VERIFONE SYSTEMS, INC.
Form 10-Q
March 11, 2016
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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, 2016

Or

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

Commission file number: 001-32465
VERIFONE SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on February 29, 2016

Class	Number of shares
Common Stock, $0.01 par value per share	110,201,092

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PART I — FINANCIAL INFORMATION

PART I — FINANCIAL INFORMATION

ITEM 1.FINANCIAL STATEMENTS (Unaudited)

VERIFONE SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended January 31,	
	2016	2015
	(Unaudited, in thousands, except per share data)	
Net revenues:		
Systems	$337,592	$313,400
Services	175,947	172,826
Total net revenues	513,539	486,226
Cost of net revenues:		
Systems	194,805	185,668
Services	103,449	101,388
Total cost of net revenues	298,254	287,056
Total gross margin	215,285	199,170
Operating expenses:		
Research and development	51,668	48,903
Sales and marketing	54,949	57,410
General and administrative	52,826	47,350
Amortization of purchased intangible assets	19,626	22,332
Total operating expenses	179,069	175,995
Operating income	36,216	23,175
Interest expense, net	(8,304)	(7,895)
Other income (expense), net	(2,180)	243
Income before income taxes	25,732	15,523
Income tax provision	1,999	1,395
Consolidated net income	23,733	14,128
Net income attributable to noncontrolling interests	(232)	(280)
Net income attributable to VeriFone Systems, Inc. stockholders	$23,501	$13,848
Net income per share attributable to VeriFone Systems, Inc. stockholders:		
Basic	$0.21	$0.12
Diluted	$0.21	$0.12
Weighted average number of shares used in computing net income per share attributable to VeriFone Systems, Inc. stockholders:		
Basic	111,266	113,443
Diluted	112,351	115,479

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

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VERIFONE SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended January 31,	
	2016	2015
	(Unaudited, in thousands)	
Consolidated net income	$23,733	$14,128
Other comprehensive loss:		
Foreign currency translation adjustments	(38,229)	(133,904)
Unrealized gain (loss) on derivatives designated as cash flow hedges		
Change in unrealized loss on derivatives designated as cash flow hedges, net of tax	(1,687)	(4,187)
Amounts reclassified from Accumulated other comprehensive loss, net of tax	1,162	700
Net change in unrealized loss on derivatives designated as cash flow hedges	(525)	(3,487)
Net change in other	26	27
Other comprehensive loss	(38,728)	(137,364)
Total comprehensive loss	(14,995)	(123,236)
Less: net income attributable to noncontrolling interests	(232)	(280)
Comprehensive loss attributable to VeriFone Systems, Inc. stockholders	$(15,227)	$(123,516)

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

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VERIFONE SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	January 31, 2016	October 31, 2015
	(Unaudited, in thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$185,732	$208,870
Accounts receivable, net of allowances of $9,710 and $8,752, respectively	356,246	361,988
Inventories	136,716	129,716
Prepaid expenses and other current assets	118,615	81,690
Total current assets	797,309	782,264
Property and equipment, net	203,338	190,965
Purchased intangible assets, net	339,255	317,517
Goodwill	1,095,900	1,084,031
Long-term deferred tax assets, net	34,287	35,896
Other long-term assets	71,093	62,389
Total assets	$2,541,182	$2,473,062
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$185,293	$189,354
Accruals and other current liabilities	220,124	229,900
Deferred revenue, net	92,088	82,899
Short-term debt	49,322	39,088
Total current liabilities	546,827	541,241
Long-term deferred revenue, net	58,259	55,322
Long-term deferred tax liabilities, net	112,868	102,921
Long-term debt	883,214	760,241
Other long-term liabilities	83,304	78,896
Total liabilities	1,684,472	1,538,621
Commitments and contingencies		
Stockholders' equity:		
Preferred stock: $0.01 par value, 10,000 shares authorized, no shares issued and outstanding	—	—
Common stock: $0.01 par value, 200,000 shares authorized, 110,164 and 112,684 shares issued and outstanding as of January 31, 2016 and October 31, 2015, respectively	1,102	1,125
Additional paid-in capital	1,737,174	1,726,416
Accumulated deficit	(585,557)	(535,716)
Accumulated other comprehensive loss	(331,049)	(292,321)
Total VeriFone Systems, Inc. stockholders' equity	821,670	899,504
Noncontrolling interests in subsidiaries	35,040	34,937
Total equity	856,710	934,441
Total liabilities and equity	$2,541,182	$2,473,062

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

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VERIFONE SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended January 31,	
	2016	2015
	(Unaudited, in thousands)	
Cash flows from operating activities		
Consolidated net income	$23,733	$14,128
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization, net	40,463	44,362
Stock-based compensation expense	10,460	12,155
Deferred income taxes, net	(2,775)	(2,258)
Other	3,547	10,913
Net cash provided by operating activities before changes in operating assets and liabilities	75,428	79,300
Changes in operating assets and liabilities:		
Accounts receivable, net	10,491	9,406
Inventories	(8,254)	(19,130)
Prepaid expenses and other assets	(12,018)	(6,295)
Accounts payable	(4,239)	(11,553)
Deferred revenue, net	15,138	7,750
Other current and long-term liabilities	(13,385)	(18,389)
Net change in operating assets and liabilities	(12,267)	(38,211)
Net cash provided by operating activities	63,161	41,089
Cash flows from investing activities		
Capital expenditures	(30,605)	(19,575)
Acquisition of businesses, net of cash acquired	(98,739)	—
Other investing activities, net	(222)	25
Net cash used in investing activities	(129,566)	(19,550)
Cash flows from financing activities		
Proceeds from debt, net of issuance costs	222,378	10,000
Repayments of debt	(93,011)	(30,080)
Proceeds from issuance of common stock through employee equity incentive plans	998	3,875
Stock repurchases	(79,866)	—
Other financing activities, net	(289)	(194)
Net cash provided by (used in) financing activities	50,210	(16,399)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(6,943)	(14,691)
Net decrease in cash and cash equivalents	(23,138)	(9,551)
Cash and cash equivalents, beginning of period	208,870	250,187
Cash and cash equivalents, end of period	$185,732	$240,636

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

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

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

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of VeriFone Systems, Inc. and our wholly-owned and majority-owned subsidiaries and have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions on Form 10-Q pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. The Condensed Consolidated Balance Sheet at October 31, 2015 has been derived from the audited Consolidated Balance Sheet at that date. All significant inter-company accounts and transactions have been eliminated. In accordance with the rules and regulations, we have omitted certain information and notes normally provided in our annual consolidated financial statements. In the opinion of management, the unaudited Condensed Consolidated Financial Statements contain all adjustments, consisting only of normal recurring items, necessary for the fair presentation of our financial position and results of operations for the interim periods. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2015. The results of operations for the three months ended January 31, 2016 are not necessarily indicative of the results expected for the entire fiscal year.

During December 2015, our Chief Executive Officer realigned the company to focus on two global product lines: Verifone Systems and Verifone Services. Verifone Systems delivers point of sale electronic payment devices that run our unique operating systems, security and encryption software, and certified payment software for both payments and commerce. Verifone Services delivers device related leasing and maintenance, payment transaction routing and reporting, and commerce based services such as advertising on digital screens. As a result of this organizational change, our reportable segments shifted from geographic-based segments to two global product segments. We determine our operating segments considering our overall management structure, how forecasts are approved, how executive compensation is determined, our organizational chart, as well as how our Chief Executive Officer, who is our chief operating decision maker, regularly reviews our operating results, assesses performance, allocates resources, and makes decisions regarding VeriFone's operations. Our reportable segments are the same as our operating segments. All prior period amounts reported by geographic segment have been reclassified to conform to the current presentation. See Note 12, Segment and Geographic Information, in the Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q for additional information.

Use of Estimates

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

Significant Accounting Policies

During the three months ended January 31, 2016, there have been no changes in our significant accounting policies as described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2015.

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

Concentrations of Credit Risk

For the three months ended January 31, 2016 and 2015, no single customer accounted for more than 10% of our total Net revenues. As of January 31, 2016 and October 31, 2015 no single customer accounted for more than 10% of our total Accounts receivable, net.

Recent Accounting Pronouncements

During May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, as amended by ASU 2015-14 on July 9, 2015, which provides new guidance on the recognition of revenue and states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted as of reporting periods beginning after December 15, 2016. We are currently evaluating our adoption timing, the transition method we will use and the impact of this new pronouncement on our consolidated financial position and results of operations.

During January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities, which provides new guidance on the recognition, measurement, presentation, and disclosure of financial assets and liabilities. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted only for certain provisions. We are currently in the process of evaluating the impact of this new pronouncement on our consolidated financial position and results of operations.

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

Note 2. Business Combinations

Fiscal Year 2016 Acquisition

On December 23, 2015, we acquired InterCard AG, a leading Payment-as-a-Service provider in Germany, in exchange for 85.0 million Euro in cash paid on the acquisition date (approximately $92.4 million at the foreign exchange rate on the acquisition date) plus 1.2 million Euro (approximately $1.3 million at the foreign exchange rate as of January 31, 2016), that will be paid in the second quarter of fiscal 2016. The acquisition was accounted for using the acquisition method of accounting, and the results of InterCard are included in our financial results as of the acquisition date. We acquired InterCard to expand our Payment-as-a-Service offerings in Germany. Tangible assets acquired, net of liabilities assumed, totaled $3.5 million. Purchased intangible assets, which have a weighted-average amortization useful life of 8.7 years, totaled $42.7 million related to customer relationships, $7.8 million related to developed and core technology, and $2.2 million related to other intangible assets. Goodwill from the acquisition totaled $37.6 million and was assigned to our Verifone Services reportable segment. The goodwill recognized will not be deductible for income tax purposes. Because of the short time frame since the acquisition closed, at January 31, 2016 we recorded some acquired assets and liabilities assumed based upon their preliminary fair values as of December 23, 2015. The primary areas of the preliminary purchase price allocation that have not yet finalized are the fair value related to certain receivables, employee compensation accruals, income tax and non-income based taxes.

On February 2, 2016, we acquired AJB Software Design Inc., a Toronto-based provider of payment gateway and switching solutions for large merchants in the U.S. and Canada, for approximately $79.5 million in cash, subject to certain upward adjustments, including the payment of additional contingent consideration of up to $10.0 million in cash upon the achievement of earn-out milestones. This acquisition will be accounted for using the acquisition method of accounting. Prior to the acquisition, during January 2016, we signed an agreement pursuant to which we deposited $10.0 million in escrow pending the deal closure. The escrow amount was included in Prepaid and Other Current Assets at January 31, 2016. We acquired AJB Software to expand our suite of services offerings. The results of operations for AJB Software will be included in our financial results effective February 2, 2016.

Fiscal Year 2015 Acquisitions

In fiscal year 2015, we completed five business combinations for consideration totaling $29.6 million, including $22.1 million of cash paid on the relevant acquisition date, $5.7 million in future consideration and contingent consideration with a fair value of $1.8 million at the relevant acquisition date. Each acquisition was accounted for using the acquisition method of accounting. These acquisitions were completed to augment our existing service offerings. Purchased intangible assets totaled $9.0 million related to developed and core technology, $2.8 million related to customer relationships, and $0.5 million related to other intangible assets. Goodwill from these acquisitions totaled $16.6 million, of which $5.1 million will be deductible for income tax purposes. None of these business combinations closed in the three months ended January 31, 2015.

Note 3. Net Income per Share of Common Stock

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

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

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

	Three Months Ended January 31,	
	2016	2015
Basic and diluted net income per share attributable to VeriFone Systems, Inc. stockholders:		
Numerator:		
Net income attributable to VeriFone Systems, Inc. stockholders	$23,501	$13,848
Denominator:		
Weighted average shares attributable to VeriFone Systems, Inc. stockholders - basic	111,266	113,443
Weighted average effect of dilutive securities:		
Stock options, RSUs and RSAs	1,085	2,036
Weighted average shares attributable to VeriFone Systems, Inc. stockholders - diluted	112,351	115,479
Net income per share attributable to VeriFone Systems, Inc. stockholders:		
Basic	$0.21	$0.12
Diluted	$0.21	$0.12

For the three months ended January 31, 2016 and 2015, equity incentive awards representing 3.4 million and 1.3 million shares of common stock, respectively, were excluded from the calculation of weighted average shares for diluted net income per share as they were anti-dilutive. Anti-dilutive awards, which include stock options, RSUs and RSAs, could impact future calculations of diluted net income per share if the fair market value of our common stock increases.

Note 4. Stock Repurchase Program

In September 2015, our Board of Directors authorized a program to repurchase shares of our common stock with an aggregate value of up to $200.0 million, with no expiration from the date of authorization. Shares may be repurchased from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise. Certain of our share repurchases have been and may from time to time be effected through Exchange Act Rule 10b5-1 repurchase plans. The timing and actual amount of the share repurchases will depend on several factors including price, capital availability, regulatory requirements, alternative investment opportunities, including mergers and acquisitions, market conditions and other factors. We are not obligated to repurchase any specific number of shares under the program and the repurchase program may be modified, suspended or discontinued at any time.

During the three months ended January 31, 2016, we repurchased approximately 2.6 million shares of our common stock on the open market at an average repurchase price of $28.02 per share. As of January 31, 2016, there was approximately $50.0 million remaining available for stock repurchases under the current program.

Note 5. Income Taxes

We recorded tax provisions totaling $2.0 million and $1.4 million for the three months ended January 31, 2016 and 2015, respectively. The income tax provisions for the three months ended January 31, 2016 and January 31, 2015 are primarily related to foreign taxes offset by the reversal of unrecognized tax benefits where statutes of limitations expired and audits were settled.

Our total unrecognized tax benefits were approximately $108.5 million as of January 31, 2016. The amount of unrecognized tax benefits could be reduced upon closure of tax examinations or if the statute of limitations on certain tax filings expires without assessment from the relevant tax authorities. We believe that it is reasonably possible that there could be an immaterial reduction in unrecognized tax benefits due to statute of limitation expirations in multiple tax jurisdictions during the next 12 months. Interest and penalties accrued on these uncertain tax positions will also be released upon the expiration of the applicable statute of limitations.

U.S. Internal Revenue Service Tax Audit Assessment

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

Israel Tax Audit Assessment

We are currently under audit by the Israeli Tax Authorities for fiscal years 2008 through 2009, and 2011 through 2013. The Israeli Tax Authorities issued a tax assessment in October 2014 for fiscal year 2009 or alternatively for fiscal year 2008 claiming there was a business restructuring that resulted in a transfer of some functions, assets and risks from VeriFone Israel Ltd. to the U.S. parent company that the Israeli Tax Authorities claim was a sale valued at 1.36 billion New Israeli Shekels (approximately $343.9 million at the foreign exchange rate as of January 31, 2016). The Israeli Tax Authorities argued that the claim applies to fiscal year 2009 or alternatively to fiscal year 2008. We filed our objection to the tax assessment in January 2015 and received the Israeli Tax Authorities decision through an Order (a second stage assessment) in January 2016. The Order increased the value of the sale to 2.20 billion New Israeli Shekels in fiscal year 2009 (approximately $555.9 million at the foreign exchange rate as of January 31, 2016) or alternatively 2.23 billion New Israeli Shekels in fiscal year 2008 (approximately $562.3 million at the foreign exchange rate as of January 31, 2016) and contended secondary adjustments relating to deemed dividend and/or interest.

Based on the Order, these and other claims result in a tax liability and deficiency penalty assessment in the amount of 1.25 billion New Israeli Shekels (approximately $314.5 million at the foreign exchange rate as of January 31, 2016), if the claim was assessed for fiscal year 2009, to 1.47 billion New Israeli Shekels (approximately $371.2 million at the foreign exchange rate as of January 31, 2016) if the claim was assessed for fiscal year 2008, including interest, the required Israeli price index adjustments (referred to as the linkage differentials) and deficiency fines (as applicable) through January 26, 2016, the date of the Order. The Israeli Tax Authorities' contention regarding secondary adjustments relating to deemed dividend was not quantified by them.

We continue to believe the Israeli Tax Authorities' assessment position is without merit and plan on appealing the assessment to the district court. We have agreed with the Israeli Tax Authorities to repay our $69.0 million intercompany loan from VeriFone Israel Ltd. to the extent of the amount of a final agreed tax assessment concerning fiscal year 2008 and fiscal year 2009 or a judgment of a district court in an appeal on the decision of the Israeli Tax Authorities in the objection, if any.

Note 6. Balance Sheet and Statement of Operations Details

Inventories

Inventories consisted of the following (in thousands):

	January 31, 2016	October 31, 2015
Raw materials	$29,746	$30,297
Work-in-process	2,965	2,588
Finished goods	104,005	96,831
Total inventories	$136,716	$129,716

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

Accruals and Other Current Liabilities

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

	January 31, 2016	October 31, 2015
Accrued expenses	$84,993	$85,973
Accrued compensation	52,284	69,174
Other current liabilities	82,847	74,753
Total accruals and other current liabilities	$220,124	$229,900

Other current liabilities were comprised primarily of sales and value-added taxes payable, accrued warranty, and customer deposits.

Accrued Warranty

Activity related to accrued warranty for the three months ended January 31, 2016 consisted of the following (in thousands):

Balance at beginning of period	$16,320
Warranty charged to Cost of net revenues	3,026
Utilization of warranty accrual	(3,857)
Other	(80)
Balance at end of period	15,409
Less: current portion	(12,313)
Long-term portion	$3,096

Deferred Revenue, Net

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

	January 31, 2016	October 31, 2015
Deferred revenue	$170,698	$157,747
Deferred cost of revenue	(20,351)	(19,526)
Deferred revenue, net	150,347	138,221
Less: current portion	(92,088)	(82,899)
Long-term portion	$58,259	$55,322

Other Long-Term Liabilities

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

	January 31, 2016	October 31, 2015
Unrecognized tax benefits liability, net	$35,175	$35,860
Contingent consideration payable	10,909	10,776
Other long-term liabilities	37,220	32,260
Total other long-term liabilities	$83,304	$78,896

Stock-Based Compensation Expense

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

	Three Months Ended January 31,	
	2016	2015
Cost of net revenues	$812	$719
Research and development	1,908	2,744
Sales and marketing	3,259	4,080
General and administrative	4,481	4,612
Total stock-based compensation expense	$10,460	$12,155

Accumulated Other Comprehensive Loss

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

	Foreign currency translation adjustments	Unrealized loss on derivatives designated as cash flow hedges (1)	Other (2)	Total
Balance at October 31, 2015	$(286,662)	$(4,409)	$(1,250)	$(292,321)
Losses before reclassifications, net of tax	(38,229)	(1,687)	—	(39,916)
Amounts reclassified from Accumulated other comprehensive loss, net of tax	—	1,162	26	1,188
Other comprehensive gain (loss)	(38,229)	(525)	26	(38,728)
Balance at January 31, 2016	$(324,891)	$(4,934)	$(1,224)	$(331,049)

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

Note 7. Financial Instruments

Fair Value Measurements

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

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

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

The following tables present our significant assets and liabilities that are measured at fair value on a recurring basis and their classification within the fair value hierarchy (in thousands). There were no transfers between levels of fair value hierarchy in the three months ended January 31, 2016 and the fiscal year ended October 31, 2015.

	January 31, 2016				October 31, 2015			
	Carrying Value	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3
Assets								
Other current and long-term assets:								
Derivative financial instruments	$60	$—	$60	$—	$53	$—	$53	$—
Total assets measured and recorded at fair value	$60	$—	$60	$—	$53	$—	$53	$—
Liabilities								
Other current and long-term liabilities:								
Contingent consideration payable	$13,128	$—	$—	$13,128	$12,786	$—	$—	$12,786
Derivative financial instruments	5,075	—	5,075	—	4,784	—	4,784	—
Total liabilities measured and recorded at fair value	$18,203	$—	$5,075	$13,128	$17,570	$—	$4,784	$12,786

Fair Value of Contingent Consideration Payable

The following table presents changes in our contingent consideration payable which is categorized in Level 3 of the fair value hierarchy (in thousands):

	January 31, 2016
Balance at beginning of period	$12,786
Payments	(148)
Changes in estimates, included in Other income (expense), net	(27)
Interest expense, net	517
Balance at end of period	$13,128

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

Derivative Financial Instruments

Interest Rate Swap Agreements Designated as Cash Flow Hedges

We use interest rate swap agreements to hedge the variability in cash flows related to interest payments. As of January 31, 2016, we had outstanding interest rate swap agreements to effectively convert $500.0 million of the term A loan from a floating rate plus applicable margin to a 1.20% fixed rate. The principal amount under the term A loan covered by the new interest rate swap agreements will decrease to $450.0 million from April 1, 2017 through September 30, 2017, and $400.0 million from October 1, 2017 through March 30, 2018. The swap agreements expire March 30, 2018.

The interest rate swaps qualify for hedge accounting treatment as cash flow hedges. The notional amounts of interest rate swap agreements outstanding as of January 31, 2016 and October 31, 2015 were each $500.0 million.

Gains and losses arising from the effective portion of interest rate swap agreements are recorded in Accumulated other comprehensive loss, and are subsequently reclassified into earnings in the period or periods during which the underlying transactions affect earnings. As of January 31, 2016, the estimated net derivative loss related to our cash flow hedges included in Accumulated other comprehensive loss that will be reclassified into earnings in the next 12 months is $3.4 million.

Foreign Exchange Forward Contracts Not Designated as Hedging Instruments

We arrange and maintain foreign exchange forward contracts so as to yield gains or losses to offset changes in foreign currency denominated assets or liabilities due to changes in foreign exchange rates, with the objective to mitigate the volatility associated with foreign currency transaction gains or losses. Our foreign currency exposures are predominantly inter-company receivables and payables arising from product sales and loans from one of our entities to another. Our foreign exchange forward contracts generally mature within 90 days. The notional amounts of such contracts outstanding as of January 31, 2016 and October 31, 2015 were $156.3 million and $219.6 million, respectively.

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

	Three Months Ended January 31,	
	2016	2015
Gains recognized in Other income (expense), net in our Condensed Consolidated Statements of Operations	$4,310	$11,534

Note 8. Goodwill and Purchased Intangible Assets

Goodwill

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

	Three months ended January 31, 2016		
	Verifone Systems	Verifone Services	Total
Balance at beginning of period	$512,459	$571,572	$1,084,031

Acquisitions	—	37,558	37,558
Other adjustments	—	(762)	(762)
Currency translation adjustments	(10,514)	(14,413)	(24,927)
Balance at end of period	$501,945	$593,955	$1,095,900

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As a result of the change to our two new operating segments, we have realigned our reporting units. Verifone Systems represents one reporting unit, and Verifone Services is comprised of two reporting units, Taxi Solutions and Verifone Payment Services. In connection with this reporting unit realignment, during the first quarter of 2016 we also updated our goodwill impairment assessment based on a quantitative analysis. We first evaluated the goodwill of our reporting units immediately prior the realignment and concluded that there was no impairment. We then allocated our goodwill to the new reporting units using a relative fair value approach, and re-confirmed that there is no impairment.

We will perform an interim review for potential goodwill impairment indicators in future quarters. During the fourth quarter of fiscal year 2016, we will perform our annual goodwill impairment assessment.

Purchased Intangible Assets, Net

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

	January 31, 2016			October 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$608,799	$(298,965)	$309,834	$591,930	$(298,812)	$293,118
Other	89,399	(59,978)	29,421	115,143	(90,744)	24,399
Total	$698,198	$(358,943)	$339,255	$707,073	$(389,556)	317,517

Other intangible assets, net, were comprised primarily of developed and core technology and trade names.

Activity related to purchased intangible assets during the three months ended January 31, 2016 includes a $16.6 million currency translation adjustment to Gross carrying amount and a $9.2 million currency translation adjustment to Accumulated amortization.

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

	Three Months Ended January 31,	
	2016	2015
Included in Cost of net revenues	$3,989	$4,659
Included in Operating expenses	19,626	22,332
Total amortization of purchased intangible assets	$23,615	$26,991

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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 January 31, 2016, is estimated as follows (in thousands):

	Cost of Net Revenues	Operating Expenses	Total
Fiscal Years Ending October 31:			
Remaining of fiscal year 2016	$9,281	$58,127	$67,408
2017	5,439	55,972	61,411
2018	3,343	53,637	56,980
2019	2,049	50,397	52,446
2020	1,480	35,080	36,560
Thereafter	2,421	62,029	64,450
Total future amortization expense	$24,013	$315,242	$339,255

Note 9. Financings

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

	January 31, 2016	October 31, 2015
Credit Agreement		
Term A loan	$555,000	$562,500
Term B loan	197,000	197,500
Revolving loan	191,378	54,000
Other	3,115	342
Total principal payments due	946,493	814,342
Less: original issue discount and debt issuance cost	(13,957)	(15,013)
Total amounts outstanding	932,536	799,329
Less: current portion	(49,322)	(39,088)
Long-term portion	$883,214	$760,241

Credit Agreement

Key terms of our credit agreement include financial maintenance covenants and certain representations, warranties, covenants, and conditions that are c