



VeriFone Reports Results for the First Quarter of Fiscal 2014

Revenues and Earnings per Share Exceed Guidance

SAN JOSE, Calif. - (BUSINESS WIRE) - VeriFone Systems, Inc. (NYSE: PAY):

First Quarter Financial Highlights

- GAAP net revenues of \$436 million
- Non-GAAP net revenues of \$437 million
- GAAP net loss per share of \$0.15
- Non-GAAP net income per diluted share of \$0.31
- Operating cash flow of \$32 million

VeriFone Systems, Inc. (NYSE: PAY), the global leader in secure electronic payment solutions, today announced financial results for the three months ended January 31, 2014 (“Q1 FY14”). GAAP net revenues were \$436 million, compared to \$429 million a year ago, a 2% increase. Non-GAAP net revenues for Q1 FY14 were \$437 million, compared to \$430 million a year ago, a 2% increase. GAAP net loss per diluted share was \$0.15, compared to net income of \$0.11 a year ago. Non-GAAP net income per diluted share was \$0.31, compared to \$0.51 a year ago.

The table below provides additional summary GAAP and non-GAAP financial information and comparisons.

(IN MILLIONS, EXCEPT PER SHARE AND PERCENTAGES)

	Three Months Ended January 31, (Unaudited)		
	2014	2013	% Change (2)
GAAP:			
Net revenues	\$ 436	\$ 429	2 %
Gross margin as a % of net revenues	39%	40%	(1.0) pts
Net income (loss) per diluted share	\$ (0.15)	\$ 0.11	nm
Non-GAAP (1):			
Net revenues	\$ 437	\$ 430	2 %
Gross margin as a % of net revenues	42%	44%	(2.0) pts
Net income per diluted share	\$ 0.31	\$ 0.51	nm

(1) Reconciliations for the non-GAAP measures are provided at the end of this press release.

(2) "nm" means not meaningful

“Our first quarter financial results exceeded our guidance, and I am pleased with our progress in our operational initiatives launched in Q1,” said Paul Galant, Chief Executive Officer of VeriFone. “VeriFone is well poised to meet our clients’ needs for payment technology to better protect consumer data, while at the same time pushing the envelope on innovative payment as a service and commerce enablement solutions across the physical, on-line, and mobile channels.”

Additional Financial and Business Highlights

- Service businesses achieved record non-GAAP net revenues of \$176 million
- Extinguished remaining Term B debt of \$48 million and improved cash conversion cycle by 12 days sequentially
- Continued rollout of EMV-capable MX devices in the U.S. and secured several competitive wins
- Increased installed base of U.S. end-to-end encryption customers to 170 national merchants
- Successfully introduced mobile ECR solution in Turkey, capitalizing on new government mandate
- Continued regional growth of the company's payment as a service solutions
- Began rollout of LiftRetail interactive marketing solution at a leading national petroleum retailer
- Launched digital taxi-top advertising displays to the New York City market

Guidance

Guidance for the second fiscal quarter of 2014 is as follows:

- Non-GAAP net revenues of \$440 million to \$445 million
- Non-GAAP net income per diluted share of \$0.30 to \$0.32

Guidance for the full fiscal year 2014 is as follows:

- Non-GAAP net revenues of \$1,780 million to \$1,810 million
- Non-GAAP net income per diluted share of \$1.40

Conference Call

VeriFone will hold its earnings conference call today at 1:30 pm (PT). To listen to the call and view the slides, visit VeriFone's website <http://ir.verifone.com>. To listen to the call over the phone, dial (877) 474-9504 within the U.S., or (857) 244-7557 outside the U.S., and use conference passcode 8963 0296. The recorded audio webcast will be available on VeriFone's website until March 18, 2014.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This press release includes certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations or beliefs and on currently available competitive, financial and economic data and are subject to uncertainty and changes in circumstances. Actual results may vary materially from those expressed or implied by the forward-looking statements herein due to changes in economic, business, competitive, technological, and/or regulatory factors, and other risks and uncertainties affecting the operation of the business of VeriFone Systems, Inc., including many factors beyond our control. These risks and uncertainties include, but are not limited to, those associated with: execution of our strategic plan and business and operational initiatives, and whether the expected benefits of our plan and initiatives are achieved, short product cycles and rapidly changing technologies, our ability to maintain competitive leadership position with respect to our payment solution offerings, our assumptions, judgments and estimates regarding the impact on our business of the continued uncertainty in the global economic environment and financial markets, our ability to successfully integrate acquired businesses into our business and operations, our ability to protect against fraud, the status of our relationship with and condition of third parties such as our contract manufacturers, distributors and key suppliers upon whom we rely in the conduct of our business, our dependence on a limited number of customers, the conduct of our business and operations internationally, our ability to effectively hedge our exposure to foreign currency exchange rate fluctuations, and our dependence on a limited number of key employees. For a further list and description of the risks and uncertainties affecting the operations of our business, see our filings with the Securities and Exchange Commission, including our annual report on Form 10-K and our quarterly reports on Form 10-Q. The forward-looking statements speak only as of the date such statements are made. VeriFone is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements, whether as a result of new information, future events, changes in assumptions or otherwise.

About VeriFone Systems, Inc. (www.verifone.com)

VeriFone Systems, Inc. ("VeriFone") (NYSE: PAY) is the global leader in secure electronic payment solutions. VeriFone provides expertise, solutions and services that add value to the point of sale with merchant-operated, consumer-facing and self-service payment systems for the financial, retail, hospitality, petroleum, government and healthcare vertical markets. VeriFone solutions are designed to meet the needs of merchants, processors and acquirers in developed and emerging economies worldwide.

Additional Resources:

<http://ir.verifone.com>

VERIFONE SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED, IN MILLIONS, EXCEPT PER SHARE DATA AND PERCENTAGES)

	Three Months Ended January 31,		
	2014	2013	% Change (1)
Net revenues:			
System solutions	\$ 261.2	\$ 281.7	(7.3)%
Services	174.9	147.0	19.0 %
Total net revenues	<u>436.1</u>	<u>428.7</u>	1.7 %
Cost of net revenues:			
System solutions	167.5	174.2	(3.8)%
Services	98.4	82.5	19.3 %
Total cost of net revenues	<u>265.9</u>	<u>256.7</u>	3.6 %
Total gross margin	<u>170.2</u>	<u>172.0</u>	(1.0)%
Operating expenses:			
Research and development	50.5	39.8	26.9 %
Sales and marketing	50.6	45.8	10.5 %
General and administrative	50.9	40.0	27.3 %
Amortization of purchased intangible assets	24.7	24.7	— %
Total operating expenses	<u>176.7</u>	<u>150.3</u>	17.6 %
Operating income (loss)	<u>(6.5)</u>	<u>21.7</u>	nm
Interest, net	(11.4)	(11.5)	(0.9)%
Other income (expense), net	(5.1)	4.0	nm
Income (loss) before income taxes	<u>(23.0)</u>	<u>14.2</u>	nm
Income tax provision (benefit)	(6.9)	2.5	nm
Consolidated net income (loss)	<u>(16.1)</u>	<u>11.7</u>	nm
Net income (loss) attributable to noncontrolling interests	(0.1)	0.1	nm
Net income (loss) attributable to VeriFone Systems, Inc. stockholders	<u>\$ (16.2)</u>	<u>\$ 11.8</u>	nm
Net income (loss) per share attributable to VeriFone Systems, Inc. stockholders:			
Basic	<u>\$ (0.15)</u>	<u>\$ 0.11</u>	
Diluted	<u>\$ (0.15)</u>	<u>\$ 0.11</u>	
Weighted average number of shares used in computing net income (loss) per share:			
Basic	110.3	107.9	
Diluted	110.3	110.6	

(1) "nm" means not meaningful

VERIFONE SYSTEMS, INC.
NET REVENUES INFORMATION
(UNAUDITED, IN MILLIONS, EXCEPT PERCENTAGES)

	Note	Three Months Ended					
		January 31, 2014	October 31, 2013 (1)	January 31, 2013	% Change (1) SEQ	% Change (1) YoY	
GAAP net revenues:							
North America		\$ 122.1	\$ 124.5	\$ 133.2	(1.9)%	(8.3)%	
LAC		68.4	70.8	73.0	(3.4)%	(6.3)%	
EMEA		185.2	179.2	171.6	3.3 %	7.9 %	
ASPAC		60.4	56.7	50.9	6.5 %	18.7 %	
Total		<u>\$ 436.1</u>	<u>\$ 431.2</u>	<u>\$ 428.7</u>	1.1 %	1.7 %	
Non-GAAP net revenues: (2)							
North America	A, D	\$ 122.1	\$ 124.6	\$ 132.7	(2.0)%	(8.0)%	
LAC	A	68.4	70.8	73.0	(3.4)%	(6.3)%	
EMEA	A	186.3	180.1	172.9	3.4 %	7.8 %	
ASPAC	A	60.4	56.8	51.0	6.3 %	18.4 %	
Total		<u>\$ 437.2</u>	<u>\$ 432.3</u>	<u>\$ 429.6</u>	1.1 %	1.8 %	
GAAP net revenues		\$ 436.1	\$ 431.2	\$ 428.7	1.1 %	1.7 %	
Plus: Non-GAAP net revenues adjustments	A, D	1.1	1.1	0.9	nm	nm	
Non-GAAP net revenues (2)		437.2	432.3	429.6	1.1 %	1.8 %	
Net revenues from businesses acquired in the past 12 months		(14.9)	nm	(2.3)	nm	nm	
Non-GAAP organic net revenues (2)		\$ 422.3	nm	\$ 427.3	nm	(1.2)%	

(1) "nm" means not meaningful

(2) Reconciliations for the non-GAAP measures are provided at the end of this press release.

For three months ended January 31, 2014 compared with three months ended January 31, 2013

	Net revenues growth	Impact due to acquired businesses (A) (B)	Non-GAAP organic net revenues growth	Impact due to foreign currency (C)	Non-GAAP organic net revenues at constant currency growth
North America	(8.3)%	(0.3)pts	(8.0)%	(0.1)pts	(7.9)%
LAC	(6.3)%	0.1pts	(6.4)%	(7.1)pts	0.7 %
EMEA	7.9 %	2.0pts	5.9 %	1.2pts	4.7 %
ASPAC	18.7 %	18.5pts	0.2 %	(4.9)pts	5.1 %
Total	1.7 %	2.9pts	(1.2)%	(1.3)pts	0.1 %

VERIFONE SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED, IN MILLIONS)

	<u>January 31, 2014</u>	<u>October 31, 2013</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 249.3	\$ 268.2
Accounts receivable, net of allowances of \$10.1 and \$12.7	263.3	284.0
Inventories, net	121.5	138.7
Prepaid expenses and other current assets	114.9	134.1
Total current assets	<u>749.0</u>	<u>825.0</u>
Fixed assets, net	174.7	172.2
Purchased intangible assets, net	601.5	642.9
Goodwill	1,243.7	1,252.4
Deferred tax assets, net	23.0	23.9
Other long-term assets	72.8	77.3
Total assets	<u>\$ 2,864.7</u>	<u>\$ 2,993.7</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 110.2	\$ 116.5
Accruals and other current liabilities	214.0	292.1
Deferred revenue, net	102.6	86.6
Short-term debt	103.8	92.5
Total current liabilities	<u>530.6</u>	<u>587.7</u>
Long-term deferred revenue, net	42.0	42.6
Long-term debt	897.2	943.3
Long-term deferred tax liabilities	165.4	176.0
Other long-term liabilities	92.8	92.5
Total liabilities	<u>1,728.0</u>	<u>1,842.1</u>
Redeemable noncontrolling interest in subsidiary	0.7	0.6
Stockholders' equity:		
Common stock	1.1	1.1
Additional paid-in capital	1,618.6	1,598.7
Accumulated deficit	(516.3)	(500.1)
Accumulated other comprehensive income (loss)	(3.8)	14.9
Total stockholders' equity	<u>1,099.6</u>	<u>1,114.6</u>
Noncontrolling interest in subsidiaries	36.4	36.4
Total liabilities and equity	<u>\$ 2,864.7</u>	<u>\$ 2,993.7</u>

VERIFONE SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED, IN MILLIONS)

	Three Months ended January 31,	
	2014	2013
Cash flows from operating activities		
Consolidated net income (loss)	\$ (16.1)	\$ 11.7
Adjustments to reconcile consolidated net income (loss) to net cash provided by operating activities:		
Depreciation and amortization, net	53.1	50.9
Stock-based compensation expense	15.7	12.4
Other	(6.4)	(9.0)
Net cash provided by operating activities before changes in operating assets and liabilities	<u>46.3</u>	<u>66.0</u>
Changes in operating assets and liabilities, net of effects of business acquisitions:		
Accounts receivable, net	17.3	13.2
Inventories, net	15.5	(8.1)
Prepaid expenses and other assets	11.7	(1.8)
Accounts payable	(4.8)	(39.3)
Deferred revenue, net	17.7	28.2
Other current and long-term liabilities	(71.8)	(4.8)
Net change in operating assets and liabilities	<u>(14.4)</u>	<u>(12.6)</u>
Net cash provided by operating activities	<u>31.9</u>	<u>53.4</u>
Cash flows from investing activities		
Capital expenditures	(20.9)	(20.8)
Other investing activities, net	2.6	5.1
Net cash used in investing activities	<u>(18.3)</u>	<u>(15.7)</u>
Cash flows from financing activities		
Proceeds from debt, net of issuance costs	86.9	2.4
Repayments of debt	(121.9)	(18.5)
Other financing activities, net	5.6	(2.1)
Net cash used in financing activities	<u>(29.4)</u>	<u>(18.2)</u>
Effect of foreign currency exchange rate changes on cash and cash equivalents	<u>(3.1)</u>	<u>3.1</u>
Net increase (decrease) in cash and cash equivalents	(18.9)	22.6
Cash and cash equivalents, beginning of period	268.2	454.1
Cash and cash equivalents, end of period	<u>\$ 249.3</u>	<u>\$ 476.7</u>

VERIFONE SYSTEMS, INC.
RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES
(UNAUDITED, IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	<i>Note</i>	Net revenues	Gross margin	Gross margin percentage	Operating income (loss)	Net income (loss) attributable to VeriFone Systems, Inc. stockholders
Three Months Ended January 31, 2014						
GAAP		\$ 436.1	\$ 170.2	39.0%	\$ (6.5)	\$ (16.2)
Adjustments:						
Amortization of step-down in deferred services net revenues at acquisition	A	1.1	1.1		1.1	1.1
Amortization of purchased intangible assets	D	—	11.4		36.1	36.1
Other acquisition, divestiture and restructure related revenue and expenses, net	D	—	2.0		3.2	5.7
Stock based compensation	E	—	0.5		15.7	15.7
Other charges and income	F				3.6	5.2
Income tax effect of non-GAAP exclusions and adjustment to cash basis tax rate	F	—	—		—	(12.8)
Non-GAAP		<u>\$ 437.2</u>	<u>\$ 185.2</u>	42.4%	<u>\$ 53.2</u>	<u>\$ 34.8</u>
		Weighted average number of shares used in computing net income (loss) per share:			Net income (loss) per share attributable to VeriFone Systems, Inc. stockholders (1)	
		Basic	Diluted		Basic	Diluted
GAAP		<u>110.3</u>	<u>110.3</u>		<u>\$ (0.15)</u>	<u>\$ (0.15)</u>
Adjustment for diluted shares	G	—	2.1			
Non-GAAP		<u>110.3</u>	<u>112.4</u>		<u>\$ 0.32</u>	<u>\$ 0.31</u>

(1) Net income (loss) per share is calculated by dividing the Net income (loss) attributable to VeriFone Systems, Inc. stockholders by the Weighted average number of shares.

VERIFONE SYSTEMS, INC.
RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES
(UNAUDITED, IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	<i>Note</i>	Net revenues	Gross margin	Gross margin percentage	Operating income (loss)	Net income (loss) attributable to VeriFone Systems, Inc. stockholders
Three Months Ended October 31, 2013						
GAAP		\$ 431.2	\$ 164.0	38.0%	\$ (15.8)	\$ (247.7)
Adjustments:						
Amortization of step-down in deferred services net revenues at acquisition	A	1.1	1.1		1.1	1.1
Amortization of purchased intangible assets	D	—	11.4		35.9	35.9
Other acquisition, divestiture and restructure related revenue and expenses, net	D	—	0.7		3.5	4.2
Stock based compensation	E	—	0.8		16.9	16.9
Litigation loss contingency expense	F	—	—		0.4	0.4
Other charges and income	F	—	—		4.6	4.5
Income tax effect of non-GAAP exclusions and adjustment to cash basis tax rate	F	—	—		—	215.0
Non-GAAP		<u>\$ 432.3</u>	<u>\$ 178.0</u>	41.2%	<u>\$ 46.6</u>	<u>\$ 30.3</u>

		Weighted average number of shares used in computing net income (loss) per share:		Net income (loss) per share attributable to VeriFone Systems, Inc. stockholders (1)	
		Basic	Diluted	Basic	Diluted
GAAP		<u>109.5</u>	<u>109.5</u>	<u>\$ (2.26)</u>	<u>\$ (2.26)</u>
Adjustment for diluted shares	G	—	2.2		
Non-GAAP		<u>109.5</u>	<u>111.7</u>	<u>\$ 0.28</u>	<u>\$ 0.27</u>

(1) Net income (loss) per share is calculated by dividing the Net income (loss) attributable to VeriFone Systems, Inc. stockholders by the Weighted average number of shares.

VERIFONE SYSTEMS, INC.
RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES
(UNAUDITED, IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	<i>Note</i>	Net revenues	Gross margin	Gross margin percentage	Operating income	Net income attributable to VeriFone Systems, Inc. stockholders
Three Months Ended January 31, 2013						
GAAP		\$ 428.7	\$ 172.0	40.1%	\$ 21.7	\$ 11.8
Adjustments:						
Amortization of step-down in deferred net revenues at acquisition	A	1.4	1.4		1.4	1.4
Amortization of purchased intangible assets	D	—	11.1		35.8	35.8
Other acquisition, divestiture and restructure related revenue and expenses, net	D	(0.5)	2.1		6.8	1.4
Stock based compensation	E	—	0.5		12.4	12.4
Other charges and income	F	—	—		0.4	0.2
Income tax effect of non-GAAP exclusions and adjustment to cash basis tax rate	F	—	—		—	(6.7)
Non-GAAP		<u>\$ 429.6</u>	<u>\$ 187.1</u>	43.6%	<u>\$ 78.5</u>	<u>\$ 56.3</u>
		Weighted average number of shares used in computing net income per share:			Net income per share attributable to VeriFone Systems, Inc. stockholders (1)	
		Basic	Diluted		Basic	Diluted
GAAP		<u>107.9</u>	<u>110.6</u>		<u>\$ 0.11</u>	<u>\$ 0.11</u>
Non-GAAP		<u>107.9</u>	<u>110.6</u>		<u>\$ 0.52</u>	<u>\$ 0.51</u>

(1) Net income per share is calculated by dividing the Net income attributable to VeriFone Systems, Inc. stockholders by the Weighted average number of shares.

VERIFONE SYSTEMS, INC.
RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES
(UNAUDITED, IN MILLIONS)

Note	GAAP net Revenues	Amortizati on of step- down in deferred revenue at acquisition	Other adjustmen ts to net revenues	Non- GAAP net revenues	Net revenues from businesses acquired in the past 12 months	Non- GAAP organic net revenues	Constant currency adjustment	Non- GAAP organic net revenues at constant currency
		(A)	(D)	(A)	(B)	(B)	(C)	(C)
Three Months Ended January 31, 2014								
North America	\$ 122.1	\$ —	\$ —	\$ 122.1	\$ —	\$ 122.1	\$ 0.2	\$ 122.3
LAC	68.4	—	—	68.4	—	68.4	5.1	73.5
EMEA	185.2	1.1	—	186.3	(5.2)	181.1	(2.1)	179.0
ASPAC	60.4	—	—	60.4	(9.7)	50.7	2.4	53.1
Total	<u>\$ 436.1</u>	<u>\$ 1.1</u>	<u>\$ —</u>	<u>\$ 437.2</u>	<u>\$ (14.9)</u>	<u>\$ 422.3</u>	<u>\$ 5.6</u>	<u>\$ 427.9</u>
System Solutions	\$ 261.2	\$ —	\$ —	\$ 261.2				
Services	174.9	1.1	—	176.0				
Total	<u>\$ 436.1</u>	<u>\$ 1.1</u>	<u>\$ —</u>	<u>\$ 437.2</u>				
Three Months Ended October 31, 2013								
North America	\$ 124.5	\$ 0.1	\$ —	\$ 124.6				
LAC	70.8	—	—	70.8				
EMEA	179.2	0.9	—	180.1				
ASPAC	56.7	0.1	—	56.8				
Total	<u>\$ 431.2</u>	<u>\$ 1.1</u>	<u>\$ —</u>	<u>\$ 432.3</u>				
Three Months Ended January 31, 2013								
North America	\$ 133.2	\$ —	\$ (0.5)	\$ 132.7	\$ —	\$ 132.7		
LAC	73.0	—	—	73.0	—	73.0		
EMEA	171.6	1.3	—	172.9	(1.9)	171.0		
ASPAC	50.9	0.1	—	51.0	(0.4)	50.6		
Total	<u>\$ 428.7</u>	<u>\$ 1.4</u>	<u>\$ (0.5)</u>	<u>\$ 429.6</u>	<u>\$ (2.3)</u>	<u>\$ 427.3</u>		

VERIFONE SYSTEMS, INC.
RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES
(UNAUDITED, IN MILLIONS)

		Three Months Ended				
<i>Note</i>	January 31, 2014	October 31, 2013	January 31, 2013	% Change SEQ	% Change YoY	
Free Cash Flow						
GAAP net cash provided by operating activities	H	\$ 31.9	\$ 54.9	\$ 53.4	(41.9)%	(40.3)%
Less: GAAP capital expenditures	H	(20.9)	(17.2)	(20.8)	21.5 %	0.5 %
Free cash flow	H	<u>\$ 11.0</u>	<u>\$ 37.7</u>	<u>\$ 32.6</u>	(70.8)%	(66.3)%

		Three Months Ending April 30, 2014		Year Ending October 31, 2014	
Guidance		Range of Guidance		Range of Guidance	
GAAP net revenues		\$ 439.5	\$ 444.5	\$ 1,777.5	\$ 1,807.5
Amortization of step-down in deferred net revenues at acquisition	A	0.5	0.5	2.5	2.5
Non-GAAP net revenues		<u>\$ 440.0</u>	<u>\$ 445.0</u>	<u>\$ 1,780.0</u>	<u>\$ 1,810.0</u>

NON-GAAP FINANCIAL MEASURES

This press release and its attachments include several non-GAAP financial measures, including non-GAAP net revenues; non-GAAP Services net revenues, net revenues from businesses acquired in the past 12 months; non-GAAP organic net revenues; non-GAAP organic net revenues at constant currency; non-GAAP gross margin as a percentage of non-GAAP net revenues; non-GAAP net income (loss) per diluted share, and free cash flow. This press release also includes certain forward-looking non-GAAP financial measures, specifically projected Non-GAAP net revenues and Non-GAAP net income per diluted share for the second fiscal quarter and full fiscal year 2014. The corresponding reconciliations of these non-GAAP financial measures to the most comparable GAAP financial measures, to the extent available without unreasonable effort, are included in this press release.

Management uses non-GAAP financial measures only in addition to and in conjunction with results presented in accordance with GAAP. Management believes that these non-GAAP financial measures help it to evaluate VeriFone's performance and operations and to compare VeriFone's current results with those for prior periods as well as with the results of peer companies. VeriFone incurs, due to differences in debt, capital structure and investment history, certain income and expense items, such as stock based compensation, amortization of acquired intangibles and other non-cash expenses, that differ significantly from VeriFone's competitors. The non-GAAP financial measures reflect VeriFone's reported operating performance without such items. Management also uses these non-GAAP financial measures in VeriFone's budget and planning process. Management believes that the presentation of these non-GAAP financial measures is useful to investors in comparing VeriFone's operating performance in any period with its performance in other periods and with the performance of other companies that represent alternative investment opportunities. These non-GAAP financial measures contain limitations and should be considered as a supplement to, and not as a substitute for, or superior to, disclosures made in accordance with GAAP.

These non-GAAP financial measures are not based on any comprehensive set of accounting rules or principles and may therefore differ from non-GAAP financial measures used by other companies. In addition, these non-GAAP financial measures do not reflect all amounts and costs, such as acquisition related costs, employee stock-based compensation costs, cash that may be expended for future capital expenditures or contractual commitments, working capital needs, cash used to service interest or principal payments on VeriFone's debt, income taxes and the related cash requirements, and restructuring charges, associated with VeriFone's results of operations as determined in accordance with GAAP.

Furthermore, VeriFone expects to continue to incur income and expense items that are similar to those that are excluded by the non-GAAP adjustments described herein. Management compensates for these limitations by also relying on the comparable GAAP financial measures.

Note A: Non-GAAP net revenues. Non-GAAP net revenues exclude the fair value decrease (step-down) in deferred revenue at acquisition. Although the step-down of deferred revenue fair value at acquisition is reflected in our GAAP financial statements, it results in net revenues immediately post-acquisition that are lower than net revenues that would be recognized in accordance with GAAP on those same services if they were sold under contracts entered into post-acquisition. We adjust the step-down to achieve comparability to net revenues of the acquired entity earned pre-acquisition and to our GAAP net revenues to be earned on contracts sold in future periods. These non-GAAP net revenues amounts are not intended to be a substitute for our GAAP disclosures of net revenues, and should be read together with our GAAP disclosures.

Note B: Non-GAAP organic net revenues. "Non-GAAP organic net revenues" is a non-GAAP financial measure of net revenues excluding "net revenues from businesses acquired in the past 12 months" (as defined below). VeriFone determines non-GAAP organic net revenues by deducting net revenues from businesses acquired in the past 12 months from non-GAAP net revenues. This non-GAAP measure is used to evaluate VeriFone net revenues without the impact of net revenues from acquired businesses, as VeriFone analyzes performance both with and without the impact of our recent acquisitions.

Net revenues from businesses acquired in the past 12 months consists of net revenues derived from the sales channels of acquired resellers and distributors, and net revenues from System solutions and Services attributable to businesses acquired in the 12 months preceding the respective financial quarter(s). For acquisitions of small businesses that are integrated within a relatively short time after the close of the acquisition, we assume quarterly net revenues attributable to such acquired businesses during the 12 months following acquisition remain at the same level as in the first full quarter after the acquisition closed. During periods prior to our acquisition of former customers, net revenues from businesses acquired in the past 12 months consists of sales by VeriFone to that former customer for that period.

Note C: Non-GAAP organic net revenues at constant currency. VeriFone determines non-GAAP organic net revenues at constant currency by recomputing non-GAAP organic net revenues denominated in currencies other than U.S. Dollars in the current fiscal period using average exchange rates for that particular currency during the corresponding financial period of the prior year. VeriFone uses this non-GAAP measure to evaluate performance on a comparable basis excluding the impact of foreign currency fluctuations.

Note D: Acquisition, Divestiture and Restructure Related. VeriFone adjusts certain revenues and expenses for items that are the result of acquisitions, divestitures and restructuring programs.

Acquisition related adjustments include the amortization of purchased intangible assets and fixed asset fair value adjustments, incremental costs associated with acquisitions (such as professional fees, legal fees related to litigation assumed as part of acquisitions, and one-time charges related to acquired balances), acquisition integration expenses (such as costs of personnel required to assist with integration transitions), and fair value increase (step-up) of inventory on acquisition. In addition, we adjust for changes in estimate, final resolution of contingencies that existed at the time of acquisition or collectability of associated notes receivable. Acquisition related expenses also result from events which arise from unforeseen circumstances which often occur outside the ordinary course of business. These adjustments do not include the fair value adjustments relating to certain contracts acquired as part of an acquisition whereby third parties have yet to fulfill their contractual obligations.

In January 2013 we divested of certain assets and business operations related to one of our product offerings. The estimated gain on the divestiture, as well as the net revenues, cost of net revenues and operating expenses for the three months ended January 31, 2013, that are attributable to the divested assets and business operations have been excluded from our non-GAAP financial measures.

VeriFone analyzes the performance of its operations without regard to these adjustments. In determining whether any acquisition, divestiture or restructure related adjustment is appropriate, VeriFone takes into consideration, among other things, how such adjustments would or would not aid the understanding of the performance of its operations.

Note E: Stock-Based Compensation. Our non-GAAP financial measures eliminate the effect of expense for stock-based compensation because they are non-cash expenses that management believes are not reflective of ongoing operating results. In particular, because of varying available valuation methodologies, subjective assumptions and the variety of award types which affect the calculations of stock-based compensation, we believe that the exclusion of stock-based compensation allows for more accurate comparisons of our operating results to our peer companies. Stock-based compensation is very different from other forms of compensation. A cash salary or bonus has a fixed and unvarying cash cost. In contrast the expense associated with an award of an option or other stock based award is unrelated to the amount of compensation ultimately received by the employee; and the cost to the company is based on valuation methodology and underlying assumptions that may vary over time and does not reflect any cash expenditure by the company. Furthermore, the expense associated with granting an employee an option or other stock based award can be spread over multiple years and may be reversed based on forfeitures which may differ from our original assumptions unlike cash compensation expense which is typically recorded contemporaneously with the time of award or payment.

Note F: Other Charges and Income. VeriFone excludes certain revenue, expenses and other income (expense) that we have determined is not reflective of ongoing operating results. It is difficult to estimate the amount or timing of these items in advance. Although these events are reflected in our GAAP financial statements, we exclude them in our non-GAAP financial measures because we believe these items may limit the comparability of our ongoing operations with prior and future periods. These adjustments for other charges and income include:

- Litigation loss contingency expense.
- Certain costs incurred in connection with senior executive management changes, such as separation payments, legal fees and recruiter fees.
- Certain expenses, such as professional services and certain personnel costs, incurred on initiatives to transform, streamline and centralize our global operations.
- Gain or loss on financial transactions, such as the accelerated amortization of capitalized debt issuance costs due to the early repayment of debt.

We assess our operating performance with these amounts included and excluded, and by providing this information, we believe that users of our financial statements are better able to understand the financial results of what we consider to be our continuing operations.

Income taxes are adjusted for the tax effect of the adjusting items related to our non-GAAP financial measures and to reflect our estimate of cash taxes on a non-GAAP basis, in order to provide our management and users of the financial statements with better clarity regarding the on-going comparable performance and future liquidity of our business. Under GAAP our Income tax provision (benefit) as a percentage of Income (loss) before income taxes was 30.1% for fiscal quarter ended January 31, 2014, (790.2)% for the fiscal quarter ended October 31, 2013 and 17.4% for the fiscal quarter ended January 31, 2013. For non-GAAP purposes, we used rates of 14.5% for fiscal quarter ended January 31, 2014 and 14% for the fiscal quarters ended October 31, 2013 and January 31, 2013, reflecting our estimate of cash tax payments as a percentage of Income (loss) before income taxes for the corresponding periods.

Note G: Non-GAAP diluted shares. During the three months ended January 31, 2014 and October 31, 2013, the diluted non-GAAP weighted average shares include additional shares that are dilutive, because we have a non-GAAP net income and a GAAP basis net loss.

Note H: Free Cash Flow. Free cash flow is not defined under GAAP. Therefore, it should not be considered a substitute for income or cash flow data prepared in accordance with GAAP and may not be comparable to similarly titled measures used by other companies. VeriFone determines free cash flow as net cash provided by operating activities less capital expenditures. We use this non-GAAP measure to evaluate our operating cash spend including the impact of our investments in long-term operating assets, such as property, equipment and capitalized software.

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