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			