Verifone

Q1 FY17 Financial Results

March 9, 2017

Forward Looking Statements

Today's discussion may include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements relate to future events and expectations and involve known and unknown risks and uncertainties. Verifone's actual results or actions may differ materially from those projected in the forward-looking statements. For a summary of the specific risk factors that could cause results to differ materially from those expressed in the forward-looking statements, please refer to Verifone's filings with the Securities and Exchange Commission, including its annual report on Form 10-K and quarterly reports on Form 10- Q. 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

Non-GAAP Financial Measures

With respect to any non-GAAP financial measures presented in the information, reconciliations of non-GAAP to GAAP financial measures may be found in Verifone's quarterly earnings release as filed with the Securities and Exchange Commission as well as the Appendix to these slides. 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 to compare Verifone's current results with those for prior periods as well as with the results of peer companies. 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

Agenda

Paul Galant
CEO

Highlights &
Business Update

Marc Rothman
CFO

Financial Update

Q&A

Paul Galant, CEO
Marc Rothman, CFO
Vin D'Agostino, Strategy
Chris Mammone, IR

Recap of Recent Analyst Day

Objective 1

- Provided update on the **global launch of our next generation systems and services**

Objective 2

- Introduced **the Verifone leadership team transforming us** from a box shipper to an integrated Solutions provider

Objective 3

- Presented a balanced **medium-range financial growth forecast**

Solid Q1 Execution

Q1 Non-GAAP Net Revenues	$457M	As expected or better across all regions
Q1 Non-GAAP EPS	$0.21	Particular strength in Asia Pacific
FY17 Non-GAAP Guidance	Reaffirming	On track with Q1 execution

EMV Update

1. ~5M devices remaining to be upgraded
2. Hospitality: significant greenfield opportunities
3. Deploying quick service restaurant mandates
4. Won benchmark client in lodging space
5. First Pay-at-the-Table clients in beta
6. Earliest EMV adopters starting to refresh

Important Launch Year for Next-Generation Device Families

Commerce
Payment
Systems

Engage

Most significant **evolution of core device lineup,** launching in more than 20 countries this year

E-series

Mobilizing the POS to drive share gains

Carbon

Fully integrated iPOS category-killer with engagements underway across all major geographies

Value

Launched the first of our global value devices **in three regions**

Furthering the Services Agenda to Deliver Integrated Solutions

Device Services

Investing in terminal management solutions and automation tools to **lower total cost of ownership for our clients**

Payment Services

Making payment processing simple, secure, and flexible, to **help our clients expand and grow**

Commerce Services

Enabling clients to differentiate and drive higher revenues through apps that run on our connected devices

Omni-Channel

Connecting our card-present gateways with proprietary & third-party e-commerce providers, **enabling online experiences in the physical world**

Non-GAAP* Financial Results

$ in million, except EPS	Q1 16	Q4 16	Q1 17	Q1 17 % QoQ	Q1 17 % YoY
Net Revenues	514	468	**457**	(2)%	(11)%
Gross Margin	220	185	**178**	(4)%	(19)%
% of Revenue	*42.8%*	*39.5%*	***38.9%***	*(0.6)pts*	*(3.9)pts*
Operating Income	72	49	**38**	(22)%	(47)%
% of Revenue	*14.1%*	*10.4%*	***8.3%***	*(2.1)pts*	*(5.8)pts*
Net Income**	54	33	**23**	(31)%	(57)%
EPS	0.48	0.30	**0.21**	(30)%	(56)%
Operating Cash Flow***	66	67	**45**	(33)%	(33)%
Free Cash Flow	36	44	**25**	(42)%	(30)%

YoY decline is driven by the prior year EMV-related surge in North America

* Reconciliation of our GAAP to Non-GAAP financial results can be found in the appendix section
** Net Income = Net Income attributable to VeriFone Systems, Inc. stockholders
*** Operating Cash Flow = GAAP net cash provided by operating activities

Non-GAAP Revenue & Gross Margin by Business Unit*

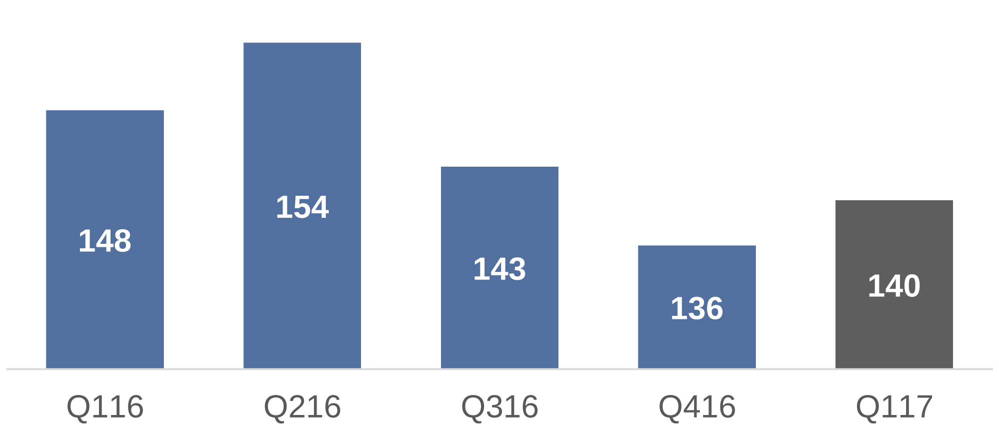
$ in million	Q1 16	Q4 16	Q1 17
Systems	338	264	**265**
Services	176	203	**191**
Total Net Revenue	514	468	**457**
Services % of Net Revenue	34%	44%	**42%**

As a % of Revenue	Q1 16	Q4 16	Q1 17
Systems	43.4%	35.2%	**37.9%**
Services	41.8%	45.1%	**40.4%**
Gross Margin %	42.8%	39.5%	**38.9%**

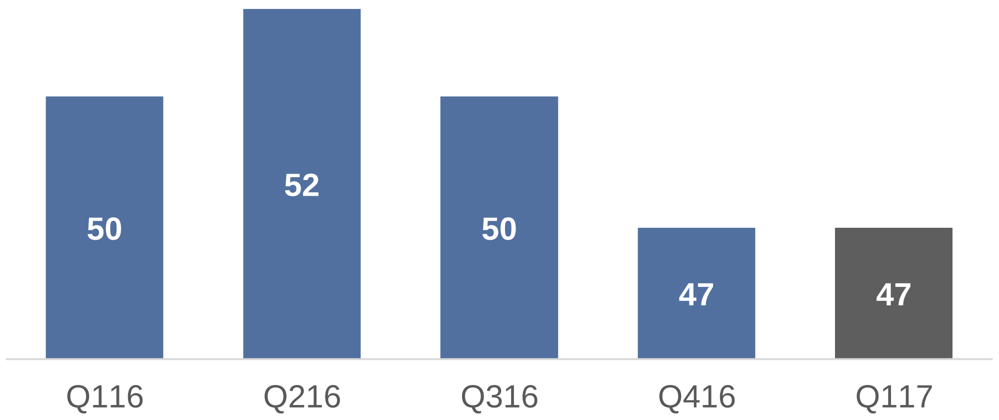
* Reconciliation of our GAAP to Non-GAAP financial results can be found in the appendix section

Non-GAAP Operating Expenses*

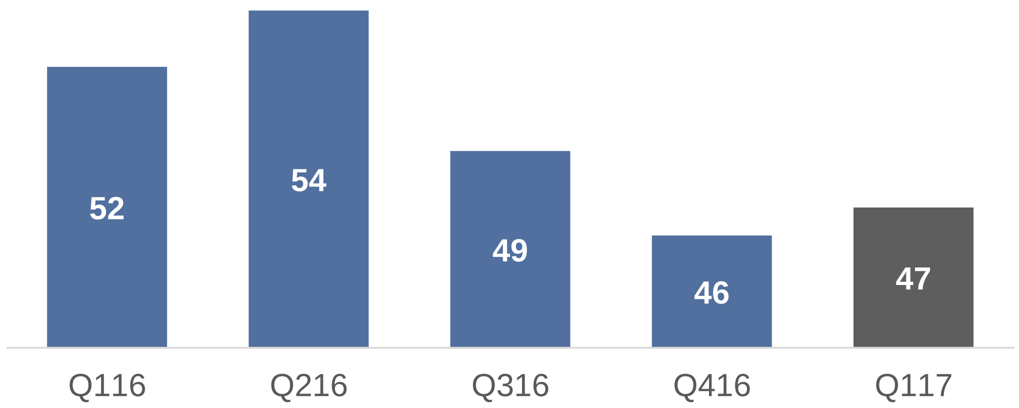
Total OPEX, $ in million



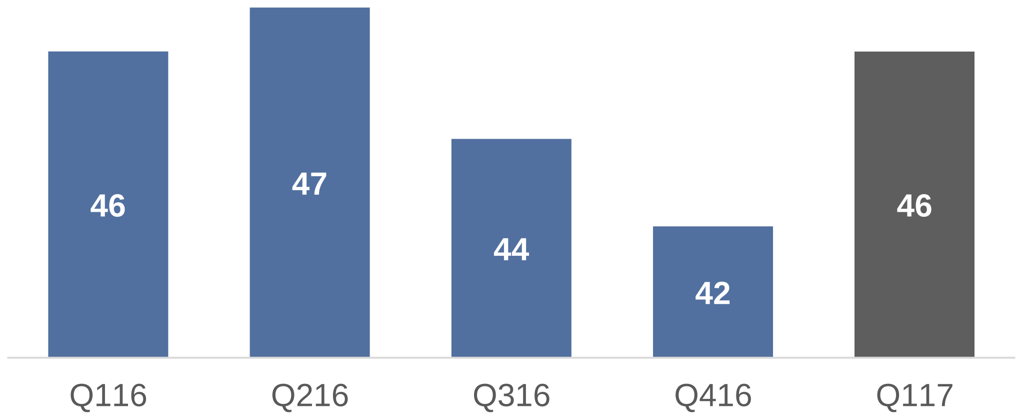
Total R&D, $ in million



Total S&M, $ in million



Total G&A, $ in million



* Reconciliation of our GAAP to Non-GAAP financial results can be found in the appendix section

Non-GAAP Revenue by Geography*

$ in million	Q1 16	Q4 16	Q1 17	Q1 17 % QoQ Inc(Dec)	Q1 17 % YoY Inc(Dec)	Q1 17 % YoY Organic	Q1 17 % YoY Constant FX Organic
North America	236	170	169	(1)%	(28)%	(31)%	(31)%
% of Revenue	*46%*	*36%*	*37%*				
Latin America	55	68	57	(17)%	4%	4%	(1)%
% of Revenue	*11%*	*15%*	*12%*				
EMEA	170	181	168	(7)%	(1)%	(8)%	(4)%
% of Revenue	*33%*	*39%*	*37%*				
APAC	53	48	63	31%	19%	20%	21%
% of Revenue	*10%*	*10%*	*14%*				
TOTAL	514	468	457	(2)%	(11)%	(14)%	(13)%

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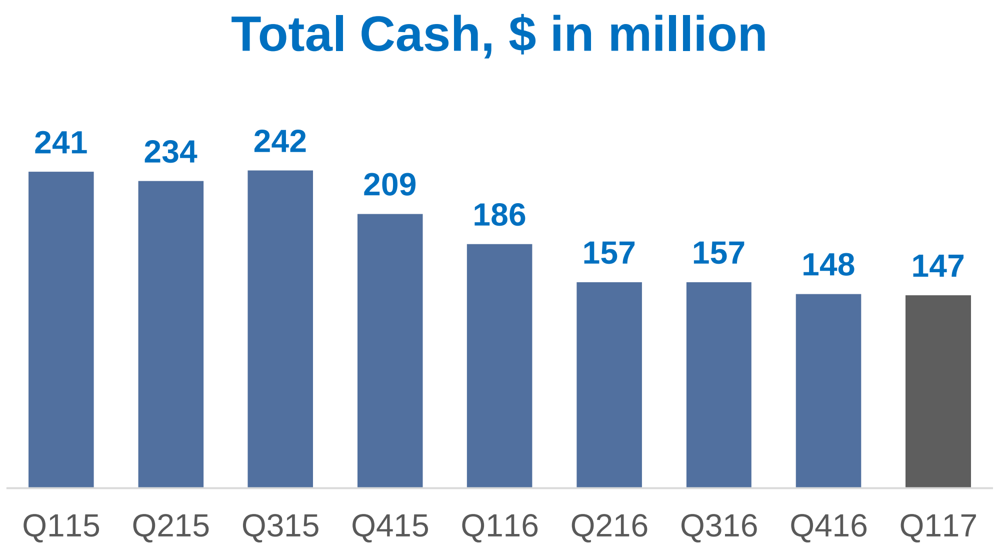
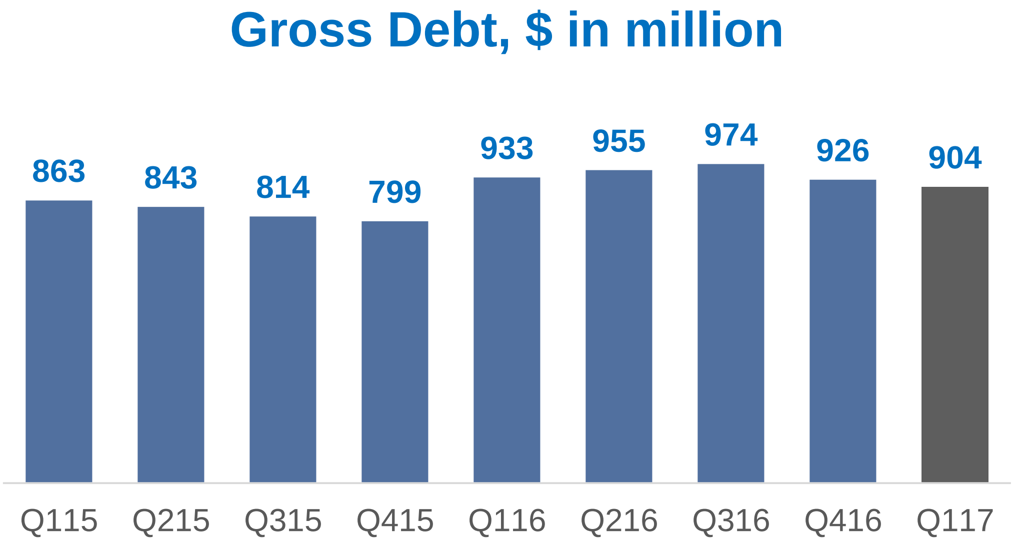
Cash & Debt*



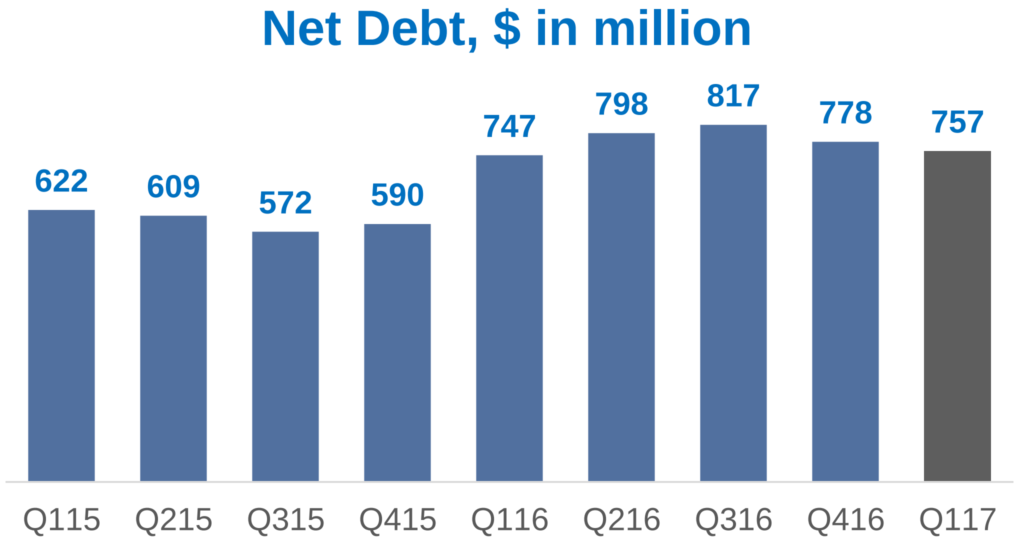


Debt Statistics
As of Jan 31, 2017

Short Term	$67m
Long Term	$837m
Outstanding	$904m

Credit Ratings

S&P	BB
Moody's	Ba2



* Debt issuance costs are reflected as a reduction of gross debt due to newly issued accounting principles

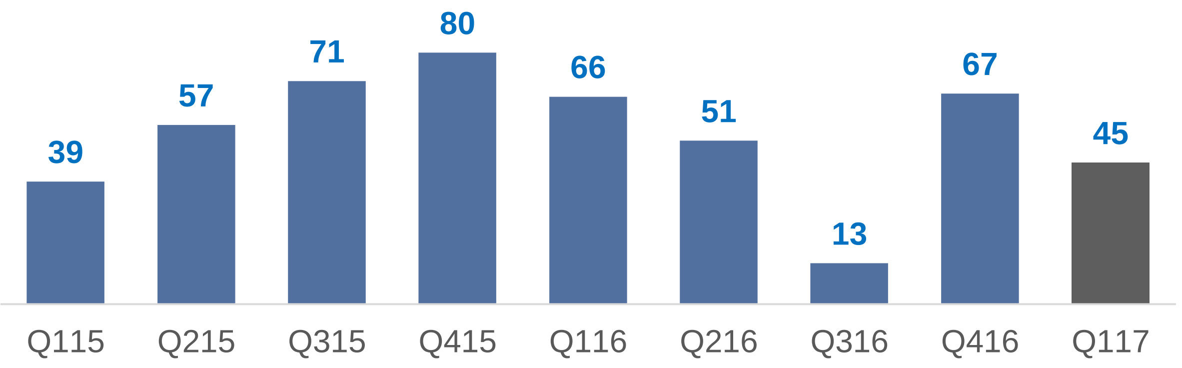
Balance Sheet & Working Capital Metrics*

$ in million	Q1 16		Q4 16		Q1 17	
	$	Days	$	Days	$	Days
Accounts Receivable, net	356	62	323	62	323	64
Inventories	137	41	175	57	156	53
Accounts Payable	185	57	155	49	133	43
Cash Conversion Cycle		46		70		74

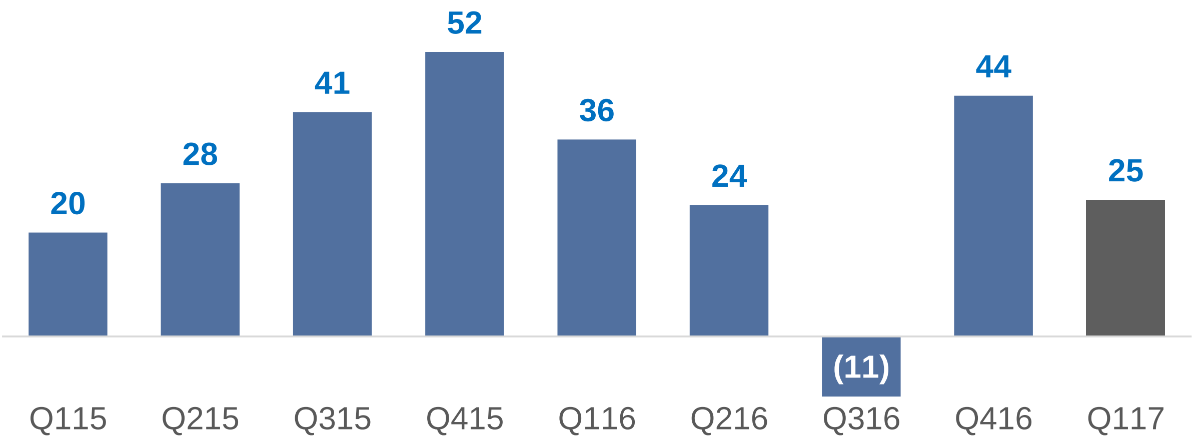
Accounts Receivable Days is calculated as Accounts Receivable, net divided by Non-GAAP Total Net Revenues multiplied by 90 days
Inventory Days is calculated as Average Inventory divided by Non-GAAP Total Cost of Net Revenues multiplied by 90 days
Accounts Payable Days is calculated as Accounts Payable divided by Non-GAAP Total Cost of Net Revenues multiplied by 90 days
Cash Conversion Cycle is calculated as Accounts Receivable Days plus Inventory Days less Accounts Payable Days
*A reconciliation of our GAAP to Non-GAAP financial results can be found in the appendix section

Cash Flow*

Operating cash flow, $ in million



Free cash flow, $ in million



$45M
Operating Cash Flow

$20M
Cap Ex

$25M
Free Cash Flow

* Operating Cash Flow = GAAP net cash provided by operating activities. Free Cash Flow is a non-GAAP financial measure

* A reconciliation of our GAAP to Non-GAAP financial results can be found in the appendix section

2017 Guidance*

	Q2 17	FY17
GAAP Net Revenues	$470-474M	$1.895B-1.910B
GAAP EPS	$0.04	$0.32-0.36
Non-GAAP Net Revenues	$470-474M	$1.900B-1.915B
Non-GAAP EPS	$0.29	$1.35-1.39
Fully Diluted Shares	~112M	~112M
Non-GAAP Operating Margin	~10%	~12%
Free Cash Flow		~$120M
Capital Expenditures		$105M

* Reconciliation of our GAAP to Non-GAAP financial results can be found in the appendix section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APPENDIX

Reconciliation of GAAP to Non-GAAP Key Metrics Q117

(In millions, except per share data and percentages)	*Note*	Net revenues	Gross margin	Gross margin percentage	Operating income (loss)	Income tax provision	Net income (loss) attributable to VeriFone Systems, Inc. stockholders
Three Months Ended January 31, 2017							
GAAP		**$ 453.9**	**$ 171.4**	**37.8%**	**$ (4.4)**	**$ 2.9**	**$ (16.6)**
Adjustments:							
Amortization of step-down deferred services net revenues at acquisition and associated costs of goods sold	A	2.7	2.2		2.2	—	2.2
Amortization of purchased intangible assets	D	—	2.5		21.2	—	21.2
Other merger and acquisition related expenses	D	—	—		—	—	(1.6)
Stock based compensation	E	—	0.9		9.6	—	9.6
Restructuring and related charges	F	—	0.8		9.5	—	9.5
Income tax effect of non-GAAP exclusions	G	—	—		—	1.1	(1.1)
Non-GAAP		$ 456.6	$ 177.8	38.9%	$ 38.1	$ 4.0	$ 23.2

		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		**111.4**	**111.4**	**$ (0.15)**	**$ (0.15)**
Adjustment for diluted shares	H	—	0.3		
Non-GAAP		111.4	111.7	$ 0.21	$ 0.21

(1) Diluted 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 used in computing net income (loss) per share attributable to VeriFone Systems, Inc. stockholders.

Reconciliation of GAAP to Non-GAAP Key Metrics Q416

(In millions, except per share data and percentages)	*Note*		Net revenues		Gross margin	Gross margin percentage		Operating income (loss)		Income tax provision		Net income (loss) attributable to VeriFone Systems, Inc. stockholders
Three Months Ended October 31, 2016												
GAAP		**$**	**464.2**	**$**	**177.5**	**38.2%**	**$**	**(0.9)**	**$**	**6.2**	**$**	**(4.5)**
Adjustments:												
Amortization of step-down deferred services net revenues at acquisition and associated costs of goods sold	A		3.4		2.4			2.4		—		2.4
Amortization of purchased intangible assets	D		—		3.4			28.0		—		28.0
Other merger and acquisition related expenses	D		—		—			0.8		—		(11.7)
Stock based compensation	E		—		0.8			9.4		—		9.4
Restructuring and related charges	F		—		—			7.1		—		7.1
Other charges and income	F		—		0.6			1.9		—		1.9
Income tax effect of non-GAAP exclusions	G		—		—			—		(0.5)		0.5
Non-GAAP		$	467.6	$	184.7	39.5%	$	48.7	$	5.7	$	33.1

		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		**111.1**	**111.1**	**$**	**(0.04)**	**$**	**(0.04)**
Adjustment for diluted shares	H	—	0.3				
Non-GAAP		111.1	111.4	$	0.30	$	0.30

(1) Diluted 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 used in computing net income (loss) per share attributable to VeriFone Systems, Inc. stockholders.

Reconciliation of GAAP to Non-GAAP Key Metrics Q116

(In millions, except per share data and percentages)	*Note*	Net revenues	Gross margin	Gross margin percentage	Operating income	Income tax provision	Net income attributable to VeriFone Systems, Inc. stockholders
Three Months Ended January 31, 2016							
GAAP		**$ 513.5**	**$ 215.3**	**41.9%**	**$ 36.2**	**$ 2.0**	**$ 23.5**
Adjustments:							
Amortization of step-down in deferred services net revenues at acquisition	A	0.1	0.1		0.1	—	0.1
Amortization of purchased intangible assets	D	—	3.9		23.5	—	23.5
Other merger and acquisition related expenses	D	—	—		2.0	—	0.9
Stock based compensation	E	—	0.8		10.5	—	10.5
Restructuring and related charges	F	—	(0.1)		(0.1)	—	(0.1)
Other charges and income	F	—	—		—	—	2.5
Income tax effect of non-GAAP exclusions	G	—	—		—	7.2	(7.2)
Non-GAAP		$ 513.6	$ 220.0	42.8%	$ 72.2	$ 9.2	$ 53.7

	Weighted average number of shares used in computing net income per share: Basic	Diluted	Net income per share attributable to VeriFone Systems, Inc. stockholders (1): Basic	Diluted
GAAP	**111.3**	**112.4**	**$ 0.21**	**$ 0.21**
Non-GAAP	111.3	112.4	$ 0.48	$ 0.48

(1) Diluted net income per share is calculated by dividing the Net income attributable to VeriFone Systems, Inc. stockholders by the weighted average number of shares used in computing net income per share attributable to VeriFone Systems, Inc. stockholders.

Reconciliation of GAAP to Non-GAAP Gross Margin

(In millions, except percentages)	*Note*	Systems net revenues		Services net revenues		Total net revenues		Total cost of net revenues		Systems gross margin		Services gross margin		Total gross margin	
Three Months Ended January 31, 2017															
GAAP		**$**	**265.4**	**$**	**188.5**	**$**	**453.9**	**$**	**282.5**	**$**	**99.0**	**$**	**72.4**	**$**	**171.4**
Percentage of GAAP net revenues			**58.5%**		**41.5%**				**62.2%**		**37.3%**		**38.4%**		**37.8%**
Amortization of step-down deferred services net revenues at acquisition and associated costs of goods sold	A		—		2.7		2.7		0.5		—		2.2		2.2
Amortization of purchased intangible assets	D		—		—		—		(2.5)		1.0		1.5		2.5
Stock based compensation	E		—		—		—		(0.9)		0.6		0.3		0.9
Restructuring and related charges	F		—		—		—		(0.8)		—		0.8		0.8
Non-GAAP		$	265.4	$	191.2	$	456.6	$	278.8	$	100.6	$	77.2	$	177.8
Percentage of Non-GAAP net revenues			58.1%		41.9%				61.1%		37.9%		40.4%		38.9%
Three Months Ended October 31, 2016															
GAAP		**$**	**264.3**	**$**	**199.9**	**$**	**464.2**	**$**	**286.7**	**$**	**91.0**	**$**	**86.5**	**$**	**177.5**
Percentage of GAAP net revenues			**56.9%**		**43.1%**				**61.8%**		**34.4%**		**43.3%**		**38.2%**
Amortization of step-down deferred services net revenues at acquisition and associated costs of goods sold	A		—		3.4		3.4		1.0		—		2.4		2.4
Amortization of purchased intangible assets	D		—		—		—		(3.4)		1.9		1.5		3.4
Stock based compensation	E		—		—		—		(0.8)		0.5		0.3		0.8
Restructuring and related charges	F		—		—		—		—		(0.5)		0.5		—
Other charges and income	F		—		—		—		(0.6)		—		0.6		0.6
Non-GAAP		$	264.3	$	203.3	$	467.6	$	282.9	$	92.9	$	91.8	$	184.7
Percentage of Non-GAAP net revenues			56.5%		43.5%				60.5%		35.2%		45.1%		39.5%
Three Months Ended January 31, 2016															
GAAP		**$**	**337.6**	**$**	**175.9**	**$**	**513.5**	**$**	**298.2**	**$**	**142.8**	**$**	**72.5**	**$**	**215.3**
Percentage of Non-GAAP net revenues			**65.7%**		**34.3%**				**58.1%**		**42.3%**		**41.2%**		**41.9%**
Amortization of step-down in deferred services net revenues at acquisition	A		—		0.1		0.1		—		—		0.1		0.1
Amortization of purchased intangible assets	D		—		—		—		(3.9)		3.1		0.8		3.9
Other merger and acquisition related expenses	D		—		—		—		—		—		—		—
Stock based compensation	E		—		—		—		(0.8)		0.5		0.3		0.8
Restructuring and related charges	F		—		—		—		0.1		—		(0.1)		(0.1)
Non-GAAP		$	337.6	$	176.0	$	513.6	$	293.6	$	146.4	$	73.6	$	220.0
Percentage of Non-GAAP net revenues			65.7%		34.3%				57.2%		43.4%		41.8%		42.8%

Reconciliation of GAAP to Non-GAAP Operating Expenses

(In millions, except percentages)	*Note*	Research and development		Sales and marketing		General and administrative		Amortization of purchased intangible assets		Total	
Three Months Ended January 31, 2017											
GAAP		**$**	**56.8**	**$**	**49.4**	**$**	**50.8**	**$**	**18.8**	**$**	**175.8**
% of total GAAP net revenues			**12.5%**		**10.9%**		**11.2%**		**4.1%**		**38.7%**
Amortization of purchased intangible assets	D		—		—		—		(18.8)		(18.8)
Stock based compensation	E		(1.5)		(2.6)		(4.5)		—		(8.6)
Restructuring and related charges	F		(8.0)		(0.2)		(0.5)		—		(8.7)
Non-GAAP		$	47.3	$	46.6	$	45.8	$	—	$	139.7
% of total Non-GAAP net revenues			10.4%		10.2%		10.0%		—%		30.6%
Three Months Ended October 31, 2016											
GAAP		**$**	**50.1**	**$**	**50.0**	**$**	**53.7**	**$**	**24.6**	**$**	**178.4**
% of total GAAP net revenues			**10.6%**		**10.7%**		**10.2%**		**5.3%**		**38.4%**
Amortization of purchased intangible assets	D		—		—		—		(24.6)		(24.6)
Other merger and acquisition related expenses	D		—		—		(0.8)		—		(0.8)
Stock based compensation	E		(1.5)		(3.2)		(3.9)		—		(8.6)
Restructuring and related charges	F		(0.7)		(0.2)		(6.2)		—		(7.1)
Other charges and income	F		(0.4)		(0.4)		(0.5)		—		(1.3)
Non-GAAP		$	47.5	$	46.2	$	42.3	$	—	$	136.0
% of total Non-GAAP net revenues			10.2%		9.9%		9.0%		—%		29.1%

Reconciliation of GAAP to Non-GAAP Operating Expenses

(In millions, except percentages)	*Note*	Research and development	Sales and marketing	General and administrative	Amortization of purchased intangible assets	Total
Three Months Ended January 31, 2016						
GAAP		**$ 51.7**	**$ 55.0**	**$ 52.8**	**$ 19.6**	**$ 179.1**
% of total GAAP net revenues		**10.1%**	**10.7%**	**10.3%**	**3.8%**	**34.9%**
Amortization of purchased intangible assets	D	—	—	—	(19.6)	(19.6)
Other merger and acquisition related expenses	D	(0.1)	0.5	(2.4)	—	(2.0)
Stock based compensation	E	(1.9)	(3.3)	(4.5)	—	(9.7)
Non-GAAP		$ 49.7	$ 52.2	$ 45.9	$ —	$ 147.8
% of total Non-GAAP net revenues		9.7%	10.2%	8.9%	—%	28.8%

Reconciliation of GAAP to Non-GAAP Net Revenues

$ in millions	GAAP net revenues	Amortization of step-down in deferred revenue at acquisition	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
Note		(A)	(A)	(B)	(B)	(C)	(C)
Three Months Ended January 31, 2017							
North America	$ 165.9	$ 2.7	$ 168.6	$ (5.4)	$ 163.2	$ (0.1)	$ 163.1
Latin America	57.0	—	57.0	—	57.0	(2.5)	54.5
EMEA	168.1	—	168.1	(11.1)	157.0	6.8	163.8
Asia-Pacific	62.9	—	62.9	—	62.9	0.7	63.6
Total	$ 453.9	$ 2.7	$ 456.6	$ (16.5)	$ 440.1	$ 4.9	$ 445.0
Three Months Ended October 31, 2016							
North America	$ 167.1	$ 3.4	$ 170.5				
Latin America	68.3	—	68.3				
EMEA	180.8	—	180.8				
Asia-Pacific	48.0	—	48.0				
Total	$ 464.2	$ 3.4	$ 467.6				
Three Months Ended January 31, 2016							
North America	$ 235.7	$ —	$ 235.7	$ —	$ 235.7		
Latin America	54.8	—	54.8	—	54.8		
EMEA	170.3	0.1	170.4	—	170.4		
Asia-Pacific	52.7	—	52.7	—	52.7		
Total	$ 513.5	$ 0.1	$ 513.6	$ —	$ 513.6		

Reconciliation of Operating Cash Flow to Free Cash Flow

$ in millions	*Note*	Three Months Ended January 31, 2017	October 31, 2016	July 31, 2016	April 30, 2016
GAAP net cash provided by operating activities	I	$ 44.7	$ 66.8	$ 13.0	$ 51.4
Less: GAAP capital expenditures	I	(19.5)	(23.1)	(23.9)	(27.7)
Free cash flow	I	$ 25.2	$ 43.7	$ (10.9)	$ 23.7
Net income attributable to VeriFone Systems, Inc. stockholders		23.2	33.1		
Free cash flow conversion ratio	I	108.6%	132.0%		

		Three Months Ended January 31, 2016	October 31, 2015	July 31, 2015	April 30, 2015
GAAP net cash provided by operating activities	I	$ 66.3	$ 80.1	$ 70.6	$ 57.4
Less: GAAP capital expenditures	I	(30.6)	(28.0)	(29.6)	(29.3)
Free cash flow	I	$ 35.7	$ 52.1	$ 41.0	$ 28.1
Net income attributable to VeriFone Systems, Inc. stockholders		53.7			
Free cash flow conversion ratio	I	66.7%			

		Three Months Ended January 31, 2015	October 31, 2014	July 31, 2014	April 30, 2014
GAAP net cash provided by operating activities	I	$ 39.4	$ 47.9	$ 56.7	$ 55.4
Less: GAAP capital expenditures	I	(19.6)	(22.2)	(20.9)	(21.0)
Free cash flow	I	$ 19.8	$ 25.7	$ 35.8	$ 34.4

All prior periods recast to reflect adoption of ASU 2016-18 effective November 1, 2016.

Reconciliation of Net Revenues and Operating Margin Guidance

$ in millions, except percentages	*Note*	**Three Months Ending April 30, 2017**	**Year Ending October 31, 2017**
GAAP net revenues		**$ 470-474**	**$ 1,895-1,910**
Adjustments to net revenues:	A	—	5
Non-GAAP net revenues		$ 470-474	$ 1,900-1,915
GAAP Operating margin		**3.6%**	**4.8%**
Adjustments: (1)			
Amortization of step-down deferred services net revenues and associated costs of goods sold at acquisition	A	0.2%	0.2%
Amortization of purchased intangible assets	D	4.1%	4.4%
Stock based compensation	E	2.1%	2.1%
Restructuring and related charges	F	—%	0.5%
Non-GAAP operating margin		10.0%	12.0%

(1) Except for the adjustments noted herein, this guidance does not include the effects of any future acquisitions/divestitures, restructuring activities, significant legal matters, and non-recurring income tax adjustments, which are difficult to predict and which may or may not be significant.

Reconciliation of Earnings Per Share and Free Cash Flow Guidance

$ in millions, except per share amounts	*Note*	**Three Months Ending April 30, 2017**	**Year Ending October 31, 2017**
Diluted GAAP earnings per share (1)		**$ 0.04**	**$0.32-$0.36**
Adjustments: (2)			
Amortization of step-down deferred services net revenues and associated costs of goods sold at acquisition	A	$ —	$ 0.02
Amortization of purchased intangible assets	D	0.19	0.70
Stock based compensation	E	0.10	0.40
Restructuring and related charges	F	—	0.09
Income tax effect of non-GAAP exclusions (3)	G	(0.04)	(0.18)
Diluted Non-GAAP earnings per share (1)		$ 0.29	$1.35-$1.39
GAAP net cash provided by operating activities	I		$ 225
Less: GAAP capital expenditures	I		(105)
Free cash flow	I		$ 120

(1) GAAP and non-GAAP diluted EPS are determined using the most dilutive measure, which includes outstanding RSU and RSA shares in the calculation of the weighted average diluted shares outstanding in periods in which we expect net income.
(2) Except for the adjustments noted herein, this guidance does not include the effects of any future acquisitions/divestitures, restructuring activities, significant legal matters, and non-recurring income tax adjustments, which are difficult to predict and which may or may not be significant.
(3) Assuming a GAAP effective tax rate of 14.5% applied to the above non-GAAP exclusions.

Explanatory Notes to Reconciliations of GAAP to non-GAAP items

Note A: Non-GAAP net revenues, costs of goods sold and gross margin. Non-GAAP net revenues exclude the fair value decrease (step-down) in deferred revenue at acquisition. Non-GAAP costs of goods sold exclude the costs of goods associated with the fair value decrease (step-down) in deferred revenue at acquisition. Although the step-down of deferred revenue fair value at acquisition and associated costs of goods sold are reflected in our GAAP financial statements, they result in net revenues and gross margins immediately post-acquisition that are lower than net revenues and gross margins that would be recognized in accordance with GAAP on those same services if they were sold under contracts entered into post-acquisition. Accordingly, we adjust the step-down to achieve comparability to net revenues and gross margins of the acquired entity earned pre-acquisition and to our GAAP net revenues and gross margins to be earned on contracts sold in future periods. These adjustments, which relate principally to our acquisition of AJB during February 2016, enhance the ability of our management and our investors to assess our financial performance and trends. These non-GAAP net revenues, costs of goods sold and gross margin amounts are not intended to be a substitute for our GAAP disclosures of net revenues, costs of goods sold and gross margin, 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. Because Verifone's business has grown through both organic growth and strategic acquisitions, Verifone analyzes performance both with and without the impact of our recent acquisitions. Accordingly, Verifone believes that both non-GAAP net revenues and non-GAAP organic net revenues provide useful information to investors.

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 Systems and Services attributable to businesses acquired in the 12 months preceding the respective financial quarter(s), such as Intercard and AJB. 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 business performance and trends on a comparable basis excluding the impact of foreign currency fluctuations.

Explanatory Notes to Reconciliations of GAAP to non-GAAP items

Note D: Merger and Acquisition Related. Verifone adjusts certain revenues and expenses for items that are the result of mergers and acquisitions. Merger and acquisition related adjustments include the amortization of intangible assets, contingent consideration fair market value adjustments, interest on contingent consideration, transaction expenses associated with acquisitions, and acquisition integration expenses.

Amortization of intangible assets: Verifone incurs amortization of intangible assets in connection with its acquisitions, such as amortization of finite lived customer relationships intangibles. We are required to allocate a portion of the purchase price of each business acquisition to the intangible assets acquired and to amortize this amount over the estimated useful lives of those acquired intangible assets. Because these amounts have no direct correlation to Verifone's underlying business operations, we eliminate these amortization charges and any associated minority interest impact from our non-GAAP operating results to provide better comparability of pre-acquisition and post-acquisition operating results.

Contingent consideration fair market value adjustments and interest on contingent consideration: In connection with its acquisitions, Verifone owes contingent consideration payments based upon the post-acquisition performance of and other factors related to acquired businesses. These contingent consideration liabilities are reported at fair market value and incur non-cash imputed interest. Changes in the fair market value of contingent consideration and imputed interest expense vary independent of our ongoing operating results and have no direct correlation to our underlying business operations. Accordingly, Verifone excludes these amounts from our non-GAAP operating results to provide better comparability of pre-acquisition and post-acquisition operating results.

Transaction expenses associated with acquisitions: Verifone incurs transaction expenses in connection with its acquisitions, which include legal and other professional fees such as advisory, accounting, valuation and consulting fees. These transaction expenses are related to acquisitions and have no direct correlation with the ongoing operation of Verifone's business. Accordingly, Verifone excludes these amounts from our non-GAAP operating results to provide better comparability of pre-acquisition and post-acquisition operating results.

Acquisition integration expenses: In connection with its acquisitions, Verifone incurs costs relating to the integration of the acquired business with Verifone's ongoing business, which includes expenses relating to the integration of facilities and other infrastructure, information technology systems and employee-related costs such as costs of personnel required to assist with integration transitions. These acquisition integration expenses are related to acquisitions and have no direct correlation with the ongoing operation of Verifone's business. Accordingly, Verifone excludes these amounts from our non-GAAP operating results to provide better comparability of pre-acquisition and post-acquisition operating results.

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 and. 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 a 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 a 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. Accordingly, we believe that excluding stock-based compensation expense from our non-GAAP operating results facilitates better understanding of our long-term business performance and enhances period-to-period comparability.

Explanatory Notes to Reconciliations of GAAP to non-GAAP items

Note F: Other Charges and Income. Verifone excludes certain expenses, other income (expense) and gains (losses) that we have determined are not reflective of ongoing operating results or that vary independent of business performance. 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 limit the comparability of our ongoing operations with prior and future periods. These adjustments for other charges and income include:

Transformation and restructuring: Over the past several years, we have incurred certain expenses, such as professional services, contract cancellation fees and certain personnel and personnel related costs incurred on initiatives to transform, streamline, centralize and restructure our global operations. These charges include involuntary termination costs, costs to cancel facility leases, write down of assets held for sale, associated legal and other advisory fees, as well as operating income and losses of businesses identified to exit as part of our strategic review of under-performing businesses and global transformation initiatives. Each of these charges has been incurred in connection with discrete activities in furtherance of specific business objectives in light of prevailing circumstances, and each charge and the associated activity or activities have had differing impacts on our business operations. We do not incur these costs in the ordinary course of business. While certain of these items have recurred in recent years and may continue to recur in the near future, the amount of these items has varied significantly from period to period. Accordingly, management assesses our operating performance with these amounts included and excluded, and we believe that by providing this information, users of our financial statements are better able to understand the financial results of what we consider to be our continuing operations and compare our current operating performance to our past operating performance.

Foreign exchange losses related to obligations denominated in currencies of highly inflationary economies: Our non-GAAP operating results do not include foreign exchange losses related to obligations denominated in highly inflationary economies, such as the devaluation of the Argentina Peso during the first quarter of fiscal year 2016. We believe that excluding such losses provides a better indication of our business performance, as the existence of high inflation in these economies varies independent of our business performance, and enhances the comparability of our business performance during periods before and after such inflation occurred.

Note G: Income Tax Effect of Non-GAAP exclusions. Income taxes are adjusted for the tax effect of the adjusting items related to our non-GAAP financial measures and to reflect our medium to long term estimate of 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. For the purpose of compiling non-GAAP actual results, we used a 14.5% rate for all periods presented.

Note H: Non-GAAP diluted shares. Diluted GAAP and non-GAAP weighted-average shares outstanding are the same in all periods except where there is a GAAP net loss. In accordance with GAAP, we do not consider dilutive shares in periods that there is a net loss. However, in periods when we have a non-GAAP net income and a GAAP basis net loss, diluted non-GAAP weighted average shares include additional shares that are dilutive for non-GAAP computations of earnings per share.

Note I: Free Cash Flow. Verifone determines free cash flow as net cash provided by operating activities less capital expenditures. The free cash flow conversion ratio is free cash flow divided by non-GAAP Net income attributable to VeriFone Systems, Inc. stockholders.

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