0.01 par value, 200,000 shares authorized as of January 31, 2012 and October 31, 2011; 106,488 and 105,826 shares issued and 106,359 and 105,697 | 1,065 | 1,058 |

| | | |
|---|---|---|
| outstanding as of January 31, 2012 and October 31, 2011 | | |
| Additional paid-in capital | 1,486,477 | 1,468,862 |
| Accumulated deficit | (272,179) | (269,056) |
| Accumulated other comprehensive loss | 329 | (6,671) |
| Total VeriFone Systems, Inc. stockholders’ equity | 1,215,692 | 1,194,193 |
| Noncontrolling interests in subsidiaries | 37,759 | 445 |
| Total stockholders' equity | 1,253,451 | 1,194,638 |
| Total liabilities and equity | $3,748,198 | $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

| | Three Months Ended January 31, 2012 | 2011 |
|---|---|---|
| | (Unaudited) (In thousands) | |
| OPERATING ACTIVITIES: | | |
| Net income (loss) | $(3,123) | $32,031 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization, net | 31,859 | 9,485 |
| Stock-based compensation expense | 10,704 | 7,439 |
| Non-cash interest expense | 6,227 | 3,818 |
| Gain on bargain purchase of a business | — | (1,476) |
| Deferred income taxes | (8,490) | (319) |
| Other non-cash items | (1,455) | (178) |
| Net cash provided by operating activities before changes in working capital | 35,722 | 50,800 |
| Changes in operating assets and liabilities, excluding effects of acquisitions: | | |
| Accounts receivable, net | 17,154 | (13,299) |
| Inventories | (1,994) | 5,474 |
| Prepaid expenses and other current assets | (10,694) | (15,323) |
| Accounts payable | (10,913) | 5,263 |
| Income taxes payable | (2,418) | 2,744 |
| Accrued compensation | (15,258) | (4,469) |
| Accrued warranty | (3,996) | 1,999 |
| Deferred revenue, net | 28,589 | (664) |
| Accrued expenses and other current liabilities | (4,024) | (2,116) |
| Net cash provided by operating activities | 32,168 | 30,409 |
| INVESTING ACTIVTIES: | | |
| Purchases of property, plant and equipment | (7,289) | (2,315) |
| Cash payments for acquisitions, net of cash acquired | (1,067,517) | (9,730) |
| Other | (714) | (261) |
| Net cash used in investing activities | (1,075,520) | (12,306) |
| FINANCING ACTIVITES: | | |
| Proceeds from debt, net of issuance costs | 1,409,177 | — |
| Repayments of debt | (307,760) | (1,358) |
| Proceeds from issuance of common stock through equity incentive plans | 8,812 | 16,678 |
| Restricted cash and cash equivalents held in escrow for debt repayment | (279,159) | — |
| Other | (135) | — |
| Net cash provided by financing activities | 830,935 | 15,320 |
| Effect of exchange rate fluctuations on cash and cash equivalents | (2,166) | 607 |
| Change in cash and cash equivalents | (214,583) | 34,030 |
| Beginning cash and cash equivalents | 594,562 | 445,137 |
| Ending cash and cash equivalents | $379,979 | $479,167 |

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 January 31, 2012 and October 31, 2011, and for the three months ended January 31, 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 months ended January 31, 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 footnote amounts reported 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 three months ended January 31, 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 that debt issuance costs are now material.
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

January 31, 2012, interest amortization periods range from 5 to 7 years based upon the duration of outstanding debt.
Concentrations of Credit Risk

No customer accounted for more than 10% of net revenues in any of our reportable segments during the three months

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ended January 31, 2012. For the three months ended January 31, 2011, First Data and its affiliates accounted for 15.7% of North America segment revenues. As of January 31, 2012, no customer accounted for more than 10% of accounts receivable. 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 and will have financial statement presentation impact only.

There have been no other significant changes in accounting pronouncements from the list of recent accounting pronouncements described in our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2011.

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 payoff of Point outstanding debt ($1,024.5 million at the close date). 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 months ended January 31, 2012, we estimate that our total net revenues increased approximately $14.5 million due to the sale of Point products and services. For the three months ended January 31, 2012, the acquisition of Point negatively impacted our operating income by approximately $6.1 million 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 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 method of accounting requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. Because of the short time frame since the acquisition closed, at January 31, 2012 we recorded the net tangible and intangible assets acquired and liabilities assumed based upon their preliminary fair values as of December 30, 2011. 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 relate to the fair values of acquired assets and liabilities, certain legal matters, certain 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 of the net assets acquired at the acquisition date during the measurement period.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition

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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 $25.1 million, of which $0.6 million not expected to be collected) | 24,505 |
| Inventories | 25,104 |
| Deferred tax assets | 13,235 |
| Prepaid expense and other assets | 44,288 |
| Property, plant and equipment | 11,152 |
| Intangible assets | 550,512 |
| Accounts payable and other liabilities | (72,464) |
| Deferred revenues | (1,387) |
| Deferred tax liabilities | (153,222) |
| Noncontrolling interests | (37,132) |
| Total identifiable net assets | 429,905 |
| Goodwill | 594,627 |
| Total consideration transferred | $1,024,532 |

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. The assignment of goodwill to reporting units has not been completed as of this filing date.

The fair value of the noncontrolling interest in a Point subsidiary of $37.1 million was estimated by employing an income approach. The fair value estimate was based on (i) an assumed discount rate of 16% 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 | $484,399 | 9.5 |
| Developed software technology | 52,528 | 4.4 |
| Trade names | 13,585 | 4.0 |
| Total | $550,512 | |

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.

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:

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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.

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- 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 likely buyer.

- 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 0% to 7% depending on the geographic region. The estimated life of developed software technology intangible assets ranged from 2 years to 10 years. All of these judgments and estimates can materially impact the fair values of intangible assets.

Preliminary Pre-Acquisition Contingencies Assumed

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.

Other Fiscal Year 2012 Acquisitions

During the three months ended January 31, 2012, in addition to Point, we completed the acquisitions of other businesses for an aggregate purchase price of $75.0 million. 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 following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. As discussed above, fair values assigned to certain assets acquired and liabilities assumed are preliminary and thus subject to change (in thousands):

| | ChargeSmart | Show Media | Global Bay | Total |
|---|---|---|---|---|
| Acquisition date | January 3, 2012 | November 1, 2011 | November 1, 2011 | |
| Assets acquired (liabilities assumed), net | $ (4,225) | $ 1,593 | $ (5,028) | $ (7,660) |
| Intangible assets (1) | 9,770 | 6,660 | 14,490 | 30,920 |
| Goodwill (2) | 13,829 | 19,871 | 18,050 | 51,750 |
| Total purchase price | $ 19,374 | $ 28,124 | $ 27,512 | $ 75,010 |

Explanatory notes:

(1) Intangible assets included developed technology, customer relationships, non-compete agreement, trademarks and in process research and development of $19.7 million, $6.6 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 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.

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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 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 months ended January 31, 2012, we estimate that our total net revenues increased approximately $73.5 million due to the sale of Hypercom products and services. Other revenue 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 VeriFone stock issues, $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 $363.5 million of goodwill, $210.7 million of intangible assets and $70.3 million net tangible assets. There were no material changes to the fair values assigned for the three months ended January 31, 2012.
The primary areas of the preliminary fair values that are not yet finalized related to the fair values of certain tangible assets and liabilities assumed, 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 month period ended January 31, 2012 and 2011 on a comparative basis as though the aforementioned companies were combined as of the beginning of fiscal year 2011. The historical financial information has been adjusted to give effect to the pro forma events that are: (i) directly attributable to the acquisition, (ii) factually supportable and (iii) expected to have a continuing impact on the combined results. These adjustments for the three months ended January 31, 2012 and 2011, include:.

- Net additional amortization expense related to the fair value of acquired identifiable intangible assets totaling $7.2 million and $26.9 million, respectively.

- Additional interest expense of $4.1 million and $1.9 million, 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,

- Elimination of other charges that would not have a continuing impact on combined results, such as deal costs, one time professional fees, foreign currency losses related to deal consideration and amortization of FMV adjustments, totaling $40.6 million and $2.3 million, respectively.

The supplemental pro forma financial information for the three months ended January 31, 2012 combined the historical results of VeriFone for the three months ended January 31, 2012, the historical results of Point and ChargeSmart for the two months ended December 31, 2011, and the effects of the pro forma adjustments listed above.

The supplemental pro forma financial information for the three months ended January 31, 2011 combined the historical results of VeriFone for three months ended January 31, 2011, the historical results of all fiscal year 2011 and fiscal year 2012 acquired businesses for the three months ended January 31, 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):

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| (Unaudited) | For the Three Months Ended January 31, 2012 | 2011 |
|---|---|---|
| Total revenues | $463,215 | $461,061 |
| Net income | $17,123 | $6,590 |
| Net income per share attributable to VeriFone Systems, Inc. stockholders - diluted | $0.16 | $0.06 |

Acquisition-related Costs

Acquisition related and other expenses 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 and other expenses for the three months ended January 31, 2012 as follows (in thousands):

| | Transaction Costs | | Integration Costs | Total |
|---|---|---|---|---|
| Cost of net revenues | $— | 34 | $2,368 | $2,368 |
| Research and development | — | 17 | 1,859 | 1,859 |
| Sales and marketing | 118 | | 777 | 895 |
| General and administrative | 6,934 | 17,711 | 5,568 | 12,502 |
| | $7,052 | | $10,572 | $17,624 |

The following table presents a summary of acquisition related and other expenses for the three months ended January 31, 2011 as follows (in thousands):

| | Transaction Costs | | Integration Costs | Total |
|---|---|---|---|---|
| Cost of net revenues | $— | 34 | $21 | $21 |
| Research and development | 1 | 17 | 3 | 4 |
| Sales and marketing | 82 | | 15 | 97 |
| General and administrative | 2,661 | 17,711 | 98 | 2,759 |
| | $2,744 | | $137 | $2,881 |

Note 3. Goodwill and Purchased Intangible Assets

Goodwill

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

| | Three Months Ended January 31, 2012 | Year Ended October 31, 2011 |
|---|---|---|
| Balance at October 31, 2011 | $561,414 | $169,322 |
| Additions related to acquisitions | 646,377 | 392,723 |
| Adjustments related to prior acquisitions | (3,129) | 622 |
| Currency translation adjustments | (1,375) | (1,253) |
| Balance at January 31, 2012 | $1,203,287 | $561,414 |

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

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As of both January 31, 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):

| | January 31, 2012 | | | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Weighted-Average Useful Life |
| Customer relationships | $687,578 | $(32,666) | $654,912 | 8.4 |
| Developed and core technology | $254,321 | $(119,127) | $135,194 | 4.2 |
| In-process research and development | 19,304 | — | 19,304 | Indefinite |
| Trade name | 17,489 | (1,288) | 16,201 | 4.0 |
| Internal use software | 3,031 | (2,615) | 416 | 3.6 |
| Non-Compete | 3,000 | (75) | 2,925 | 10.0 |
| | $984,723 | $(155,771) | $828,952 | |

| | October 31, 2011 | | | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Weighted-Average Useful Life |
| 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 |
| Customer relationships | 185,872 | (16,615) | 169,257 | 5.5 |
| | $397,809 | $(134,042) | $263,767 | |

Amortization of purchased intangible assets for the three months ended January 31, 2012 and 2011 was allocated as follows (in thousands):

| | Three Months Ended January 31, | |
|---|---|---|
| | 2012 | 2011 |
| Included in cost of net revenues | $8,489 | $4,859 |
| Included in general and administrative expenses | 13,615 | 2,316 |
| | $22,104 | $7,175 |

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 January 31, 2012, is estimated as follows (in thousands):

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| Fiscal Years Ending October 31: | Cost of Net Revenues | Operating Expenses | Total |
|---|---|---|---|
| Remainder of fiscal 2012 | $31,082 | $70,356 | $101,438 |
| 2013 | 38,869 | 91,240 | 130,109 |
| 2014 | 38,013 | 90,652 | 128,665 |
| 2015 | 17,409 | 89,395 | 106,804 |
| 2016 | 10,031 | 84,515 | 94,546 |
| Thereafter | 1,632 | 246,468 | 248,100 |
| | $137,036 | $672,626 | $809,662 |

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, $279.2 million was deposited in the escrow account and reported as short-term Restricted cash and cash equivalents in our Condensed Consolidated Balance Sheets.

We had $7.6 million and $4.8 million of long-term restricted cash as of January 31, 2012 and October 31, 2011, respectively, consisting mainly of pledged deposits for bank guarantees to customers and borrowings, which was included in Other assets in the Condensed Consolidated Balance Sheets.

Inventories

Inventories consisted of the following (in thousands):

| | January 31, 2012 | October 31, 2011 |
|---|---|---|
| Raw materials | $43,244 | $37,216 |
| Work-in-process | 456 | 859 |
| Finished goods | 127,714 | 106,241 |
| Total inventories | $171,414 | $144,316 |

Prepaid Expenses and Other Current Assets

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

| | January 31, 2012 | October 31, 2011 |
|---|---|---|
| Prepaid taxes | $37,608 | $18,490 |
| Other prepaid expenses | 37,958 | 34,111 |
| Assets held for sale | 4,148 | — |
| Investments in equity securities and warrants | 5,988 | 6,132 |
| Receivables from sales of Hypercom divested businesses | 7,082 | 13,984 |
| Sales-type lease receivables | 4,547 | 3,340 |
| Other receivables | 6,707 | 9,696 |
| Other current assets | 2,472 | 2,333 |
| Total prepaid expenses and other current assets | $106,510 | $88,086 |

Accrued Warranty

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

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| | Three Months Ended January 31, 2012 | Year Ended October 31, 2011 |
|---|---|---|
| Balance at beginning of period | $22,032 | $12,747 |
| Warranty charged to cost of net revenues | 3,083 | 17,888 |
| Utilization of warranty accrual | (5,889) | (16,573) |
| Acquired warranty obligations | 348 | 7,139 |
| Change in estimates | (1,142) | 831 |
| Balance at end of period | 18,432 | 22,032 |
| Less current portion | (17,055) | (20,358) |
| Long-term portion | $1,377 | $1,674 |

Deferred Revenue, net

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

| | January 31, 2012 | October 31, 2011 |
|---|---|---|
| Deferred revenue | $145,949 | $113,154 |
| Deferred cost of revenue | (15,056) | (12,863) |
| | 130,893 | 100,291 |
| Less current portion | (97,715) | (68,824) |
| Long-term portion | $33,178 | $31,467 |

Other Current Liabilities

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

| | January 31, 2012 | October 31, 2011 |
|---|---|---|
| Accrued liabilities for contingencies | $44,429 | $30,561 |
| Deferred acquisition consideration payable - current portion | 27,974 | 5,681 |
| Restructuring liabilities - current portion | 2,192 | 5,137 |
| Unfavorable lease contracts accrual | 3,028 | 3,793 |
| Customer deposits | 4,468 | 4,501 |
| Other current liabilities | $6,097 | $7,726 |
| Total other current liabilities | $88,188 | $57,399 |

Other Long-Term Liabilities

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

| | January 31, 2012 | October 31, 2011 |
|---|---|---|
| Other tax liabilities | $44,165 | $51,918 |
| Retirement and pension obligations | 9,927 | 10,292 |
| Deferred acquisition consideration payable - non-current portion | 7,976 | 5,125 |
| Accrued warranties | 1,377 | 1,674 |
| Other liabilities | 11,990 | 9,962 |
| Total other long-term liabilities | $75,435 | $78,971 |

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Noncontrolling Interests in Subsidiaries

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

| | January 31, 2012 | October 31, 2011 |
|---|---|---|
| Noncontrolling interests in subsidiaries at beginning of period | $445 | $572 |
| Additions due to acquisitions | 37,132 | — |
| Distributions to owners | (135) | (418) |
| Net income attributable to noncontrolling interests in subsidiaries, net | 317 | 291 |
| Noncontrolling interests in subsidiaries at end of period | $37,759 | $445 |

Other Income (Expense), net

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

| | Three Months Ended January 31, | |
|---|---|---|
| | 2012 | 2011 |
| Foreign currency exchange (losses), net | $(21,005) | $(259) |
| Gain on bargain purchase of a business, net | — | 1,476 |
| Other income (expense), net | (193) | 434 |
| Total other income (expense), net | $(21,198) | $1,651 |

We recorded a $22.5 million foreign currency loss in the three months ended January 31, 2012 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 offset by a $1.5 million gain on the currency we held from the date of the derivative settlement until the funds were transfered to purchase Point.

Note 5. Financings

Our financings as of January 31, 2012 and October 31, 2011 consisted of the following (in thousands):

| | January 31, 2012 | October 31, 2011 |
|---|---|---|
| 2011 Credit Agreement | | |
| Term A loan | $918,500 | $— |
| Term B loan | 231,500 | — |
| Revolving loan | 210,000 | — |
| 2006 Credit Agreement - Term B loan | — | 216,250 |
| Senior convertible notes | 271,080 | 266,981 |
| Point overdraft facility | 4,620 | — |
| Other | 1,746 | 580 |
| Total borrowings | 1,637,446 | 483,811 |
| Short-term debt | (324,271) | (272,055) |
| Long-term debt | $1,313,175 | $211,756 |

2011 Credit Agreement

A syndicate of banks has committed to provide VeriFone, Inc., our main operating subsidiary, up to 1.5 billion, of which $1.45 billion was funded at December 28, 2011 (the "Effective Date"), under the 2011 Credit Agreement. The loans,

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supplemented by our cash on hand, funded the acquisition of Point, repaid our existing Term B Loan and funded an escrow account to pay the interest and principal of the 1.375% Senior Convertible Notes due June 2012.

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

- The 2011 Credit Agreement is made up of a Term A loan, a Term B loan and a Revolving loan. The Term A loan is in the amount of $918.5 million, the Term B loan is in the amount of $231.5 million, and the Revolving loan is in the amount of $350.0 million.

- At VeriFone, Inc.'s option, the Term A loan, Term B loan and the Revolving loan bear interest at a “Base Rate” or “Eurodollar Rate” plus an applicable margin. 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 and is initially 1.75%. For the Base Rate Term B loan, the margin varies between 2.00% to 2.25% depending upon our consolidated leverage ratio and is initially 2.25% with a minimum LIBOR 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 and is initially 2.75%. The margin for the Eurodollar Rate Term B loan varies between 3.00% to 3.25% depending upon our consolidated leverage ratio and is initially 3.25% with a minimum LIBOR floor rate of 1.00%.

- The terms of the 2011 Credit Agreement require VeriFone, Inc. to comply with financial covenants from January 31, 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 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 thereafter. 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.

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- VeriFone, Inc. will pay an undrawn commitment fee ranging from 0.25% to 0.50% (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, in connection with entering into the 2011 Credit Agreement, VeriFone, Inc. repaid in full all outstanding loans, together with interest and all other amounts due in connection with such repayment under the credit agreement entered into on October 31, 2006 totaling an aggregate of $216.8 million, and terminated that agreement. 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. As a result, $279.2 million, which includes interest payable at maturity, was deposited in the escrow account, which was reported as short-term Restricted Cash in our Condensed Consolidated Balance Sheets related to this escrow.

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 January 31, 2012:
- The Term A and Revolving loan bore interest at 3.05% which was one month LIBOR plus 2.75% margin;
- The Term B loan bore interest at 4.25%which was the higher of LIBOR or 1.00% plus 3.25% margin.

As of January 31, 2012 interest margins are 2.75% for the Term A loan and the Revolving loan, and 3.25% for the Term B loan.

We were in compliance with all financial covenants as of January 31, 2012.
1.375% 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 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.

Holders of the Notes may convert their Notes prior to maturity during specific periods upon certain events described in Note 5. Financings of Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended October 31, 2011. As of January 31, 2012, none of these conditions had been met. If a fundamental change, as defined in the

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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.

As of January 31, 2012, our stock price was less than the conversion price of $44.02, hence the if-converted value of the Notes did not exceed the principal amount.

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.

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 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 January 31, 2012, we had repurchased and extinguished $38.9 million in aggregate principal amount of our outstanding Notes. As of January 31, 2012, the remaining principal amount of the outstanding Notes was $277.3 million.

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

| | January 31, 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) | (6,170) | (10,269) |
| Net carrying amount | $271,080 | $266,981 |

(1) As of January 31, 2012, the remaining period over which the unamortized debt discount will be amortized is 5 months.

A summary of interest expense and interest rate on the liability component related to the Notes for the three months ended January 31, 2012 and 2011 is as follows (in thousands, except percentages):

| | Three Months Ended January 31, | |
|---|---|---|
| | 2012 | 2011 |
| Interest rate on the liability component | 7.6 % | 7.6 % |
| Interest expense related to contractual interest coupon | $961 | $953 |
| Interest expense related to amortization of debt discount | 4,099 | 3,805 |
| Total interest expense recognized | $5,060 | $4,758 |

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 January 31, 2012 and October 31, 2011.

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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 Kroner ("SEK") 60.0 million (approximately $8.9 million). The interest rate is the bank's published rate plus a margin of 2.55%. At January 31, 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 January 31, 2012, SEK 31.1 million (approximately $4.6 million) was outstanding and SEK 28.9 million (approximately $4.3 million) was available.

Principal Payments

Principal payments due for financings over the next five years are as follows (in thousands):

| Fiscal Years Ending October 31: | |
|---|---|
| 2012 (Remainder of the fiscal year) | $313,485 |
| 2013 | 53,333 |
| 2014 | 82,710 |
| 2015 | 94,182 |
| 2016 | 163,071 |
| Thereafter | 936,835 |
| | $1,643,616 |

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 three months ended January 31, 2012. The following table presents our assets and liabilities that were measured at fair value on a recurring basis as of January 31, 2012 and October 31, 2011, classified by the level within the fair value hierarchy (in thousands):

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| | January 31, 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) | $58,571 | $58,571 | $— | $— |
| Marketable equity investment (2) | 5,350 | 5,350 | — | — |
| Israeli severance funds (3) | 2,004 | — | 2,004 | — |
| Equity warrants (4) | 633 | — | 633 | — |
| Foreign exchange forward contracts (5) | 1 | — | 1 | — |
| Assets held for sale (6) | 4,148 | — | 4,148 | — |
| Total assets measured and recorded at fair value | $70,707 | $63,921 | $6,786 | $— |
| Liabilities | | | | |
| Acquisition related earn-out payables (7) | $25,826 | $— | $— | $25,826 |
| Foreign exchange forward contracts (5) | 415 | — | 415 | — |
| Total liabilities measured and recorded at fair value | $26,241 | $— | $415 | $25,826 |

| | October 31, 2011 | |
|---|---|---|
| | Carrying Value | Quoted Price in |