

VeriFone Holdings, Inc.  
Form 10-Q/A  
August 19, 2008

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q/A  
(Amendment No. 1)**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended April 30, 2007**
- 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 HOLDINGS, INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**04-3692546**

*(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  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. (Check one):

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

Edgar Filing: VeriFone Holdings, Inc. - Form 10-Q/A

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

At May 25, 2007, the number of shares outstanding of the registrant's common stock, \$0.01 par value per share was 82,967,716.

---

**Table of Contents**

**EXPLANATORY NOTE**

This Amendment No. 1 (the Amended 10-Q ) to the Quarterly Report on Form 10-Q of VeriFone Holdings, Inc. (the Company or VeriFone ) for the three and six months ended April 30, 2007 is being filed to correct certain errors in VeriFone s Condensed Consolidated Financial Statements and the related disclosures.

As discussed in Note 2, Restatement of Condensed Consolidated Financial Statements, of the notes to the accompanying Condensed Consolidated Financial Statements in this Amended 10-Q, the correction of these errors from previously reported information for the three months ended April 30, 2007 has resulted in a reduction in income (loss) before income taxes of \$9.9 million, primarily as a result of a \$12.2 million increase in total cost of net revenues offset by a \$2.7 million reduction in operating expenses. The correction of these errors from previously reported information for the six months ended April 30, 2007 has resulted in a reduction in income (loss) before income taxes of \$22.4 million, primarily as a result of a \$24.7 million increase in total cost of net revenues offset by a \$3.1 million reduction in operating expenses.

On December 3, 2007, we announced that our management had identified errors in accounting related to the valuation of in-transit inventory and the allocation of manufacturing and distribution overhead to inventory and that as a result of these errors we anticipated that a restatement of our unaudited condensed consolidated financial statements would be required for the following interim periods:

the three months ended January 31, 2007;

the three and six months ended April 30, 2007; and

the three and nine months ended July 31, 2007.

On December 3, 2007, following our announcement, the Audit Committee approved the commencement of an independent investigation into the errors in accounting that led to the anticipated restatement. The Audit Committee engaged independent counsel, Simpson Thacher & Bartlett LLP ( Simpson Thacher ), to conduct the independent investigation under the supervision of the Audit Committee. Simpson Thacher engaged Navigant Consulting, Inc. ( Navigant ) as independent forensic accountants. The scope of the investigation was proposed by Simpson Thacher in consultation with Navigant and approved by the Audit Committee.

On April 2, 2008, the Company announced that its Audit Committee had completed the independent investigation. The Audit Committee investigation found no evidence that any period prior to fiscal year 2007 required restatement.

Concurrently with the Audit Committee investigation, we also conducted an internal review for the purpose of restating our fiscal 2007 interim financial statements and preparing our fiscal 2007 annual financial statements and fiscal 2008 interim financial statements. This review included evaluations of the previously made accounting determinations and judgments. As a result, we have also corrected additional errors, including errors that had previously not been corrected because our management believed that individually and in the aggregate such errors were not material to our consolidated financial statements. Management also made additional adjustments to reduce certain accruals which had been recorded, such as bonuses, which were accrued based upon information which, following the restatement, was no longer accurate.

The following items have been amended principally as a result of, and to reflect, the restatements:

Part I Item 1. Financial Statements (Unaudited);

Part I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations;

Part I Item 4. Controls and Procedures;

Part II Item 1. Legal Proceedings;

**Table of Contents**

Part II Item 1A. Risk Factors;

Part II Item 6. Exhibits.

For the convenience of the reader, this Amended 10-Q amends and restates in its entirety the Quarterly Report on Form 10-Q for the three and six months ended April 30, 2007 (the "10-Q"). However, this Amended 10-Q amends only the items referred to above, in each case as a result of and to reflect the adjustments discussed above and more fully in Note 2 of the accompanying Condensed Consolidated Financial Statements and related disclosures. No other information in the 10-Q is amended hereby. The foregoing items have not been updated to reflect other events occurring after the filing of the 10-Q, or to modify or update those disclosures affected by other subsequent events. In particular, forward-looking statements included in this Amended 10-Q represented management's views as of the date of filing of the 10-Q for the quarterly period ended April 30, 2007 on May 31, 2007. Such forward-looking statements should not be assumed to be accurate as of any future date. VeriFone undertakes no duty to update such information whether as a result of new information, future events or otherwise.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, VeriFone's principal executive officer and principal financial officer are providing Rule 13a-14(a) certifications dated August 19, 2008 in connection with this Amended 10-Q (but otherwise identical to their prior certifications) and are also furnishing, but not filing, written statements pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated August 19, 2008 (but otherwise identical to their prior statements).

**TABLE OF CONTENTS**

**VERIFONE HOLDINGS, INC.**

**INDEX**

**PART I FINANCIAL INFORMATION**

<u>Item 1</u>	<u>Financial Statements (unaudited):</u>	
	<u>Condensed Consolidated Balance Sheets April 30, 2007 (restated) and October 31, 2006</u>	5
	<u>Condensed Consolidated Statements of Operations Three and Six Months Ended April 30, 2007 (restated) and 2006</u>	6
	<u>Condensed Consolidated Statements of Cash Flows Six Months Ended April 30, 2007 (restated) and 2006</u>	7
	<u>Notes to Condensed Consolidated Financial Statements (restated)</u>	8
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	52
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	66
<u>Item 4</u>	<u>Controls and Procedures</u>	67

**PART II OTHER INFORMATION**

<u>Item 1</u>	<u>Legal Proceedings</u>	69
<u>Item 1A</u>	<u>Risk Factors</u>	70
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	74
<u>Item 3</u>	<u>Defaults Upon Senior Securities</u>	74
<u>Item 4</u>	<u>Submission of Matters to a Vote of Security Holders</u>	74
<u>Item 5</u>	<u>Other Information</u>	74
<u>Item 6</u>	<u>Exhibits</u>	74
<u>Signatures</u>		75
<u>EXHIBIT 31.1</u>		
<u>EXHIBIT 31.2</u>		
<u>EXHIBIT 32.1</u>		

**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>April 30, 2007</b>	<b>October 31, 2006</b>
	<b>(Restated)(1)</b>	
	<b>(Unaudited)</b>	
	<b>(In thousands, except par value)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 175,760	\$ 86,564
Accounts receivable, net of allowances of \$3,746 and \$2,364	168,199	119,839
Inventories	101,449	86,631
Deferred tax assets	15,885	13,267
Prepaid expenses and other current assets	45,001	12,943
Total current assets	506,294	319,244
Property, plant and equipment, net	33,492	7,300
Purchased intangible assets, net	193,606	16,544
Goodwill	583,038	52,689
Deferred tax assets	26,030	21,706
Debt issuance costs, net	10,328	10,987
Transaction costs		12,350
Other assets	21,058	12,125
Total assets	\$ 1,373,846	\$ 452,945
<b>LIABILITIES AND STOCK HOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 72,558	\$ 66,685
Income taxes payable	4,573	5,951
Accrued compensation	20,758	16,202
Accrued warranty	11,461	4,902
Deferred revenue, net	36,599	23,567
Accrued expenses	5,565	4,752
Accrued transaction costs		12,000
Other current liabilities	50,036	13,661
Current portion of long-term debt	5,416	1,985



Restructuring liabilities	2,808	2,963
Total current liabilities	209,774	152,668
Accrued warranty	670	530
Deferred revenue	9,807	7,371
Long-term debt, less current portion	494,036	190,904
Deferred tax liabilities	75,646	859
Other long-term liabilities	10,408	1,872
Total liabilities	800,341	354,204
Minority interest	437	
Stockholders' equity:		
Preferred Stock: 10,000 shares authorized as of April 30, 2007 and October 31, 2006; no shares issued and outstanding as of April 30, 2007 and October 31, 2006		
Common Stock: \$0.01 par value, 100,000 shares authorized at April 30, 2007 and October 31, 2006; 82,865 and 68,148 shares issued and outstanding as of April 30, 2007 and October 31, 2006	828	682
Additional paid-in-capital	615,007	140,569
Accumulated deficit	(53,965)	(43,468)
Accumulated other comprehensive income	11,198	958
Total stockholders' equity	573,068	98,741
Total liabilities and stockholders' equity	\$ 1,373,846	\$ 452,945

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements.

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

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>April 30,</b>		<b>April 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(Restated)(1)</b>		<b>(Restated)(1)</b>	
	<b>(Unaudited)</b>			
	<b>(In thousands, except per share data)</b>			
Net revenues:				
System Solutions	\$ 191,469	\$ 128,136	\$ 380,435	\$ 246,821
Services	25,414	14,054	52,811	29,999
Total net revenues	216,883	142,190	433,246	276,820
Cost of net revenues:				
System Solutions	125,951	71,765	259,242	138,880
Services	13,286	7,026	27,735	14,939
Total cost of net revenues	139,237	78,791	286,977	153,819
Gross profit	77,646	63,399	146,269	123,001
Operating expenses:				
Research and development	16,009	12,221	32,907	23,628
Sales and marketing	22,823	14,404	45,863	28,605
General and administrative	25,565	9,993	42,941	19,691
Amortization of purchased intangible assets	5,690	1,159	11,041	2,318
In-process research and development	90		6,650	
Total operating expenses	70,177	37,777	139,402	74,242
Operating income	7,469	25,622	6,867	48,759
Interest expense	(9,507)	(3,197)	(19,263)	(6,476)
Interest income	1,534	927	2,525	1,614
Other income (expense), net	(2)	65	(263)	266
Income (loss) before income taxes	(506)	23,417	(10,134)	44,163
Provision for income taxes	4,312	8,381	363	15,333
Net income (loss)	\$ (4,818)	\$ 15,036	\$ (10,497)	\$ 28,830
Net income (loss) per share:				
Basic	\$ (0.06)	\$ 0.23	\$ (0.13)	\$ 0.44
Diluted	\$ (0.06)	\$ 0.22	\$ (0.13)	\$ 0.42

Weighted average shares used in computing net income

(loss) per share:

Basic	81,705	65,799	81,343	65,751
Diluted	81,705	68,959	81,343	68,887

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements.

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

**Table of Contents****VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Six Months Ended</b>	
	<b>April 30,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Restated)(1)</b>	
	<b>(Unaudited)</b>	
	<b>(In thousands)</b>	
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ (10,497)	\$ 28,830
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of purchased intangible assets	30,236	5,330
Depreciation and amortization of property, plant and equipment	3,765	1,651
Amortization of capitalized software	570	598
In-process research and development	6,650	
Amortization of interest rate caps	2	139
Amortization of debt issuance costs	660	539
Stock-based compensation	16,095	2,112
Minority interest and equity in earnings of affiliates	63	
Other	(71)	(81)
Net cash provided by operating activities before changes in working capital	47,473	39,118
Changes in operating assets and liabilities:		
Accounts receivable, net	(13,490)	(19,639)
Inventories	52,228	(14,450)
Deferred tax assets	(3,366)	(1,871)
Prepaid expenses and other current assets	(21,405)	(607)
Other assets	(3,034)	42
Accounts payable	(5,251)	17,096
Income taxes payable	151	4,593
Tax benefit from stock-based compensation	(4,672)	(1,374)
Accrued compensation	(3,030)	(621)
Accrued warranty	(1,037)	(674)
Deferred revenue	6,532	5,133
Deferred tax liabilities	9,206	
Accrued expenses and other liabilities	(20,179)	(2,083)
Net cash provided by operating activities	40,126	24,663
<b>Cash flows from investing activities</b>		
Software development costs capitalized	(2,921)	(1,078)
Purchase of property, plant and equipment, net	(12,045)	(2,161)
Purchase of other assets	(500)	(1,114)
Purchases of marketable securities		(102,508)
Sales and maturities of marketable securities		106,625
Acquisition of businesses, net of cash and cash equivalents acquired	(264,334)	

Net cash used in investing activities	(279,800)	(236)
<b>Cash flows from financing activities</b>		
Proceeds from long-term debt, net of costs	305,335	
Repayment of long-term debt	(1,250)	(925)
Repayments of capital leases	(34)	(106)
Tax benefit of stock-based compensation	4,672	1,374
Proceeds from exercises of stock options	18,412	508
Other	23	85
Net cash provided by financing activities	327,158	936
Effect of foreign currency exchange rate changes on cash	1,712	790
Net increase in cash and cash equivalents	89,196	26,153
Cash and cash equivalents, beginning of period	86,564	65,065
Cash and cash equivalents, end of period	\$ 175,760	\$ 91,218
<b>Supplemental disclosures of cash flow information</b>		
Cash paid for interest	\$ 18,039	\$ 5,875
Cash paid for taxes	\$ 13,381	\$ 13,289
<b>Supplemental schedule of non-cash transactions:</b>		
Issuance of common stock and stock options for business acquisition	\$ 435,228	\$

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements.

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

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

**Note 1. Description of Business**

VeriFone Holdings, Inc. ( VeriFone or the Company ) was incorporated in the state of Delaware on June 13, 2002. VeriFone designs, markets, and services electronic payment solutions that enable secure electronic payments among consumers, merchants, and financial institutions.

On November 1, 2006, the Company acquired all of the outstanding ordinary shares of Lipman Electronic Engineering Ltd. ( Lipman ). The consideration paid to acquire Lipman was \$344.7 million in cash, 13,462,474 shares of common stock of the Company and assumption of all outstanding Lipman stock options. See Note 4 of Notes to Condensed Consolidated Financial Statements for additional information related to this business combination.

**Note 2. Restatement of Condensed Consolidated Financial Statements**

***Background***

On December 3, 2007, the Company announced that its management had identified errors in accounting related to the valuation of in-transit inventory and the allocation of manufacturing and distribution overhead to inventory and that as a result of these errors, the Company anticipated that a restatement of its unaudited condensed consolidated financial statements would be required for the following interim periods:

the three months ended January 31, 2007;

the three and six months ended April 30, 2007; and

the three and nine months ended July 31, 2007.

On December 3, 2007, following the announcement, the Company's Audit Committee approved the commencement of an independent investigation into the errors in accounting that led to the anticipated restatement. The Audit Committee engaged independent counsel, Simpson Thacher & Bartlett LLP ( Simpson Thacher ), to conduct the independent investigation under the Audit Committee's supervision. Simpson Thacher engaged Navigant Consulting, Inc. ( Navigant ) as independent forensic accountants. The scope of the investigation was proposed by Simpson Thacher in consultation with Navigant and approved by the Audit Committee. The investigation involved a program of forensic analysis designed to investigate, among other things:

the circumstances surrounding the errors identified by management and described in the Company's December 3, 2007 announcement;

whether additional errors existed requiring further restatement in the interim periods of fiscal 2007 and the adjustments required to correct and restate the Company's interim financial statements; and

whether evidence existed indicating that periods prior to fiscal 2007 may also be required to be restated.

Simpson Thacher and Navigant assembled an investigative team that ultimately consisted of approximately 70 professionals. Information and documents were gathered from current and former employees worldwide. Using

search technology, the investigative team evaluated over five million documents in physical and electronic form. Navigant also reviewed relevant accounting databases and journal entries. The investigative team also conducted more than 25 interviews of senior executives, former senior executives of Lipman, and current and former finance, accounting and supply chain personnel.

The Company announced on April 2, 2008 that the investigation was complete and that the investigation had confirmed the existence of the errors in accounting identified in the Company's December 3, 2007 announcement. In particular, the investigation confirmed that incorrect manual journal and elimination entries had been made primarily by the Company's Sacramento, California supply chain accounting team with respect to several inventory-related matters.

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The investigation also concluded that existing policies with respect to manual journal entries were not followed and that the review processes and controls in place were not sufficient to identify and correct the errors in a timely manner. The investigation found no evidence that any period prior to fiscal year 2007 required restatement.

Among the most significant errors giving rise to the restatement were:

manual journal entries made for the three months ended January 31, 2007 that erroneously added manufacturing and distribution overhead to inventory held at former Lipman subsidiaries, notwithstanding that overhead had already been allocated to that inventory. This duplication erroneously increased reported inventory and reduced reported cost of net revenues by \$7.7 million in the three months ended January 31, 2007;

manual journal entries made for the periods ended April 30, 2007 and July 31, 2007 that erroneously recorded in-transit inventory of an additional \$12.7 million at April 30, 2007 and an additional \$7.3 million at July 31, 2007 based on erroneous methodology and application of source documents; and

\$6.3 million in errors made in the elimination of intercompany profit in inventory for the nine months ended July 31, 2007.

Concurrently with the Audit Committee investigation, the Company also conducted an internal review for the purpose of restating the Company's fiscal 2007 interim financial statements and preparing the Company's fiscal 2007 annual financial statements and fiscal 2008 interim financial statements. This review included evaluations of the previously made accounting determinations and judgments. As a result, the Company has also corrected additional errors, including errors that had previously not been corrected because management believed that individually and in the aggregate such errors were not material to the Company's consolidated financial statements. Management also made additional adjustments to reduce certain accruals which had been recorded, such as bonuses, which were accrued based upon information which, following the restatement, was no longer accurate.

***Restatement Adjustments***

The following tables present the impact of the restatement adjustments on the Company's previously reported condensed consolidated balance sheet as of April 30, 2007, condensed consolidated statements of operations for the three and six months ended April 30, 2007, and condensed consolidated statement of cash flows for the six months ended April 30, 2007. The impact to the statement of cash flows is the result of the adjustments to the condensed consolidated balance sheet and condensed consolidated statements of operations described below.



**Table of Contents****VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>April 30, 2007</b>			
	<b>As Reported</b>	<b>Adjustments</b>	<b>Ref.</b>	<b>Restated</b>
	<b>(In thousands)</b>			
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 175,760	\$		\$ 175,760
Accounts receivable, net of allowances	168,375	(176)		168,199
Inventories	125,390	(23,941)	(b)	101,449
Deferred tax assets	14,726	1,159	(e)	15,885
Prepaid expenses and other current assets	33,291	11,710	(e)	45,001
Total current assets	517,542	(11,248)		506,294
Property, plant and equipment, net	36,236	(2,744)	(f)	33,492
Purchased intangible assets, net	199,517	(5,911)	(f)	193,606
Goodwill	549,073	33,965	(f)	583,038
Deferred tax assets	46,198	(20,168)	(e)	26,030
Debt issuance costs, net	10,328			10,328
Other assets	18,207	2,851	(f)	21,058
Total assets	\$ 1,377,101	\$ (3,255)		\$ 1,373,846
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>				
Current liabilities:				
Accounts payable	\$ 72,566	\$ (8)		\$ 72,558
Income taxes payable	4,573			4,573
Accrued compensation	21,208	(450)		20,758
Accrued warranty	11,461			11,461
Deferred revenue, net	36,175	424		36,599
Accrued expenses	5,565			5,565
Other current liabilities	51,975	(1,939)	(f)	50,036
Current portion of long-term debt	5,416			5,416
Restructuring liabilities	2,808			2,808
Total current liabilities	211,747	(1,973)		209,774
Accrued warranty	670			670
Deferred revenue	9,807			9,807
Long-term debt, less current portion	494,036			494,036
Deferred tax liabilities	70,060	5,586	(e)	75,646

Edgar Filing: VeriFone Holdings, Inc. - Form 10-Q/A

Other long-term liabilities	11,967	(1,559)	(f)	10,408
Total liabilities	798,287	2,054		800,341
Minority interest	5,632	(5,195)	(f)	437
Total stockholders' equity	573,182	(114)	(g)	573,068
Total liabilities and stockholders' equity	\$ 1,377,101	\$ (3,255)		\$ 1,373,846

**Table of Contents****VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended April 30, 2007				Six Months Ended April 30, 2007			
	As		Ref.	Restated	As		Ref.	Restated
Reported	Adjustments	Reported			Adjustments			
(In thousands, except per share data)								
Net revenues:								
System Solutions	\$ 191,800	\$ (331)	(a)	\$ 191,469	\$ 381,029	\$ (594)	(a)	\$ 380,435
Services	25,413	1		25,414	52,810	1		52,811
Total net revenues	217,213	(330)		216,883	433,839	(593)		433,246
Cost of net revenues:								
System Solutions	114,110	11,841		125,951	236,759	22,483		259,242
Services	12,903	383		13,286	25,500	2,235		27,735
Total cost of net revenues	127,013	12,224	(c)	139,237	262,259	24,718	(c)	286,977
Gross profit	90,200	(12,554)		77,646	171,580	(25,311)		146,269
Operating expenses:								
Research and development	16,238	(229)		16,009	33,044	(137)		32,907
Sales and marketing	23,323	(500)		22,823	45,846	17		45,863
General and administrative	27,181	(1,616)	(d)	25,565	45,586	(2,645)	(d)	42,941
Amortization of purchased intangible assets	6,061	(371)		5,690	11,389	(348)		11,041
In-process research and development	110	(20)		90	6,640	10		6,650
Total operating expenses	72,913	(2,736)		70,177	142,505	(3,103)		139,402
Operating income	17,287	(9,818)		7,469	29,075	(22,208)		6,867
Interest expense	(9,595)	88		(9,507)	(19,351)	88		(19,263)
Interest income	1,553	(19)		1,534	2,525			2,525
Other income (expense), net	106	(108)		(2)	(31)	(232)		(263)
Income (loss) before income taxes	9,351	(9,857)		(506)	12,218	(22,352)		(10,134)

Edgar Filing: VeriFone Holdings, Inc. - Form 10-Q/A

Provision for (benefit from) income taxes	4,492	(180)	(e)	4,312	8,343	(7,980)	(e)	363
Net income (loss)	\$ 4,859	\$ (9,677)		\$ (4,818)	\$ 3,875	\$ (14,372)		\$ (10,497)
Net income (loss) per share:								
Basic	0.06	(0.12)		(0.06)	0.05	(0.18)		(0.13)
Diluted	0.06	(0.12)		(0.06)	0.05	(0.18)		(0.13)
Weighted average shares used in computing net income (loss) per share:								
Basic	81,705			81,705	81,343			81,343
Diluted	84,180	(2,475)		81,705	83,861	(2,518)		81,343

Table of Contents**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Six Months Ended April 30, 2007</b>		
	<b>As</b>		
	<b>Reported</b>	<b>Adjustments</b>	<b>Restated</b>
	<b>(In thousands)</b>		
Net income (loss)	\$ 3,875	\$ (14,372)	\$ (10,497)
Net cash provided by operating activities	\$ 50,210	\$ (10,084)	\$ 40,126
Net cash used in investing activities	(289,672)	9,872	(279,800)
Net cash provided by financing activities	326,947	211	327,158
Effect of foreign currency exchange rate changes on cash	1,711	1	1,712
Net increase in cash and cash equivalents	89,196		89,196
Cash and cash equivalents, beginning of period	86,564		86,564
Cash and cash equivalents, end of period	\$ 175,760	\$	\$ 175,760

The primary restatement adjustments to the Company's previously reported condensed consolidated balance sheet as of April 30, 2007 and condensed consolidated statements of operations for the three and six months ended April 30, 2007 are as follows:

- a) Net revenues for the three and six months ended April 30, 2007 were reduced primarily by errors in the timing of the recognition of revenue.
- b) The changes to inventories as of April 30, 2007 are as follows:

\$12.7 million decrease to eliminate intercompany in-transit inventory that did not exist, which was originally recorded based upon erroneous methodology and application of source documents. Intercompany in-transit inventory is inventory which is in the process of being shipped between VeriFone entities, primarily from either Israel or Singapore to the United States;

\$7.7 million decrease due to the duplicate recording of manufacturing and distribution overhead to inventories at former Lipman subsidiaries;

\$3.9 million decrease to eliminate intercompany profit in inventory. Inventory at the end of a quarter in one VeriFone entity purchased from another VeriFone entity contains intercompany profit which must be eliminated upon consolidation;

\$0.5 million increase to correct errors in recording and eliminating intercompany transactions; and

\$0.1 million net decrease as a result of various adjustments, each individually less than \$0.5 million.

c) The changes to total cost of net revenues for the six months ended April 30, 2007 are as follows:

\$11.6 million increase to eliminate intercompany in-transit inventory that did not exist, which was originally recorded based upon erroneous methodology and application of source documents. Intercompany in-transit inventory is inventory which is in the process of being shipped between VeriFone entities, primarily from either Israel or Singapore to the United States;

\$7.7 million increase due to the duplicate recording of manufacturing and distribution overhead to inventories at former Lipman subsidiaries;

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

\$3.9 million increase to eliminate intercompany profit in inventory. Inventory at the end of a quarter in one VeriFone entity purchased from another VeriFone entity contains intercompany profit which must be eliminated upon consolidation;

\$0.9 million increase due to an error in determining replacement costs of component inventory at former Lipman entities;

\$0.6 million increase to correct errors in recording and eliminating intercompany transactions; and

Other adjustments, each individually less than \$0.5 million.

The changes to total cost of net revenues for the three months ended April 30, 2007 are as follows:

\$11.5 million increase to eliminate intercompany in-transit inventory that did not exist, which was originally recorded based upon erroneous methodology and application of source documents. Intercompany in-transit inventory is inventory which is in the process of being shipped between VeriFone entities, primarily from either Israel or Singapore to the United States;

\$3.5 million increase to eliminate intercompany profit in inventory. Inventory at the end of a quarter in one VeriFone entity purchased from another VeriFone entity contains intercompany profit which must be eliminated upon consolidation;

\$0.8 million increase to correct errors in the capitalization of overhead;

\$2.2 million decrease related to inventory recorded in the second fiscal quarter for a change in inventories at former Lipman entities due to standards revaluation which should have been recorded in the first fiscal quarter; and

Other adjustments, each individually less than \$0.5 million.

d) The changes to general and administrative expenses for the six months ended April 30, 2007 are as follows:

\$2.6 million decrease in general and administrative expenses as a result of a reversal of executive bonuses and stock-based compensation, which were originally based upon information that, following the restatement, was no longer accurate; and

Other adjustments were each individually less than \$0.5 million.

The changes to general and administrative expenses for the three months ended April 30, 2007 are as follows:

\$1.9 million decrease in general and administrative expenses as a result of a reversal of executive bonuses and stock-based compensation, which was originally based upon information that, following the restatement, was no longer accurate; and

Other adjustments were each individually less than \$0.5 million.

- e) Prepaid expenses and other current assets (prepaid taxes), deferred tax assets and income tax expense adjustments reflect the tax impact of the restatement adjustments, and the application of the intraperiod accounting rules to tax expense.
- f) The changes to these balance sheet accounts relate to adjustments and corrections of various errors to the purchase price allocations of the Lipman, Payware and VTS acquisitions and/or reclassifications.



**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The changes to goodwill as of April 30, 2007 are as follows:

\$27.3 million increase as a result of adjustments in long-term deferred tax liabilities;

\$5.0 million increase to correct errors related to Lipman stock options assumed at acquisition;

\$8.4 million decrease as a result of corrections related to Lipman, Payware and VTS assets and liabilities assumed at acquisition; and

\$10.1 million increase as a result of cumulative translation adjustments related to the above adjustments and correction of errors.

g) The changes to total stockholders' equity as of April 30, 2007 are as follows:

\$14.4 million decrease as a result of the restatement adjustments to the consolidated statement of operations;

\$2.4 million decrease due to correction of errors related to stock compensation expense;

\$5.0 million increase to correct errors related to Lipman stock options assumed at acquisition; and

\$11.7 million increase as a result of cumulative translation adjustments related to adjustments and correction of various errors noted above.

**Note 3. Summary of Significant Accounting Policies**

***Principles of Consolidation***

The accompanying condensed consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

***Unaudited Interim Financial Information***

The accompanying condensed consolidated balance sheet as of April 30, 2007 and the condensed consolidated statements of operations for the three and six months ended April 30, 2007 and 2006 and the condensed consolidated statements of cash flows for the six months ended April 30, 2007 and 2006 are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and Form 10-Q and Article 10 of Regulation S-X. In the opinion of the Company's management, the unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and include all adjustments of a normal recurring nature necessary for the fair presentation of the Company's financial position as of April 30, 2007 and its results of operations for the three and six months ended April 30, 2007 and 2006, and its cash flows for the six months ended April 30, 2007 and 2006. The results for the interim periods are not necessarily indicative of the results to be expected for any future period or for the fiscal year ended October 31, 2007. The condensed consolidated balance

sheet as of October 31, 2006 has been derived from the audited consolidated balance sheet as of that date. Certain amounts reported in previous periods have been reclassified to conform to the current period presentation. The reclassifications did not impact previously reported revenues, total operating expense, operating income, net income, or stockholders' equity.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and related notes included in the Company's 2006 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on December 18, 2006.

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates, and such differences may be material to the consolidated financial statements.

***Revenue Recognition***

The Company's revenue recognition policy is consistent with applicable revenue recognition guidance and interpretations, including the requirements of Emerging Issues Task Force Issue No. 00-21 ( EITF 00-21 ), *Revenue Arrangements with Multiple Deliverables*, Statement of Position 97-2 ( SOP 97-2 ), *Software Revenue Recognition*, Statement of Position 81-1 ( SOP 81-1 ), *Accounting for Performance of Construction-Type and Certain Production Type Contracts*, Staff Accounting Bulletin No. 104 ( SAB 104 ), *Revenue Recognition*, and other applicable revenue recognition guidance and interpretations.

The Company records revenue when all four of the following criteria are met: (i) there is persuasive evidence that an arrangement exists; (ii) delivery of the products and/or services has occurred; (iii) the selling price is fixed or determinable; and (iv) collectibility is reasonably assured. Cash received in advance of revenue recognition is recorded as deferred revenue, net.

Net revenues from System Solutions sales to end-users, resellers, value added resellers and distributors are recognized upon shipment of the product with the following exceptions:

if a product is shipped free on board destination, revenue is recognized when the shipment is delivered, or

if an acceptance or a contingency clause exists, revenue is recognized upon the earlier of receipt of the acceptance letter or when the clause lapses.

End-users, resellers, value added resellers and distributors generally have no rights of return, stock rotation rights or price protection.

The Company's System Solutions sales include software that is incidental to the electronic payment devices and services included in its sales arrangements.

The Company enters into revenue arrangements for individual products or services. As a System Solutions provider, the Company's sales arrangements often include support services in addition to electronic payment devices ( multiple deliverables ). These services may include installation, training, consulting, customer support, product maintenance and/or refurbishment arrangements.

Revenue arrangements with multiple deliverables are evaluated to determine if the deliverables (items) should be divided into more than one unit of accounting. An item can generally be considered a separate unit of accounting if all

of the following criteria are met:

the delivered item(s) has value to the customer on a standalone basis;

there is objective and reliable evidence of the fair value of the undelivered item(s); and

if the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Company.

Deliverables that do not meet these criteria are combined into a single unit of accounting.

If there is objective and reliable evidence of fair value for all units of accounting, the arrangement consideration is allocated to the separate units of accounting based on their relative fair values. In cases where there is

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

objective and reliable evidence of the fair value(s) of the undelivered item(s) in an arrangement but no such evidence for one or more of the delivered item(s), the residual method is used to allocate the arrangement consideration. In cases in which there is no objective and reliable evidence of the fair value(s) of the undelivered item(s), the Company defers all revenues for the arrangement until the period in which the last item is delivered. However, items which do not meet these criteria are combined into a single unit of accounting.

For revenue arrangements with multiple deliverables, upon shipment of its electronic payment devices, the Company allocates the fair value for all remaining undelivered elements and recognizes the residual amount within the arrangement as revenue for the delivered items as prescribed in EITF 00-21. Revenues for the Company's arrangements that include multiple elements are allocated to each undelivered element based on the fair value of each element. Fair value is determined based on the price charged when each element is sold separately and/or the price charged by third parties for similar services.

Net revenues from services such as customer support and product maintenance are initially deferred and then recognized on a straight-line basis over the term of the contract. Net revenues from services such as installations, equipment repairs, refurbishment arrangements, training and consulting are recognized as the services are rendered.

For software development contracts, the Company recognizes revenue using the completed contract method pursuant to SOP 81-1. During the period of performance of such contracts, billings and costs are accumulated on the balance sheet, but no profit is recorded before completion or substantial completion of the work. The Company uses customers acceptance of such products as the specific criteria to determine when such contracts are substantially completed. Provisions for losses on software development contracts are recorded in the period they become evident.

For operating lease arrangements, the Company recognizes the revenue ratably over the term of the lease.

In addition, the Company sells products to leasing companies that, in turn, lease these products to end-users. In transactions where the leasing companies have no recourse to the Company in the event of default by the end-user, the Company recognizes revenue at the point of shipment or point of delivery, depending on the shipping terms and when all the other revenue recognition criteria have been met. In arrangements where the leasing companies have substantive recourse to the Company in the event of default by the end-user, the Company recognizes both the product revenue and the related cost of the product as the payments are made to the leasing company by the end-user, generally ratably over the lease term.

***Foreign Currency Translation***

The assets and liabilities of foreign subsidiaries, where the local currency is the functional currency, are translated from their respective functional currencies into U.S. dollars at the rates in effect at the balance sheet date, with resulting foreign currency translation adjustments recorded as accumulated other comprehensive income in the accompanying condensed consolidated balance sheets. Revenue and expense amounts are translated at average rates during the period.

Gains and losses realized from transactions, including intercompany balances not considered to be a permanent investment, and denominated in currencies other than an entity's functional currency are included in other income (expense), net in the accompanying condensed consolidated statements of operations.

***Concentrations of Credit Risk***

Cash is placed on deposit in major financial institutions in the United States and other countries. Such deposits may be in excess of insured limits. Management believes that the financial institutions that hold the Company's cash are financially sound and, accordingly, minimal credit risk exists with respect to these balances.

The Company invests cash not required for use in operations in high credit quality securities based on its investment policy. The investment policy has restrictions based on credit quality, investment concentration,

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

investment type and maturity that the Company believes will result in reduced risk of loss of capital. Investments are of a short-term nature and include investments in money market funds and corporate debt securities.

The Company has not experienced any investment losses due to institutional failure or bankruptcy.

The Company's accounts receivable are derived from sales to a large number of direct customers, resellers, and distributors in the Americas, Europe, and the Asia Pacific region. The Company performs ongoing evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary, but generally requires no collateral.

An allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful of collection using specific identification of doubtful accounts and an aging of receivables analysis based on invoice due dates. Actual collection losses may differ from management's estimates, and such differences could be material to the consolidated financial position, results of operations and cash flows. Uncollectible receivables are written off against the allowance for doubtful accounts when all efforts to collect them have been exhausted and recoveries are recognized when they are received. Generally, accounts receivable are past due 30 days after the invoice date unless special payment terms are provided.

In the three and six months ended April 30, 2007, no customer accounted for more than 10% of net revenues. In each of the three and six months ended April 30, 2006, one customer, First Data Corporation and its affiliates accounted for 12% of net revenues. At April 30, 2007, no customer accounted for more than 10% of accounts receivable. At October 31, 2006, First Data Corporation and its affiliates accounted for 13% of accounts receivable and no other customer accounted for 10% or more of accounts receivable at that date.

The Company is exposed to credit loss in the event of nonperformance by counterparties on the foreign currency forward contracts used to mitigate the effect of exchange rate changes and interest rate caps used to mitigate the effect of interest rate changes. These counterparties are large international financial institutions and to date, no such counterparty has failed to meet its financial obligations to the Company. The Company does not anticipate nonperformance by these counterparties.

Besides those noted above, the Company had no other off-balance-sheet concentrations of credit risk, such as option contracts or other derivative arrangements as of April 30, 2007 or October 31, 2006.

***Product Manufacturing***

The Company outsources a majority of the manufacturing of its products to contract manufacturers with facilities in China, Singapore, and Brazil. The Company also utilizes third-party service providers in the United States, Canada, United Kingdom, Poland, France, Italy, Spain, and Mexico for its equipment repair service. In November 2006, the Company added in-house manufacturing and services capabilities in Israel and Turkey as a result of the Lipman acquisition.

***Fair Value of Financial Instruments***

Financial instruments consist principally of cash and cash equivalents, marketable securities, accounts receivable, accounts payable, long-term debt, foreign currency forward contracts and interest rate caps. Foreign currency forward contracts and interest rate caps are recorded at fair value. The estimated fair value of cash, accounts receivable and accounts payable approximates their carrying value due to the short period of time to their maturities. The estimated fair value of long-term debt approximates its carrying value since the rate of interest on the long-term debt adjusts to market rates on a periodic basis. The fair value of cash equivalents, marketable securities, foreign currency forward contracts and interest rate caps are based on quotes from brokers using market prices for those or similar instruments.



**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Derivative Financial Instruments***

The Company uses foreign currency forward contracts to hedge certain existing and anticipated foreign currency denominated transactions. The terms of foreign currency forward contracts used are generally consistent with the timing of the foreign currency transactions. Under its foreign currency risk management strategy, the Company utilizes derivative instruments to protect its interests from unanticipated fluctuations in earnings and cash flows caused by volatility in currency exchange rates. This financial exposure is monitored and managed by the Company as an integral part of its overall risk management program which focuses on the unpredictability of financial markets and seeks to reduce the potentially adverse effects that the volatility of these markets may have on its operating results. The Company also enters into interest rate caps in order to manage its variable interest rate risk on its secured credit facility.

The Company records derivatives, namely foreign currency forward contracts and interest rate caps, on the balance sheet at fair value. Changes in the fair value of derivatives which do not qualify or are not effective as hedges are recognized currently in earnings. The Company does not use derivative financial instruments for speculative or trading purposes, nor does it hold or issue leveraged derivative financial instruments.

The Company formally documents relationships between hedging instruments and associated hedged items. This documentation includes: identification of the specific foreign currency asset, liability or forecasted transaction being hedged; the nature of the risk being hedged; the hedge objective; and the method of assessing hedge effectiveness. Hedge effectiveness is formally assessed, both at hedge inception and on an ongoing basis, to determine whether the derivatives used in hedging transactions are highly effective in offsetting changes in foreign currency denominated assets, liabilities and anticipated cash flow of hedged items. When an anticipated transaction is no longer likely to occur, the corresponding derivative instrument is ineffective as a hedge, and changes in fair value of the instrument are recognized in net income.

The Company's international sales are generally denominated in currencies other than the U.S. dollar. For sales in currencies other than the U.S. dollar, the volatility of the foreign currency markets represents risk to the Company's margins. The Company defines its exposure as the risk of changes in the functional-currency-equivalent cash flows (generally U.S. dollars) attributable to changes in the related foreign currency exchange rates. From time to time the Company enters into certain foreign currency forward contracts with terms designed to substantially match those of the underlying exposure. The Company does not qualify these foreign currency forward contracts as hedging instruments and, as such, records the changes in the fair value of these derivatives immediately in other income (expense), net in the accompanying condensed consolidated statements of operations. As of April 30, 2007 and October 31, 2006, the Company did not have any outstanding foreign currency forward contracts. On May 1, 2007 the Company entered into foreign currency forward contracts with aggregate notional amounts of \$40.0 million to hedge exposures to non-functional currencies. The Company's foreign currency forward contracts have maturities of 95 days or less.

The Company is exposed to interest rate risk related to its debt, which bears interest based upon the three-month LIBOR rate. On October 31, 2006, the Company's principal subsidiary, VeriFone, Inc., entered into a Credit Agreement (the "Credit Facility") with a syndicate of financial institutions, led by J.P. Morgan Chase Bank, N.A. and Lehman Commercial Paper Inc. The Credit Facility provided by the Credit Agreement consists of a Term B Loan facility of \$500 million and a revolving credit facility permitting borrowings of up to \$40 million. Under the Credit

Facility, the Company is required to fix the interest rate through swaps, rate caps, collars and similar agreements with respect to at least 30% of the outstanding principal amount of all loans and other indebtedness that have floating interest rates.

In May and December 2006, the Company purchased two-year interest rate caps for a total premium of \$118,000. The interest rate caps have an initial notional amount of \$200 million declining to \$150 million after one year under which the Company will receive interest payments if the three-month LIBOR rate exceeds 6.5%. The interest rate caps were purchased to fix the interest rate related to the existing secured credit facility, or any

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

refinancing thereof which is explained in Note 6. The fair value of the interest rate caps as of April 30, 2007 was \$3,000 which was recorded in prepaid expenses and other current assets in the condensed consolidated balance sheets with the related \$113,000 unrealized loss recorded as a component of accumulated other comprehensive income, net of a \$44,000 tax benefit.

For the three and six months ended April 30, 2006, the Company received payments of \$81,000 and \$112,000, respectively, as a result of the three-month LIBOR rate on its previous Term B Loan exceeding the cap rate which amounts were recorded as offsets to interest expense in the statements of operations.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash, money market funds, and other highly liquid investments with maturities of three months or less when purchased.

***Marketable Securities***

The Company classifies its marketable securities as available-for-sale in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Available-for-sale securities are carried at fair value, with unrealized holding gains and losses reported in accumulated other comprehensive income, which is a separate component of stockholders' equity, net of tax, in the accompanying condensed consolidated balance sheets. The amortization of premiums and discounts on the investments and realized gains and losses, determined by specific identification based on the trade date of the transactions, are recorded in interest income in the accompanying condensed consolidated statements of operations.

***Minority Interest***

The Company made a minority investment in VeriFone Transportation Systems, Inc. ( VTS ) in October 2005. Prior to the fiscal quarter ended April 30, 2007, the investment in VTS was accounted for under the equity method and was included in other assets in the accompanying condensed consolidated balance sheets. In February 2007, the Company made an additional investment in VTS, which increased its ownership percentage in VTS to 51% at which time the Company began consolidating this investment.

The Company owns the majority of its Chinese subsidiary which it acquired in the acquisition of Lipman and as such consolidated its Chinese subsidiary. For the three and six months ended April 30, 2007 the minority interest in income of the subsidiary is immaterial.

***Debt Issuance Costs***

Debt issuance costs are stated at cost, net of accumulated amortization. Amortization expense is calculated using the effective interest method and recorded in interest expense in the accompanying condensed consolidated statements of operations.

***Inventories***

Inventories are stated at the lower of standard cost or market. Standard costs approximate the first-in, first-out ( FIFO ) method. The Company regularly monitors inventory quantities on hand and records write-downs for excess and obsolete inventories based primarily on the Company s estimated forecast of product demand and production requirements. Such write-downs establish a new cost-basis of accounting for the related inventory. Actual inventory losses may differ from management s estimates.

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Shipping and Handling Costs***

Shipping and handling costs are expensed as incurred and are included in cost of net revenues in the accompanying condensed consolidated statements of operations. In those instances where the Company bills shipping and handling costs to customers, the amounts billed are classified as revenue.

***Warranty Costs***

The Company accrues for estimated warranty obligations when revenue is recognized based on an estimate of future warranty costs for delivered products. Such estimates are based on historical experience and expectations of future costs. The Company periodically evaluates and adjusts the accrued warranty costs to the extent actual warranty costs vary from the original estimates. The Company's warranty period typically extends from 13 months to five years from the date of shipment. Costs associated with maintenance contracts, including extended warranty contracts, are expensed when they are incurred. Actual warranty costs may differ from management's estimates.

***Research and Development Costs***

Research and development costs are generally expensed as incurred. Costs eligible for capitalization under SFAS No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*, were \$1.8 million and \$2.9 million for the three and six months ended April 30, 2007, respectively, compared to \$0.7 million and \$1.1 million for the comparable periods in fiscal 2006. Capitalized software development costs of \$10.4 million and \$7.5 million as of April 30, 2007 and October 31, 2006, respectively, are being amortized on a straight-line basis over the estimated three-year life of the product to which the costs relate. These costs, net of accumulated amortization of \$3.8 million and \$3.2 million as of April 30, 2007 and October 31, 2006, respectively, are recorded in other assets in the accompanying condensed consolidated balance sheets.

***Advertising Costs***

Advertising costs are expensed as incurred and totaled approximately \$446,000 and \$864,000 for the three and six months ended April 30, 2007, respectively, compared to \$40,000 and \$61,000 for the comparable periods in fiscal 2006, respectively.

***Income Taxes***

Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. The Company records a valuation allowance to reduce deferred tax assets to the amount that is expected to be realized on a more likely than not basis.

***Comprehensive Income (Loss)***

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes certain changes in equity that are excluded from results of operations. Specifically, foreign currency translation adjustments, changes in the fair value of derivatives designated as hedges

and unrealized gains and losses on available-for-sale marketable securities are included in accumulated other comprehensive income in the accompanying condensed consolidated balance sheets.

***Property, Plant and Equipment, net***

Property, plant and equipment are stated at cost, net of accumulated depreciation and amortization. Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, generally two to ten years, except buildings which are depreciated over 40 years. The cost of equipment under capital leases is recorded at the lower of the present value of the minimum lease payments or the fair value of the assets and is

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

amortized on a straight-line basis over the shorter of the term of the related lease or the estimated useful life of the asset. Amortization of assets under capital leases is included with depreciation expense.

***Goodwill and Other Purchased Intangible Assets***

Goodwill and other purchased intangible assets have been recorded as a result of the Company's acquisitions. Goodwill is not amortized for accounting purposes. Purchased intangible assets are amortized over their estimated useful lives, generally one and one-half to seven years.

The Company is required to perform an annual impairment test of goodwill. Should certain events or indicators of impairment occur between annual impairment tests, the Company performs the impairment test of goodwill when those events or indicators occur. In the first step of the analysis, the Company's assets and liabilities, including existing goodwill and other intangible assets, are assigned to the identified reporting units to determine their carrying value. Based on how the business is managed, the Company has five reporting units. Goodwill is allocated to the reporting unit based on its relative contribution to the Company's operating results. If the carrying value of a reporting unit is in excess of its fair value, an impairment may exist, and the Company must perform the second step of comparing the implied fair value of the goodwill to its carrying value to determine the impairment charge, if any.

The fair value of the reporting units is determined using the income approach. The income approach focuses on the income-producing capability of an asset, measuring the current value of the asset by calculating the present value of its future economic benefits such as cash earnings, cost savings, tax deductions, and proceeds from disposition. Value indications are developed by discounting expected cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation, and risks associated with the particular investment. For the three and six months ended April 30, 2007, no impairment charges have been recorded.

***Accounting for Impairment of Long-Lived Assets***

The Company periodically evaluates whether changes have occurred that would require revision of the remaining useful life of property, plant and equipment and purchased intangible assets or render them not recoverable. If such circumstances arise, the Company uses an estimate of the undiscounted value of expected future operating cash flows to determine whether the long-lived assets are impaired. If the aggregate undiscounted cash flows are less than the carrying amount of the assets, the resulting impairment charge to be recorded is calculated based on the excess of the carrying value of the assets over the fair value of such assets, with the fair value determined based on an estimate of discounted future cash flows. For the three and six months ended April 30, 2007, no impairment charges have been recorded.

***Stock-Based Compensation***

The Company follows the fair value recognition and measurement provisions of SFAS No. 123(R), *Share-Based Payment*. SFAS No. 123(R) is applicable for stock-based awards exchanged for employee services and in certain circumstances for non-employee directors. Pursuant to SFAS No. 123(R), stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period.

***Severance Pay***

The Company's liability for severance pay to its Israeli employees is calculated pursuant to Israeli severance pay law based on the most recent salary of the employee multiplied by the number of years of employment of such employee as of the applicable balance sheet date. Employees are entitled to one month's salary for each year of employment, or a pro-rata portion thereof. The Company funds the liability by monthly deposits in insurance



**Table of Contents****VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

policies and severance pay funds. The expense for the three and six months ended April 30, 2007 was \$448,000 and \$798,000, respectively.

***Segment Reporting***

The Company maintains two reportable segments, North America, consisting of the United States and Canada, and International, consisting of all other countries in which the Company makes sales outside of the United States and Canada.

***Net Income (Loss) Per Share***

Basic net income (loss) per common share is computed by dividing income (loss) attributable to common stockholders by the weighted average number of common shares outstanding for the period, less the weighted average number of common shares subject to repurchase. Diluted net income (loss) per common share is computed using the weighted average number of common shares outstanding plus the effect of common stock equivalents, unless the common stock equivalents are anti-dilutive.

The following table sets forth the computation of basic and diluted net income (loss) per share (in thousands, except per share amounts):

	<b>Three Months Ended April 30,</b>		<b>Six Months Ended April 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(Restated)</b>		<b>(Restated)</b>	
Basic and diluted net income (loss) per share:				
Numerator:				
Net income (loss)	\$ (4,818)	\$ 15,036	\$ (10,497)	\$ 28,830
Denominator:				
Weighted-average shares of voting common stock outstanding	82,706	67,801	82,344	67,753
Less: weighted-average shares subject to repurchase	(1,001)	(2,002)	(1,001)	(2,002)
Weighted-average shares used in computing basic net income (loss) per share	81,705	65,799	81,343	65,751
Add dilutive securities:				
Weighted-average shares subject to repurchase		2,002		2,002
Stock options and restricted stock units		1,158		1,134
Weighted-average shares used in computing diluted net income (loss) per share	81,705	68,959	81,343	68,887

Net income (loss) per share:

Basic	\$ (0.06)	\$ 0.23	\$ (0.13)	\$ 0.44
Diluted	\$ (0.06)	\$ 0.22	\$ (0.13)	\$ 0.42

As of April 30, 2007, options and restricted stock units to purchase 8,939,000 common shares were excluded from the calculation of weighted average shares for diluted net loss per share as they were anti-dilutive. For the three and six months ended April 30, 2006, options and restricted stock units to purchase 1,009,825 common shares were excluded from the calculation of weighted average shares for diluted net income per share as they were anti-dilutive.

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Recent Accounting Pronouncements***

In June 2006, FASB issued FASB Interpretation No. 48 ( FIN 48 ), *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109, which clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position. FIN 48 indicates that an enterprise shall initially recognize the financial statement effects of a tax position when it is more likely than not of being sustained on examination, based on the technical merits of the position. In addition, FIN 48 indicates that the measurement of a tax position that meets the more likely than not threshold shall consider the amounts and probabilities of the outcomes that could be realized upon ultimate settlement. This interpretation is effective for fiscal years beginning after December 15, 2006 and interim periods within those fiscal years. The Company is in the process of evaluating the impact of adopting FIN 48 on the Company s consolidated results of operations, financial position or cash flows.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 ( SAB 108 ), *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of determining whether the current year s financial statements are materially misstated. SAB 108 is effective for fiscal years ending after November 15, 2006. The implementation of SAB 108 did not have a material impact on the Company s consolidated results of operations, financial position or cash flows.

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The implementation of SFAS No. 157 is not expected to have a material impact on the Company s consolidated results of operations, financial position or cash flows.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure financial assets and liabilities at fair value. The objective of the guidance is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, provided the provisions of SFAS No. 157 are applied. The Company is evaluating SFAS No. 159 and has not yet determined the impact, if any, that the adoption will have on the Company s consolidated financial statements.

**Note 4. Business Combinations**

***Lipman Electronic Engineering Ltd. ( Lipman )***

On November 1, 2006, the Company acquired all of the outstanding common stock of Lipman. The Company acquired Lipman to enhance the Company s ability to reach certain of its strategic and business objectives, which

include (i) extending the Company's product and service offerings to include Lipman's products, (ii) enabling the Company to leverage its distribution channels, international presence, customer base, and brand recognition to accelerate Lipman's market penetration and growth, (iii) enabling the Company to enhance its position in areas where the Company is already strong by offering complementary products and services developed by Lipman, (iv) enhancing its product offerings in a variety of its core product areas, and (v) enhancing the Company's manufacturing capacity.

The consideration paid to acquire Lipman was \$344.7 million in cash, 13,462,474 shares of common stock of the Company and assumption of all outstanding Lipman stock options. To fund a portion of the cash consideration,

Table of Contents**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the Company used \$307.2 million of the Term B Loan proceeds under its Credit Facility on November 1, 2006. See Note 6 of Notes to Condensed Consolidated Financial Statements for additional information related to the Credit Facility.

The purchase price is as follows (in thousands):

	<b>(Restated)</b>
Cash	\$ 344,747
Value of common stock issued	417,606
Value of Lipman vested and unvested options assumed	38,008
Transaction costs and expenses	14,837
Sub-total	815,198
Less: Value of unvested Lipman options assumed	(19,356)
Total purchase price	\$ 795,842

Pursuant to the proration and allocation provisions of the merger agreement, the total merger consideration consisted of (i) a number of shares of the Company common stock equal to the product of 0.50 multiplied by the number of Lipman ordinary shares issued and outstanding on the closing date and (ii) an amount in cash equal to the product of \$12.804 multiplied by the number of Lipman ordinary shares issued and outstanding on the closing date, as reduced by the aggregate amount of the special cash dividend paid by Lipman prior to the merger. The Company issued 13,462,474 shares of common stock and paid \$344.7 million (excluding the aggregate amount of the special cash dividend).

The 13,462,474 shares have been valued at \$31.02 per share based on an average of the closing prices of the Company's common stock for a range of trading days two days before April 10, 2006, the announcement date of the proposed merger, the announcement date, and two days after the announcement date.

Pursuant to the merger agreement, the Company assumed, generally on a one-for-one basis, all Lipman share options outstanding at closing. The Company assumed options to purchase approximately 3,375,527 shares of Lipman ordinary shares at a weighted average exercise price of \$24.47. The fair value of the outstanding vested and unvested options of \$38.0 million was determined using a Black-Scholes valuation model using the following weighted-average assumptions: stock price of \$31.02 per share (determined as described above), expected term of 2.5 years, expected volatility of 41% and risk free interest rate of 4.7%.

For accounting purposes the fair value of unvested options as of the closing date is considered unrecognized share-based compensation and is deducted in determining the purchase price. This unrecognized share-based compensation is being recognized as compensation expense on a straight-line basis over the estimated remaining service period of 2.8 years. The fair value of the outstanding unvested options of \$19.4 million was determined using a Black-Scholes valuation model using the assumptions noted above, except that the stock price on the closing date of

\$30.00 per share was used, as required, instead of the average price around the announcement date of \$31.02 per share. The Company determined the number of unvested options based on the ratio of the number of months of service remaining to be provided by employees as of November 1, 2006 to the total vesting period for the options.

Under the purchase method of accounting, the total estimated purchase price as shown in the table above is allocated to Lipman's tangible and intangible assets acquired and liabilities assumed as well as in-process research and development based on their estimated fair values as of the closing date. The excess of the purchase price over the net tangible and intangible assets is recorded as goodwill. The preliminary allocation of the purchase price is based on preliminary estimates and currently available information.

**Table of Contents****VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Based on the preliminary valuation which has not been finalized and other information currently available, the preliminary estimated purchase price is allocated as follows (in thousands):

	<b>(Restated)</b>
Cash	\$ 95,931
Accounts receivable	33,257
Inventories	66,359
Property, plant and equipment	18,601
Other assets	12,865
Deferred revenue	(8,936)
Other current liabilities	(74,233)
Net deferred tax liabilities	(63,189)
Non current liabilities	(9,635)
 Net tangible assets	 71,020
 Amortizable intangible assets:	
Developed and core technology	133,480
Customer backlog	50
Customer relationships	64,870
Internal use software	3,460
 Sub-total intangible assets	 201,860
 In-process research and development	 6,650
Excess over fair value of vested options	1,030
Goodwill	515,282
 Total preliminary estimated purchase price allocation	 \$ 795,842

***Net Tangible Assets***

Of the total estimated purchase price, a preliminary estimate of approximately \$71.0 million has been allocated to net tangible assets acquired. Except for inventories, property, plant and equipment, deferred revenue, accrued liabilities and deferred taxes, the Company has valued net tangible assets at their respective carrying amounts as of November 1, 2006 as the Company believes these amounts approximate their current fair values or the fair values have not yet been determined.

The Company has increased Lipman's historical value of inventories by \$13.9 million to adjust inventories to an amount equivalent to the selling price less an appropriate sales margin. The Company reduced Lipman's historical value of deferred revenue by \$3.6 million to adjust deferred revenue to an amount equivalent to the estimated cost

plus an appropriate profit margin to perform the services related to Lipman's service contracts. The Company reduced Lipman's historical net book value of property, plant and equipment by \$1.4 million to adjust property, plant and equipment to estimated fair value. As of April 30, 2007, the purchase price allocation is preliminary and is subject to adjustment.

The Company has identified and recorded provisions related to certain pre-acquisition contingencies of \$10.4 million related to liabilities that are probable and the amount of the liability is reasonably estimable. With respect to certain other identified pre-acquisition contingencies, including the tax assessments referred to in Note 8 with respect to the Company's Brazilian subsidiaries acquired as a part of the acquisition, the Company continues to accumulate information to assess whether or not the related asset, liability or impairment is probable and the amount



**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of the asset, liability or impairment can be reasonably estimated and as such accrued in the purchase price allocation prior to the end of the purchase price allocation period.

Pursuant to a detailed restructuring plan which is not complete, the Company accrued \$6.2 million of costs for severance, costs of vacating facilities and costs to exit or terminate other duplicative activities in accordance with the requirement of EITF 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination* (see Note 7). As the Company finalizes its restructuring plan, additional amounts may be accrued.

Certain deferred tax liabilities have been recorded based upon preliminary conclusions regarding the tax positions expected to be taken. Included in the amounts recorded on a preliminary basis is an approximate \$32.8 million foreign deferred tax liability recorded in connection with undistributed pre-acquisition foreign earnings subject to an approved enterprise status in Israel.

***Intangible Assets***

Developed and core technology, which comprises products that have reached technological feasibility, includes products in Lipman's product lines, principally the Nurit product line. Lipman's technology and products are designed for hardware, software, solutions and services, serving the point of sale market internationally. This proprietary know-how can be leveraged by the Company to develop new technology and improved products and manufacturing processes. The Company expects to amortize the developed and core technology over estimated lives of 18 months to 7 years.

Customer relationships represent the distribution channels through which Lipman sells the majority of its products and services. The Company expects to amortize the fair value of these assets over estimated lives of 4 to 6 years.

Internal use software represents the internal use software assets which have been developed internally but have not previously been capitalized. The Company expects to amortize the fair value of these assets over estimated lives of 5 to 7 years.

The fair value of intangible assets was based on a preliminary valuation using an income approach, as well as discussions with Lipman management and a review of certain transaction-related documents and forecasts prepared by the Company and Lipman management. The rate utilized to discount net cash flows to their present values is 13%. These discount rates were determined after consideration of the Company's weighted average cost of capital specific to this transaction.

Estimated useful lives for the intangible assets were based on historical experience with technology life cycles, product roadmaps, branding strategy, historical and projected maintenance renewal rates, historical treatment of the Company's acquisition-related intangible assets and the Company's intended future use of the intangible assets.

***In-Process Research and Development***

Of the total estimated purchase price, \$6.7 million was allocated to in-process research and development and was charged to expense in the six months ended April 30, 2007. In-process research and development represents incomplete Lipman research and development projects that had not reached technological feasibility and had no

alternative future use. Lipman was developing new products that qualify as in-process research and development in multiple product areas. Lipman's research and development projects were focused on developing new products, integrating new technologies, improving product performance and broadening features and functionalities. The principal research and development efforts of Lipman are related primarily to three products. There is a risk that these developments and enhancements will not be competitive with other products using alternative technologies that offer comparable functionality.

The value assigned to in-process research and development was determined by considering the importance of each project to the overall development plan, estimating costs to develop the purchased in-process research and

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

development into commercially viable products, estimating the resulting net cash flows from the projects when completed and discounting the net cash flows to their present value. The revenue estimates used to value the purchased in-process research and development were based on estimates of relevant market sizes and growth factors, expected trends in technology and the nature and expected timing of new product introductions by Lipman and its competitors.

The rates utilized to discount the net cash flows to their present value were based on the Company's weighted average cost of capital. The weighted average cost of capital was adjusted to reflect the difficulties and uncertainties in completing each project and thereby achieving technological feasibility, the percentage of completion of each project, anticipated market acceptance and penetration, market growth rates and risks related to the impact of potential changes in future target markets. Based on these factors, a discount rate of 19% was deemed appropriate for valuing the in-process research and development.

***Excess Over Fair Value of Vested Options***

The Company assumed Lipman options to purchase shares based generally on a one-for-one exchange ratio, which differed from the all-stock exchange ratio of 0.9336 (the all stock consideration exchange ratio of 0.9844 as reduced by the per share value of the \$1.50 per share special cash dividend) for Lipman ordinary shares. As a result, the Company recognized \$1.0 million of share-based compensation for the excess fair value of vested options in the six months ended April 30, 2007.

***Goodwill***

Of the total purchase price, approximately \$515.3 million is estimated to be allocated to goodwill. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets, in-process research and development and excess of fair value of vested options. Goodwill will not be amortized but instead will be tested for impairment at least annually (more frequently if certain indicators are present). In the event that the management of the combined company determines that the value of goodwill has become impaired, the combined company will incur an accounting charge for the amount of impairment during the fiscal quarter in which the determination is made. The goodwill has been allocated \$508.8 million to the International segment and \$6.5 million to the North America segment. Most of the goodwill is expected to be deductible for income tax purposes.

The results of operations of Lipman are included in the Company's consolidated financial statements from November 2006. The following table presents pro forma results of operations and gives effect to the acquisition of Lipman as if the acquisition had been consummated at the beginning of fiscal year 2006. The unaudited pro forma results of operations are not necessarily indicative of what would have occurred had the acquisition been made as of the beginning of the period or of the results that may occur in the future. Net income includes the write-off of acquired in process research and development of \$90,000 and \$6.7 million for the three and six months ended April 30, 2007, respectively, additional interest expense of \$5.8 million and \$11.6 million for the three and six months ended April 30, 2007, respectively, deferred revenue step down of \$0.9 million and \$2.4 million for the three and six months ended April 30, 2007, respectively, fair value step up of inventory of \$3.5 million and \$13.9 million for the three and six months ended April 30, 2007, respectively, stock-based compensation for the excess fair value on vested options of zero and \$1.0 million for the three and six months ended April 30, 2007, respectively, and



Table of Contents**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

amortization of intangible assets related to the acquisition of \$12.2 million and \$24.2 million for the three and six months ended April 30, 2007, respectively. The unaudited pro forma information is as follows:

	<b>Three Months Ended April 30, 2006</b>	<b>Six Months Ended April 30, 2006 (Restated)</b>
	<b>(In millions, except per share amounts)</b>	
Total net revenue	\$ 198.9	\$ 400.8
Net income	\$ 6.6	\$ 5.4
Net income per share basic	\$ 0.08	\$ 0.07
Net income per share diluted	\$ 0.08	\$ 0.07

The pro forma amounts above were compiled using the three and six-month periods ended March 31, 2006 for Lipman and the three and six-month periods ended April 30, 2006 for VeriFone.

***PayWare***

On September 1, 2006, the Company acquired PayWare, the payment systems business of Trintech Group PLC for approximately \$11.0 million, comprised of \$9.9 million in cash consideration and \$1.1 million of transaction costs. The cash consideration includes \$2.0 million which has been placed in an escrow account pending resolution of certain items. The Company acquired PayWare to broaden the Company's EMEA presence at the point of sale beyond its core solutions. The Company's consolidated financial statements include the operating results of the business acquired from the date of acquisition. Pro forma results of operations have not been presented because the effect of the acquisition was not material.

The total estimated purchase price of \$11.0 million was allocated as follows: \$11.5 million to goodwill (not deductible for income tax purposes); \$7.7 million to intangible assets, comprised of developed technology of \$3.0 million, backlog of \$1.4 million, and customer relationships of \$3.3 million; and \$8.2 million to net tangible liabilities assumed. The estimated useful economic lives of the identifiable intangible assets acquired are 3 to 5 years for the developed technology, one year for backlog, and 4 to 6 years for the customer relationship. The weighted average amortization period for developed technology and customer relationships was 3.7 years. As of April 30, 2007, the purchase price allocation is preliminary and subject to adjustment for any pre-acquisition contingencies or changes in allocations.

***VeriFone Transportation Systems, Inc.***

In February 2007, the Company made an additional investment in VeriFone Transportation Systems, Inc. (VTS) to increase its ownership percentage to 51%. The total purchase price of \$5 million was allocated to the net assets of VTS. As of April 30, 2007, the purchase price allocation is preliminary and is subject to adjustment for any changes in valuations of net assets. Pro forma results of operations have not been presented because the effect of the acquisition was not material.



Table of Contents**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 5. Balance Sheet and Statements of Operations Detail***Inventories*

Inventories consisted of the following (in thousands):

	<b>April 30, 2007 (Restated)</b>	<b>October 31, 2006</b>
Raw materials	\$ 24,147	\$ 4,095
Work-in-process	3,492	808
Finished goods	73,810	81,728
	<b>\$ 101,449</b>	<b>\$ 86,631</b>

*Prepaid Expenses and Other Current Assets*

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

	<b>April 30, 2007 (Restated)</b>	<b>October 31, 2006</b>
Prepaid taxes	\$ 24,367	\$ 5,241
Prepaid expenses	13,798	3,208
Other receivables	5,980	750
Other current assets	856	3,744
	<b>\$ 45,001</b>	<b>\$ 12,943</b>

*Property, Plant and Equipment, net*

Property, plant and equipment, net consisted of the following (in thousands):

<b>April 30, 2007 (Restated)</b>	<b>October 31, 2006</b>
--	-----------------------------

Edgar Filing: VeriFone Holdings, Inc. - Form 10-Q/A

Computer hardware and software	\$ 11,011	\$ 7,049
Office equipment, furniture and fixtures	3,508	3,972
Machinery and equipment	9,408	5,602
Leasehold improvements	6,543	3,897
Construction in progress	8,745	966
Land	1,633	
Buildings	5,206	
Total	46,054	21,486
Accumulated depreciation and amortization	(12,562)	(14,186)
Property, plant and equipment, net	\$ 33,492	\$ 7,300

At each of April 30, 2007 and October 31, 2006, equipment amounting to \$1.3 million was capitalized under capital leases. Related accumulated amortization as of April 30, 2007 and October 31, 2006 amounted to \$1.3 million and \$1.2 million, respectively.



Table of Contents**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Purchased Intangible Assets, net*

Purchased intangible assets subject to amortization consisted of the following (in thousands):

	<b>April 30, 2007</b>			<b>October 31, 2006</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization (Restated)</b>	<b>Net</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Developed technology	\$ 170,221	\$ (46,291)	\$ 123,930	\$ 35,164	\$ (28,616)	\$ 6,548
Core technology	14,442	(13,960)	482	14,442	(12,517)	1,925
Trade name	22,225	(21,712)	513	22,225	(19,942)	2,283
Internal use software	4,101	(427)	3,674			
Customer relationships	87,384	(22,377)	65,007	19,314	(13,526)	5,788
	\$ 298,373	\$ (104,767)	\$ 193,606	\$ 91,145	\$ (74,601)	\$ 16,544

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

	<b>Three Months Ended April 30, 2007 (Restated)</b>		<b>Six Months Ended April 30, 2006 (Restated)</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Included in cost of net revenues	\$ 9,586	\$ 1,419	\$ 19,195	\$ 3,012
Included in operating expenses	5,690	1,159	11,041	2,318
	\$ 15,276	\$ 2,578	\$ 30,236	\$ 5,330

Estimated future amortization expense of intangible assets recorded as of April 30, 2007 was as follows (in thousands):

<b>Fiscal Year</b>	<b>Cost of Revenues</b>	<b>Operating Expenses (Restated)</b>	<b>Total</b>
2007 (remaining six months)	\$ 19,024	\$ 9,025	\$ 28,049
2008	31,746	24,719	56,465

Edgar Filing: VeriFone Holdings, Inc. - Form 10-Q/A

2009	31,137	19,897	51,034
2010	24,281	11,603	35,884
Thereafter	18,224	3,950	22,174
	\$ 124,412	\$ 69,194	\$ 193,606

***Goodwill***

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

	<b>April 30, 2007 (Restated)</b>	<b>October 31, 2006</b>
Balance, beginning of year	\$ 52,689	\$ 47,260
Additions related to acquisitions	523,210	6,352
Resolution of tax contingencies and adjustments to tax reserves and valuation allowances established in purchase accounting	(2,722)	(923)
Currency translation adjustments	9,861	
Balance, end of period	\$ 583,038	\$ 52,689

**Table of Contents****VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Warranty***

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

	<b>April 30, 2007</b>	<b>October 31, 2006</b>
Balance, beginning of year	\$ 5,432	\$ 5,243
Warranty charged to cost of net revenues	1,740	3,311
Utilization of warranty	(2,918)	(3,815)
Changes in estimates	43	693
Warranty assumed in acquisitions	7,834	
Balance, end of period	12,131	5,432
Less current portion	(11,461)	(4,902)
Long-term portion	\$ 670	\$ 530

***Deferred Revenue, net***

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

	<b>April 30, 2007 (Restated)</b>	<b>October 31, 2006</b>
Deferred revenue	\$ 49,112	\$ 34,309
Less long-term portion	(9,807)	(7,371)
	39,305	26,938
Deferred cost of revenue	(2,706)	(3,371)
Current portion, net	\$ 36,599	\$ 23,567

***Other Income (Expense), net***

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

**Three Months Ended      Six Months Ended**

	<b>April 30,</b>		<b>April 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(Restated)</b>		<b>(Restated)</b>	
Refund of foreign customs fees	\$	\$	\$	\$ 288
Foreign currency transaction gains, net	1,866	192	1,893	172
Foreign currency contract losses, net	(1,801)	(113)	(2,014)	(189)
Other, net	(67)	(14)	(142)	(5)
	\$ (2)	\$ 65	\$ (263)	\$ 266

Table of Contents**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 6. Financing**

The Company's financing consisted of the following (in thousands):

	<b>April 30, 2007</b>	<b>October 31, 2006</b>
Secured credit facility:		
Revolver	\$	\$
Term B loan	498,750	192,780
Capital leases and other	702	109
	499,452	192,889
Less current portion	(5,416)	(1,985)
Long-term portion	\$ 494,036	\$ 190,904

***Secured Credit Facility***

On October 31, 2006, the Company's principal subsidiary, VeriFone, Inc., entered into a credit agreement consisting of a Term B Loan facility of \$500 million and a revolving credit facility permitting borrowings of up to \$40 million (the Credit Facility). The proceeds from the Term B loan were used to repay all outstanding amounts relating to an existing senior secured credit agreement, pay certain transaction costs and partially fund the cash consideration in connection with the acquisition of Lipman on November 1, 2006. As of April 30, 2007, the Company had drawn all \$500 million of the Term B Loan.

The Credit Facility is guaranteed by the Company and certain of its subsidiaries and is secured by collateral including substantially all of the Company's assets and stock of the Company's subsidiaries. At April 30, 2007 and October 31, 2006, the interest rates were 7.11% and 7.12% on the Term B Loan and 6.61% and 6.87% on the revolving loan, respectively. The Company pays a commitment fee on the unused portion of the revolving loan under its Credit Facility at a rate that varies between 0.375% and 0.30% per annum depending upon its consolidated total leverage ratio. At April 30, 2007 and October 31, 2006, the Company was paying a commitment fee at a rate of 0.30% and 0.375% per annum, respectively. The Company pays a letter of credit fee on the unused portion of any letter of credit issued under the Credit Facility at a rate that varies between 1.50% and 1.25% per annum depending upon its consolidated total leverage ratio. At April 30, 2007 and October 31, 2006, the Company was subject to a letter of credit fee at a rate of 1.25% and 1.50% per annum, respectively.

As of April 30, 2007, at the Company's option, the revolving loan bears interest at a rate of 1.25% over the three-month LIBOR, which was 5.36%, or 0.25% over the lender's base rate, which was 8.25%. As of October 31, 2006, at the Company's option, the revolving loan bore interest at a rate of 1.50% over the three-month LIBOR, which was 5.37%, or 0.50% over the lender's base rate, which was 8.25%. As of April 30, 2007, the entire \$40 million revolving loan was available for borrowing to meet short-term working capital requirements. At the Company's option,

the Term B Loan bears interest at a rate of 1.75% over the three-month LIBOR or 0.75% over the base rate.

Interest payments are generally paid quarterly but can be based on one, two, three or six month periods. The lender's base rate is the greater of the Fed Funds rate plus 50 basis points or the JPMorgan prime rate. The respective maturity dates on the components of the Credit Facility are October 31, 2012 for the revolving loan and October 31, 2013 for the Term B Loan. Payments on the Term B Loan are due in equal quarterly installments of \$1.2 million over the seven-year term on the last business day of each calendar quarter with the balance due on maturity.

The terms of the Credit Facility require the Company to comply with financial covenants, including maintaining leverage and fixed charge coverage ratios at the end of each fiscal quarter, obtaining protection against fluctuation in interest rates, and limits on annual capital expenditure levels. As of April 30, 2007, the

Table of Contents**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Company was required to maintain a total leverage ratio of not greater than 4.0 to 1.0 and a fixed charge coverage ratio of at least 2.0 to 1.0. Total leverage ratio is equal to total debt less cash as of the end of a reporting fiscal quarter divided by the consolidated EBITDA for the most recent four consecutive fiscal quarters. Some of the financial covenants become more restrictive over the term of the Credit Facility. Noncompliance with any of the financial covenants without cure or waiver would constitute an event of default under the Credit Facility. An event of default resulting from a breach of a financial covenant may result, at the option of lenders holding a majority of the loans, in an acceleration of repayment of the principal and interest outstanding and a termination of the revolving loan. The Credit Facility also contains non-financial covenants that restrict some of the Company's activities, including its ability to dispose of assets, incur additional debt, pay dividends, create liens, make investments, make capital expenditures and engage in specified transactions with affiliates. The terms of the Credit Facility permit prepayments of principal and require prepayments of principal upon the occurrence of certain events including, among others, the receipt of proceeds from the sale of assets, the receipt of excess cash flow as defined, and the receipt of proceeds of certain debt issues. The Credit Facility also contains customary events of default, including defaults based on events of bankruptcy and insolvency; nonpayment of principal, interest or fees when due, subject to specified grace periods; breach of specified covenants; change in control; and material inaccuracy of representations and warranties. The Company was in compliance with its financial and non-financial covenants as of April 30, 2007.

**Note 7. Restructuring Charges*****Fiscal Year 2002 Restructuring Plan***

In connection with the acquisition of VeriFone, Inc. by the Company on July 1, 2002, the Company assumed the liability for a restructuring plan (fiscal 2002 restructuring plan). The remaining accrued restructuring balance represents primarily future facilities lease obligations, net of estimated future sublease income, which are expected to be paid through mid-2008. The payment of the restructuring costs for the International segment was zero for both six months ended April 30, 2007 and 2006, respectively. The Company paid restructuring costs of \$182,000 and \$361,000 for the six months ended April 30, 2007 and 2006, respectively, in the North America segment. As of April 30, 2007, the Company had a liability of \$54,000 and \$64,000 for the North America segment and International segment, respectively.

Activities related to the fiscal 2002 restructuring plan are as follows (in thousands):

	<b>Facilities</b>	<b>Other</b>	<b>Total (Restated)</b>	<b>Short-Term Portion</b>	<b>Long-Term Portion</b>
Balance at October 31, 2006	\$ 486	\$ 60	\$ 546	\$ 503	\$ 43
Additions (reductions)	(248)	2	(246)	(235)	(11)
Cash payments	(182)		(182)	(182)	
Balance at April 30, 2007	\$ 56	\$ 62	\$ 118	\$ 86	\$ 32

	<b>Facilities</b>	<b>Other</b>	<b>Total</b>	<b>Short-Term Portion</b>	<b>Long-Term Portion</b>
Balance at October 31, 2005	\$ 1,200	\$ 60	\$ 1,260	\$ 765	\$ 495
Additions (reductions)		7	7	360	(353)
Cash payments	(353)	(8)	(361)	(361)	
Balance at April 30, 2006	\$ 847	\$ 59	\$ 906	\$ 764	\$ 142



**Table of Contents****VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****GO Software Restructuring Plan***

In connection with the acquisition of the assets of the GO Software business on March 1, 2005, the Company accrued in the purchase price allocation \$313,000 of restructuring costs related to the integration of GO Software's Savannah helpdesk facility with the Company's helpdesk facility in Clearwater, Florida, of which \$269,000 has been paid as of both April 30, 2007 and October 31, 2006.

***Fiscal Year 2006 Restructuring Plan***

In the first quarter of fiscal 2006, the Company implemented a restructuring plan that established Singapore supply chain operations to leverage a favorable tax environment and manufacturing operations in the Asia Pacific region (fiscal 2006 restructuring plan). For the six months ended April 30, 2006, the Company incurred and paid restructuring costs of \$546,000 and \$389,000, respectively, in severance related expenses for employees. During the six months ended April 30, 2007, the Company reversed the remaining reserve of \$8,000.

Activities related to the fiscal 2006 restructuring plan are as follows (in thousands):

	<b>Severance</b>	<b>Short-Term Portion (Restated)</b>	<b>Long-Term Portion</b>
Balance at October 31, 2006	\$ 8	\$ 8	\$
Reductions	(8)	(8)	
Cash payments			
Balance at April 30, 2007	\$	\$	\$
	<b>Severance</b>	<b>Short-Term Portion</b>	<b>Long-Term Portion</b>
Balance at October 31, 2005	\$	\$	\$
Additions	546	546	
Cash payments	(389)	(389)	
Balance at April 30, 2006	\$ 157	\$ 157	\$

***PayWare Restructuring Plan***

In the fourth quarter of fiscal 2006, the Company completed the acquisition of PayWare. During the first six months of fiscal 2007, the Company accrued additional restructuring costs, primarily related to reduction in workforce and

future facilities lease obligations, of \$806,000, which were included in the purchase price allocation of PayWare. The payment of the restructuring costs for the International segment was \$2.3 million for the six months ended April 30, 2007.

Activities related to the PayWare acquisition restructuring plan are as follows (in thousands):

	<b>Severance</b>	<b>Facilities</b>	<b>Other</b>	<b>Total</b>	<b>Short-Term</b>	<b>Long-Term</b>
				<b>(Restated)</b>	<b>Portion</b>	<b>Portion</b>
Balance at October 31, 2006	\$ 1,234	\$ 1,098	\$ 76	\$ 2,408	\$ 2,408	\$
Additions	547	154	105	806	806	
Cash payments	(1,781)	(309)	(181)	(2,271)	(2,271)	
Balance at April 30, 2007	\$	\$ 943	\$	\$ 943	\$ 943	\$

**Table of Contents****VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Fiscal Year 2007 Restructuring Plan***

In the first quarter of 2007, the Company implemented a restructuring plan that included reductions in workforce of employees in the United States, China, Hong Kong, Mexico and the Philippines with an expected cost of \$821,000. The Company incurred \$726,000 and paid restructuring costs of \$359,000 in the North America segment for the six months ended April 30, 2007. For the six months ended April 30, 2007, the Company incurred \$95,000 and paid restructuring costs \$94,000, respectively, in the International segment.

Activities related to the fiscal 2007 restructuring plan are as follows (in thousands):

	<b>Severance</b>	<b>Facilities</b>	<b>Other</b>	<b>Total</b>	<b>Short-Term</b>	<b>Long-Term</b>
				<b>(Restated)</b>	<b>Portion</b>	<b>Portion</b>
Balance at October 31, 2006	\$	\$	\$	\$	\$	\$
Additions	807	10	4	821	821	
Cash payments	(440)	(10)	(3)	(453)	(453)	
Balance at April 30, 2007	\$ 367	\$	\$ 1	\$ 368	\$ 368	\$

***Lipman Restructuring Plan***

In the first quarter of fiscal 2007, the Company completed the acquisition of Lipman and began formulating a restructuring plan which is expected to be completed by the end of the fiscal year. For those portions of the plan completed during the six months ended April 30, 2007, the Company accrued into the purchase price allocation restructuring costs related to reduction in workforce and future facilities lease obligations of \$6.2 million. The payment of the restructuring costs for the International segment was \$4.2 million for the six months ended April 30, 2007.

Activities related to the Lipman acquisition restructuring plan are as follows (in thousands):

	<b>Severance</b>	<b>Facilities</b>	<b>Other</b>	<b>Total</b>	<b>Short-Term</b>	<b>Long-Term</b>
				<b>(Restated)</b>	<b>Portion</b>	<b>Portion</b>
Balance at October 31, 2006	\$	\$	\$	\$	\$	\$
Additions	3,102	3,097	2	6,201	3,706	2,495
Cash payments	(1,750)	(3,082)	(2)	(4,834)	(2,339)	(2,495)
Balance at April 30, 2007	\$ 1,352	\$ 15	\$	\$ 1,367	\$ 1,367	\$

**Note 8. Commitments and Contingencies**

The Company leases certain real and personal property under non-cancelable operating leases. Additionally, the Company subleases certain real property to third parties. Future minimum lease payments and sublease rental income under these leases as of April 30, 2007 were as follows (in thousands):

<b>Fiscal Year</b>	<b>Minimum Lease Payments</b>	<b>Sublease Rental Income</b>	<b>Net Minimum Lease Payments</b>
Remainder of 2007	\$ 4,633	\$ 68	\$ 4,565
2008	7,839	137	7,702
2009	5,877	89	5,788
2010	5,271	4	5,267
2011	4,150		4,150
Thereafter	14,348		14,348
	\$ 42,118	\$ 298	\$ 41,820

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Certain leases require the Company to pay property taxes, insurance and routine maintenance, and include rent escalation clauses and options to extend the term of certain leases. Rent expense was approximately \$3.3 million and \$6.2 million for the three and six months ended April 30, 2007, respectively, compared to \$2.3 million and \$4.4 million for the comparable periods in fiscal 2006. Sublease rental income was approximately \$52,000 and \$122,000 for the three and six months ended April 30, 2007, respectively, compared to \$73,000 and \$144,000 for the comparable periods in fiscal 2006.

***Manufacturing Agreements***

The Company works on a purchase order basis with third-party contract manufacturers and component suppliers with facilities in China, Singapore and Brazil to manufacture a majority of the Company's inventories. The Company issues a forecast to the third-party contract manufacturers and subsequently agrees to a build schedule to drive component material purchases and capacity planning. In conjunction with this, the Company issues a combination of purchase order and written direction to drive manufacturing activity for finished goods product. The Company provides each manufacturer with a purchase order on a monthly basis to cover the following month's manufacturing requirements, which constitutes a binding commitment by the Company to purchase materials produced by the manufacturer as specified in the purchase order. The total amount of purchase commitments as of April 30, 2007 and October 31, 2006 was approximately \$39.7 million and \$17.9 million, respectively, and are generally paid within one year. Of this amount, \$2.5 million and \$1.4 million has been recorded in other current liabilities in the accompanying condensed consolidated balance sheets as of April 30, 2007 and October 31, 2006, respectively, because the commitment is expected not to have future value to the Company.

***Employee Health and Dental Costs***

The Company is primarily self-insured for employee health and dental costs and has stop-loss insurance coverage to limit per-incident liability for health costs. The Company believes that adequate accruals are maintained to cover the retained liability. The accrual for self-insurance is determined based on claims filed and an estimate of claims incurred but not yet reported.

***Litigation***

The Company is subject to various legal proceedings related to commercial, customer, and employment matters that have arisen during the ordinary course of its business. Although there can be no assurance as to the ultimate disposition of these matters, the Company's management has determined, based upon the information available at the date of these financial statements, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

One of the Company's Brazilian subsidiaries has been notified of a tax assessment regarding Brazilian state value added tax ( VAT ), for the periods from January 2000 to December 2001 that relates to products supplied to the Company by a contract manufacturer. The assessment relates to an asserted deficiency of 7.7 million Brazilian reais (approximately \$3.8 million) including interest and penalties. The tax assessment was based on a clerical error in which the Company's Brazilian subsidiary omitted the required tax exemption number on its invoices. Management does not expect that the Company will ultimately incur a material liability in respect of this assessment, because they believe, based in part on advice of the Company's Brazilian tax counsel, that the Company is likely to prevail in the

proceedings relating to this assessment. On May 25, 2005, the Company had an administrative hearing with respect to this audit. Management expects to receive the decision of the administrative body sometime in 2007. In the event the Company receives an adverse ruling from the administrative body, the Company will decide whether or not to appeal and would reexamine the determination as to whether an accrual is necessary. It is currently uncertain what impact this state tax examination may have with respect to the Company's use of a corresponding exemption to reduce the Brazilian federal VAT.

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Two of the Company's Brazilian subsidiaries that were acquired as a part of the Lipman acquisition have been notified of tax assessments regarding Brazilian customs penalties that relate to alleged infractions in the importation of goods. The assessments were issued in the City of Vitória and the State of São Paulo and relate to asserted deficiencies totaling 24.9 million Brazilian reais (approximately \$12.3 million) excluding interest. The tax authorities allege that the structure used for the importation of goods was simulated with the objective to hide the real seller and buyer of the imported goods and that the simulation was created through a fraudulent interposition of parties.

In the Vitória tax assessment, the fines were reduced from 4.7 million Brazilian reais (approximately \$2.3 million) to 1.5 million Brazilian reais (approximately \$0.7 million) on a first level administrative decision on January 26, 2007. The proceeding has been remitted to the Taxpayers Council to adjudicate the appeal of the first level administrative decision filed by the tax authorities. The Company also appealed the first level administrative decision on February 26, 2007. In this appeal, the Company argued that the tax authorities did not have enough evidence to determine that the import transactions were indeed fraudulent and that, even if there were some irregularities in such importations, they could not be deemed to be the Company's responsibility since all the transactions were performed by the third-party importer of the goods. Management expects to receive the decision of the Taxpayers Council sometime in 2007. In the event the Company receives an adverse ruling from the administrative body, the Company will decide whether or not to appeal to the judicial level. Based on the Company's current understanding of the underlying facts, the Company believes that it is probable that its Brazilian subsidiary will be required to pay some amount of fines. At April 30, 2007, the Company has accrued 4.7 million Brazilian reais (approximately \$2.3 million), excluding interest, which it believes is the probable payment.

The São Paulo tax assessment is pending first administrative level decision, which may maintain the total fine imposed of 20.2 million Brazilian reais (approximately \$10.0 million) or reduce it (as happened in the Vitória tax assessment). In the event the Company receives an adverse ruling from the administrative body, the Company will also decide whether or not to appeal in the administrative level to the Taxpayers Council. Based on the Company's current understanding of the underlying facts, the Company believes that, although it is possible that the amount claimed may be reduced at the administrative level, it is probable that its Brazilian subsidiary will be required to pay some amount of fines.

With regard to the Vitória and São Paulo assessments, the Company continues to accumulate information to assess whether or not the liabilities are probable and whether the amount of the liabilities can be reasonably estimated. If such estimates are determined prior to the end of the purchase price allocation period, the amounts will be accrued in the purchase price allocation.

On December 11, 2006, the Company received a civil investigative demand from the U.S. Department of Justice regarding an investigation into its acquisition of Lipman which requests certain documents and other information, principally with respect to the companies' integration plans and communications prior to the completion of this acquisition. The Company is producing documents in response to this request, but cannot predict what actions, if any, will result from this investigation.

Table of Contents**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 9. Comprehensive Income (Loss)**

The components of comprehensive income (loss) were as follows (in thousands):

	<b>Three Months Ended April 30,</b>		<b>Six Months Ended April 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(Restated)</b>		<b>(Restated)</b>	
Net income (loss)	\$ (4,818)	\$ 15,036	\$ (10,497)	\$ 28,830
Foreign currency translation adjustments, net of tax	3,928	231	10,263	318
Unrecognized gain (loss) on interest rate hedges, net of tax	(4)	25	(22)	52
Unrealized gain (loss) on marketable securities, net of tax			(1)	1
Comprehensive income	\$ (894)	\$ 15,292	\$ (257)	\$ 29,201

The components of accumulated other comprehensive income consisted of the following (in thousands):

	<b>April 30, 2007</b>	<b>October 31, 2006</b>
	<b>(Restated)</b>	
Foreign currency translation adjustments, net of tax of \$2,460 and \$1,068	\$ 11,266	\$ 1,003
Unrecognized loss on interest rate hedges, net of tax of \$44 and \$29	(68)	(46)
Unrealized gain on marketable securities, net of tax of zero and \$1		1
Accumulated other comprehensive income	\$ 11,198	\$ 958

**Note 10. Stockholders Equity*****Common and Preferred Stock***

The Company has authorized 100,000,000 shares of Common Stock, par value \$0.01 per share, and 10,000,000 shares of Preferred Stock, par value \$0.01 per share. The board of directors has the authority to issue the undesignated Preferred Stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. The holder of each share of Common Stock has the right to one vote. As of April 30, 2007 and October 31, 2006, there were no shares of Preferred Stock outstanding and there were 82,864,709 and 68,148,245 shares of Common Stock outstanding, respectively.



On November 1, 2006, the Company completed its acquisition of Lipman. As part of the acquisition consideration, the Company issued 13,462,474 shares of its common stock. See Note 4 of Notes to Condensed Consolidated Financial Statements for additional information.

***Restricted Common Stock***

The Company has a right to repurchase shares of Common Stock sold to the Company's Chief Executive Officer (the CEO) at the original sale price, \$0.0333 per share, in the event the CEO ceases to be employed by the Company or any of its subsidiaries. This right lapses at a rate of 20% of the original 3,910,428 shares per year. Upon the sale of the Company, any remaining unvested shares will become vested. At April 30, 2007, 782,085 shares of Common Stock issued to the CEO remained subject to this repurchase right which will lapse in July 2007.

The Company has a right to repurchase shares of Common Stock sold to certain executives of the Company pursuant to the Company's 2002 Securities Purchase Plan at the lesser of the original sale price, \$0.0333 per share, or the fair value on the date of separation in the event that the executive ceases to be employed by the Company or any of its subsidiaries. This right lapses at a rate of 20% of the original 1,929,145 shares per year. Upon the sale of

**Table of Contents****VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the Company, all remaining unvested shares will become vested. At April 30, 2007, 218,985 shares of Common Stock remained subject to this repurchase right which will lapse in July 2007 and October 2007.

**Stock Option Plans**

As of April 30, 2007, the Company had a total of 7,879,500 stock options outstanding with a weighted average exercise price of \$23.12 per share. The number of shares that remained available for future grants was 3,841,855 as of April 30, 2007.

**New Founders Stock Option Plan**

On April 30, 2003, the Company adopted the New Founders Stock Option Plan (the New Founders Plan) for executives and employees of the Company. A total of 1,500,000 shares of the Company's Common Stock were reserved for issuance under the New Founders Plan. The Company will no longer grant options under the New Founders Plan and will retire any options cancelled hereafter. Option awards under the New Founders Plan were generally granted with an exercise price equal to the market price of the Company's stock on the date of grant. Those option awards generally vest in equal annual amounts over a period of five years from the date of grant and have a maximum term of 10 years.

The following table summarizes option activity under the New Founders Plan during the six months ended April 30, 2007:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years) (Restated)	Aggregate Intrinsic Value (Thousands)
Balance at November 1, 2006	898,062	\$ 4.22		
Exercised	(202,285)	3.17		
Cancelled	(5,605)	4.57		
Balance at April 30, 2007	690,172	\$ 4.53	6.97	\$ 21,231
Vested or expected to vest at April 30, 2007	649,573	\$ 4.49	6.96	\$ 20,007
Exercisable at April 30, 2007	320,617	\$ 4.26	6.87	\$ 9,948

The options expected to vest are the result of applying the pre-vesting forfeiture rate assumptions to total outstanding options. The total intrinsic value of options exercised during the six months ended April 30, 2007 was \$6.8 million.

As of April 30, 2007, pursuant to SFAS No. 123(R), there was \$831,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the New Founders Plan. The cost is expected to be recognized over a remaining weighted average period of 2.2 years. The total fair value of shares vested during the six months ended April 30, 2007 was \$223,000.

*Outside Directors Stock Option Plan*

In January 2005, the Company adopted the Outside Directors Stock Option Plan (the Directors Plan ) for members of the Board of Directors of the Company who are not employees of the Company or representatives of major stockholders of the Company. A total of 225,000 shares of the Company's Common Stock had been reserved for issuance under the Directors Plan. The Company will no longer grant options under the Directors Plan and will retire any options cancelled hereafter. Option grants for members of the Board of Directors of the Company who are

Table of Contents**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

not employees of the Company or representatives of major stockholders of the Company will be covered under the 2006 Equity Incentive Plan.

The following table summarizes option activity under the Directors' Plan during the six months ended April 30, 2007:

	<b>Shares Under Option</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value (Thousands)</b>
Balance at November 1, 2006	90,000	\$ 10.00		
Exercised	(16,875)	10.00		
Cancelled				
Balance at April 30, 2007	73,125	\$ 10.00	4.73	\$ 1,849
Vested or expected to vest at April 30, 2007	73,125	\$ 10.00	4.73	\$ 1,849
Exercisable at April 30, 2007	31,875	\$ 10.00	4.74	\$ 806

The options expected to vest are the result of applying the pre-vesting forfeiture rate assumptions to total outstanding options. The total intrinsic value of options exercised during the six months ended April 30, 2007 was \$406,000.

As of April 30, 2007, pursuant to SFAS No. 123(R), there was \$236,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Directors' Plan. The cost is expected to be recognized over a remaining weighted average period of 1.7 years. The total fair value of shares vested during the six months ended April 30, 2007 was \$69,000.

*2005 Equity Incentive Option Plan*

On April 29, 2005, the Company adopted the 2005 Equity Incentive Option Plan (the "EIP Plan") for executives and employees of the Company and other individuals who perform services to the Company. A total of 3,100,000 shares of the Company's Common Stock have been reserved for issuance under the EIP Plan. The Company will no longer grant options under the EIP Plan and will retire any options cancelled hereafter. Option awards were generally granted with an exercise price equal to the market price of the Company's stock at the date of grant. Those options generally vest over a period of four years from the date of grant and have a maximum term of 7 years.

Table of Contents**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes option activity under the EIP Plan during the six months ended April 30, 2007:

	<b>Shares Under Option</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term (Years) (Restated)</b>	<b>Aggregate Intrinsic Value (Thousands)</b>
Balance at November 1, 2006	1,878,801	\$ 12.13		
Exercised	(278,674)	11.24		
Cancelled	(43,101)	11.31		
Balance at April 30, 2007	1,557,026	\$ 12.31	4.65	\$ 35,775
Vested or expected to vest at April 30, 2007	1,389,959	\$ 12.30	4.64	\$ 31,948
Exercisable at April 30, 2007	412,716	\$ 12.55	4.52	\$ 9,384

The options expected to vest are the result of applying the pre-vesting forfeiture rate assumptions to total outstanding options. The total intrinsic value of options exercised during the six months ended April 30, 2007 was \$7.1 million.

As of April 30, 2007, pursuant to SFAS No. 123(R), there was \$5.9 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the EIP Plan. The cost is expected to be recognized over a remaining weighted average period of 2.1 years. The total fair value of shares vested during the six months ended April 30, 2007 was \$1.8 million.

*2006 Equity Incentive Plan*

On March 22, 2006, the stockholders of VeriFone approved the 2006 Equity Incentive Plan (the 2006 Plan) for officers, directors, employees and consultants of the Company. A total of 9,000,000 shares of the Company's Common Stock have been reserved for issuance under the 2006 Plan. Awards are granted with an exercise price equal to the market price of the Company's Common Stock at the date of grant except for restricted stock units (RSUs). The awards generally vest over a period of four years from the date of grant and have a maximum term of seven years. Any shares granted as stock options and stock appreciation rights shall be counted as one share for every share granted. Any awards granted other than stock options or stock appreciation rights are counted, for the purpose of the number of shares issuable under the 2006 Plan, as 1.75 shares for every share granted.

The following table summarizes option activity under the 2006 Plan during the six months ended April 30, 2007:

	<b>Shares</b>	<b>Weighted Average Exercise Price (Restated)</b>	<b>Weighted Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value (Thousands)</b>
Balance at November 1, 2006	2,539,245	\$ 29.10		
Granted	1,069,000	34.99		
Exercised	(5,125)	29.23		
Cancelled	(329,600)	31.41		
Balance at April 30, 2007	3,273,520	\$ 30.91	6.03	\$ 14,772
Vested or expected to vest at April 30, 2007	3,008,684	\$ 30.90	6.03	\$ 13,607
Exercisable at April 30, 2007	137,148	\$ 28.94	5.49	\$ 871

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The options expected to vest are the result of applying the pre-vesting forfeiture rate assumptions to total outstanding options. The total intrinsic value of options exercised during the six months ended April 30, 2007 was \$40,000. The weighted average grant date fair value of options granted during the six months ended April 30, 2007 was \$10.04 per share.

As of April 30, 2007, pursuant to SFAS No. 123(R), there was \$25.6 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the 2006 Plan. The cost is expected to be recognized over the remaining weighted average period of 3.3 years. The total fair value of shares vested during the six months ended April 30, 2007 was \$1.4 million.

In March 2006, September 2006 and January 2007, the Company issued 90,000, 80,000 and 14,000 RSUs, respectively, to its executive officers and key employees with a zero value exercise price. Twenty-five percent of these awards shall vest one year from the date of grant and 1/16th vest quarterly thereafter. The fair value of the RSUs granted is the stock price on March 22, 2006, September 12, 2006 and January 3, 2007 of \$28.86, \$27.50 and \$35.45, respectively. As of April 30, 2007, 159,500 RSUs are vested or are expected to vest, with an aggregate intrinsic value of \$5.6 million. Pursuant to SFAS No. 123(R), there was \$3.7 million of total unrecognized compensation cost related to non-vested RSUs. The cost is expected to be recognized over the remaining weighted average period of 3.2 years.

In January 2007, the Company made an award of up to 900,000 RSUs to the Company's CEO. These RSUs may vest in three tranches over a four-year period based upon annual growth in the Company's net income, as adjusted, per share and its share price. The RSUs are allocated between performance units related to achievement of net income, as adjusted, targets, and market units related to achievement of net income, as adjusted, targets and the performance of the Company's stock. The performance RSUs are earned in three annual tranches of up to 200,000 each in the event that the Company meets or exceeds specified annual increases in net income per share, as adjusted, for fiscal years 2007, 2008 and 2009, based on a target of 20% annual increases. In addition, in each of the three years, the CEO may earn a further 100,000 RSUs if the Company achieves both the targeted improvement in net income, as adjusted, per share results and there is a corresponding improvement in the Company's share price, with a final target of \$62.20, for fiscal 2009. Each year's RSUs will not vest until the end of the fiscal year following the year for which the specified target is met.

As of April 30, 2007, the Company had not recognized any compensation expense related to these RSUs as achievement of the fiscal 2007 financial targets was not considered probable. Since the financial targets for the 2008 and 2009 tranches have not yet been determined, no measurement date has occurred. When all the factors for measurements are determined, the Company will value the 2008 and 2009 tranches, respectively. Since these shares are contingently issuable, they are excluded from the earnings per share calculation.

Table of Contents**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Lipman Plans*

As part of the acquisition of Lipman on November 1, 2006, VeriFone assumed all of Lipman's outstanding options. The Company will no longer grant options under the Lipman Plans. The following table summarizes option activity under the Lipman Electronic Engineering, Ltd. Plans (Lipman Plans) during the six months ended April 30, 2007:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years) (Restated)	Aggregate Intrinsic Value (Thousands)
Options assumed on acquisition of Lipman on November 1, 2006	3,375,527	\$ 24.47		
Exercised	(736,192)	20.07		
Cancelled	(353,678)	27.35		
Balance at April 30, 2007	2,285,657	\$ 25.33	4.45	\$ 22,915
Vested or expected to vest at April 30, 2007	2,040,944	\$ 24.98	4.44	\$ 21,034
Exercisable at April 30, 2007	674,166	\$ 20.21	4.58	\$ 10,165

The options expected to vest are the result of applying the pre-vesting forfeiture rate assumptions to total outstanding options. The total intrinsic value of options exercised during the six months ended April 30, 2007 was \$12.1 million.

As of April 30, 2007, pursuant to SFAS No. 123(R), there was \$13.1 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Lipman Plan. The cost is expected to be recognized over remaining weighted average period of 2.5 years. The total fair value of shares vested during the six months ended April 30, 2007 was \$6.3 million.

*All Plans*

The total cash received from employees as a result of employee stock option exercises under all plans for the six months ended April 30, 2007 was approximately \$18.9 million. In connection with these exercises, the tax benefits realized by the Company and credited to equity for the six months ended April 30, 2007 were \$4.7 million.

The Company estimates the grant-date fair value of stock options using a Black-Scholes valuation model, consistent with the provisions of SFAS No. 123(R) and SEC Staff Accounting Bulletin No. 107, *Share-Based Payment*.



Expected volatility of the stock is based on a blend of the Company's peer group in the industry in which it does business and the Company's historical volatility data for its own stock. The expected term of options granted is estimated by the Company considering vesting periods and historical trends within the Company's equity plans and represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on the U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of the options used in the Black-Scholes valuation model. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Company under SFAS No. 123(R).

Table of Contents**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The fair value of each stock option was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	<b>Three Months Ended April 30, 2007</b>		<b>Six Months Ended April 30, 2006</b>	
Expected term of the options	2 years	3 years	2 years	3 years
Risk-free interest rate	4.6%	4.8%	4.8%	4.7%
Expected stock price volatility	40%	41%	41%	45%
Expected dividend rate	0.0%	0.0%	0.0%	0.0%

The following table presents the stock-based compensation expense recognized in accordance with SFAS No. 123(R) during the three and six months ended April 30, 2007 and 2006 (in thousands):

	<b>Three Months Ended April 30, 2007 (Restated)</b>		<b>Six Months Ended April 30, 2007 (Restated)</b>	
Cost of net revenues	\$ 930	\$ 162	\$ 1,847	\$ 315
Research and development	1,433	210	2,899	390
Sales and marketing	1,683	409	3,512	740
General and administrative	4,253	408	7,837	667
	\$ 8,299	\$ 1,189	\$ 16,095	\$ 2,112

In the six months ended April 30, 2007, stock-based compensation expense includes \$1.0 million related to the excess over fair value of the vested Lipman options assumed.

The following table presents the stock-based compensation expense recognized by plan in accordance with SFAS No. 123(R) during the following periods (in thousands):

	<b>Three Months Ended April 30, 2007 (Restated)</b>	<b>Six Months Ended April 30, 2007 (Restated)</b>
--	---	---

New Founders Stock Option Plan	\$	109	\$	220
Executive Plan		16		33
Outside Directors Stock Option Plan		34		69
2005 Equity Incentive Option Plan		768		1,472
2006 Equity Incentive Plan		2,316		4,240
Lipman Plans		5,056		10,061
	\$	8,299	\$	16,095

## Note 11. Segment and Geographic Information

### *Segment Information*

The Company is primarily structured in a geographic manner. The Company's Chief Executive Officer has been identified as the Chief Operating Decision Maker ( CODM ) as defined by SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*. The CODM reviews consolidated financial information on revenues and gross profit percentage for System Solutions and Services. The CODM also reviews operating expenses, certain of which are allocated to the Company's two segments described below.

**Table of Contents****VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company operates in two business segments: North America and International. The Company defines North America as the United States and Canada, and International as the countries in which it makes sales outside the United States and Canada.

Net revenues and operating income of each business segment reflect net revenues generated within the segment, standard cost of System Solutions net revenues, actual cost of Services net revenues and expenses that directly benefit only that segment. Corporate net revenues and operating income (loss) reflect non-cash acquisition charges, including amortization of purchased core and developed technology assets, step-up of inventory and step-down in deferred revenue, and other Corporate charges, including inventory obsolescence and scrap at corporate distribution centers, rework, specific warrant provisions, non-standard freight, over-and-under absorption of materials management, and supply chain engineering overhead. Corporate operating income also reflects the difference between the actual and standard cost of System Solutions net revenues and shared operating costs that benefit both segments, predominately research and development expenses and centralized supply chain management.

The following table sets forth net revenues and operating income for the Company's segments (in thousands):

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>April 30,</b>		<b>April 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>(Restated)</b>		<b>(Restated)</b>	
Net revenues:				
International	\$ 121,948	\$ 61,845	\$ 250,745	\$ 119,502
North America	95,857	80,466	184,938	157,641
Corporate	(922)	(121)	(2,437)	(323)
Total net revenues	\$ 216,883	\$ 142,190	\$ 433,246	\$ 276,820
Operating income:				
International	\$ 30,402	\$ 14,066	\$ 61,826	\$ 28,233
North America	39,098	31,002	70,826	61,505
Corporate	(62,031)	(19,446)	(125,785)	(40,979)
Total operating income	\$ 7,469	\$ 25,622	\$ 6,867	\$ 48,759

The Company's long-lived assets which consist primarily of property, plant and equipment, net by segment were as follows (in thousands):

**April 30,  
2007**      **October 31,  
2006**

	<b>(Restated)</b>	
International	\$ 21,617	\$ 3,277
North America	14,853	6,270
	\$ 36,470	\$ 9,547

The Company's goodwill by segment was as follows (in thousands):

	<b>April 30, 2007 (Restated)</b>	<b>October 31, 2006</b>
International	\$ 516,203	\$ 19,102
North America	66,835	33,587
	\$ 583,038	\$ 52,689

Table of Contents**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company's total assets by segment were as follows (in thousands):

	<b>April 30, 2007 (Restated)</b>	<b>October 31, 2006</b>
International	\$ 1,055,606	\$ 125,681
North America	318,240	327,264
	<b>\$ 1,373,846</b>	<b>\$ 452,945</b>

The Company's depreciation and amortization expense by segment were as follows (in thousands):

	<b>Three Months Ended April 30,</b>		<b>Six Months Ended April 30,</b>	
	<b>2007 (Restated)</b>	<b>2006</b>	<b>2007 (Restated)</b>	<b>2006</b>
International	\$ 1,052	\$ 193	\$ 2,382	\$ 352
North America	711	684	1,383	1,299
	<b>\$ 1,763</b>	<b>\$ 877</b>	<b>\$ 3,765</b>	<b>\$ 1,651</b>

***Geographic Information***

The net revenues by geographic area were as follows (in thousands):

	<b>Three Months Ended April 30,</b>		<b>Six Months Ended April 30,</b>	
	<b>2007 (Restated)</b>	<b>2006</b>	<b>2007 (Restated)</b>	<b>2006</b>
Europe	\$ 68,808	\$ 26,151	\$ 139,963	\$ 49,200
Latin America	41,497	26,529	82,168	50,445
Asia	11,643	9,165	28,614	19,857
United States	85,472	76,387	165,057	151,424
Canada	9,463	3,958	17,444	5,894

\$ 216,883    \$ 142,190    \$ 433,246    \$ 276,820

Revenues are allocated to the geographic areas based on the shipping destination of customer orders. Corporate revenues are included in the United States geographic area revenues.

The Company's long-lived assets exclusive of intercompany accounts were as follows (in thousands):

	<b>April 30, 2007 (Restated)</b>	<b>October 31, 2006</b>
Europe	\$ 20,195	\$ 2,191
North America	14,853	6,409
Asia	747	270
Latin America	675	677
	<b>\$ 36,470</b>	<b>\$ 9,547</b>

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 12. Related-Party Transactions**

In June 2004, the Company paid a placement fee of \$2,920,000 to GTCR Golder Rauner, L.L.C., the manager of equity funds that are stockholders of the Company, for services related to the Credit Facility acquired from Banc of America Securities and Credit Suisse First Boston. The debt issuance costs were amortized over the term of the related debt. The Company recorded amortization of debt issuance costs related to these costs of \$67,000 and \$132,000 for the three and six months ended April 30, 2006, respectively, which is included in interest expense, in the accompanying condensed consolidated statements of operations. On October 31, 2006, the Company entered into a new secured credit facility with a syndicate of financial institutions, led by JPMorgan Chase Bank, N.A. and Lehman Commercial Paper Inc. The proceeds were used to repay the outstanding amounts due from the existing secured credit facility, pay the transaction costs and fund the cash consideration in connection with the merger with Lipman on November 1, 2006. The Company wrote off the remaining balance of unamortized debt issuance cost of the credit facility acquired from Banc of America Securities and Credit Suisse First Boston in the amount of \$6.4 million in October 2006 of which \$1.6 million relates to the placement fee with GTCR Golden Rauner, L.L.C.

For the three and six months ended April 30, 2007, the Company recorded sales of \$0.8 million and \$3.6 million, respectively, to affiliates of related parties which are included in System Solutions net revenues in the accompanying condensed consolidated statements of operations compared to \$429,000 in each of the comparable periods in fiscal 2006.

**Note 13. Income Taxes**

The Company expects to provide for taxes in fiscal year 2007 notwithstanding an expected loss on its consolidated statement of operations for the full fiscal year. This is because, in significant part, it has net profits in its international operations and a loss in the United States. The tax benefit of the U.S. financial reporting loss is also offset by an expected increase in the valuation allowance on U.S. deferred tax assets. The application of the intraperiod tax accounting rules of FIN 18 coupled with losses at certain entities results in a computed tax provision of \$4.3 million and \$0.4 million for the three and six months ended April 30, 2007, respectively. For the three and six months ended April 30, 2006, the tax provision was \$8.4 million and \$15.3 million, respectively. The Company expects to report a tax provision for fiscal year 2007 estimated at approximately \$24.7 million.

The Company is currently under audit by the Internal Revenue Service ( IRS ) for its fiscal years 2002 to 2004. Although the Company believes it has correctly provided income taxes for the years subject to audit, the IRS may adopt different interpretations. The Company has not yet received any final determinations with respect to this audit.

**Note 14. Employee Benefit Plans**

The Company maintains a defined contribution 401(k) plan that allows eligible employees to contribute up to 60% of their pretax salary up to the maximum allowed under Internal Revenue Service regulations. Discretionary employer matching contributions of \$0.5 million and \$1.0 million were made to the plan during the three and six months ended April 30, 2007, respectively, compared to \$0.5 million and \$0.9 million for the comparable periods in fiscal 2006.

**Note 15. Subsequent Events**



***Class Action and Derivative Lawsuits***

On or after December 4, 2007, several securities class action claims were filed against the Company and certain of the Company's officers. The various complaints specify different class periods, with the longest proposed class period being August 31, 2006 through December 3, 2007. These lawsuits have been consolidated in the U.S. District Court for the Northern District of California as *In re VeriFone Holdings, Inc. Securities Litigation*, C 07-6140 MHP. The original actions were: *Eichenholtz v. VeriFone Holdings, Inc. et al.*, C 07-6140 MHP; *Lien v.*

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*VeriFone Holdings, Inc. et al.*, C 07-6195 JSW; *Vaughn et al. v. VeriFone Holdings, Inc. et al.*, C 07-6197 VRW (Plaintiffs voluntarily dismissed this complaint on March 7, 2008); *Feldman et al. v. VeriFone Holdings, Inc. et al.*, C 07-6218 MMC; *Cerini v. VeriFone Holdings, Inc. et al.*, C 07-6228 SC; *Westend Capital Management LLC v. VeriFone Holdings, Inc. et al.*, C 07-6237 MMC; *Hill v. VeriFone Holdings, Inc. et al.*, C 07-6238 MHP; *Offutt v. VeriFone Holdings, Inc. et al.*, C 07-6241 JSW; *Feitel v. VeriFone Holdings, Inc., et al.*, C 08-0118 CW. On March 17, 2008, the Court held a hearing on Plaintiffs' motions for Lead Plaintiff and Lead Counsel and in May 2008, the Court requested additional briefing on these matters, which was submitted in June 2008. The Company currently expects that following the Court's order appointing Lead Plaintiff and Lead Counsel, a Consolidated Complaint will be filed. Each of the consolidated actions alleges, among other things, violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, based on allegations that the Company and the individual defendants made false or misleading public statements regarding the Company's business and operations during the putative class periods and seeks unspecified monetary damages and other relief. At this time, the Company has not recorded any liabilities as it is unable to estimate any potential liability.

Beginning on December 13, 2007, several derivative actions were also filed against certain current and former directors and officers. These derivative lawsuits were filed in: (1) the U.S. District Court for the Northern District of California, as *In re VeriFone Holdings, Inc. Shareholder Derivative Litigation*, Lead Case No. C 07-6347, which consolidates *King v. Bergeron, et al.* (Case No. 07-CV-6347), *Hilborn v. VeriFone Holdings, Inc., et al.* (Case No. 08-CV-1132), *Patel v. Bergeron, et al.* (Case No. 08-CV-1133), and *Lemmond, et al. v. VeriFone Holdings, Inc., et al.* (Case No. 08-CV-1301); and (2) California Superior Court, Santa Clara County, as *In re VeriFone Holdings, Inc. Derivative Litigation*, Lead Case No. 1-07-CV-100980, which consolidates *Catholic Medical Mission Board v. Bergeron, et al.* (Case No. 1-07-CV-100980), and *Carpel v. Bergeron, et al.* (Case No. 1-07-CV-101449). The complaints allege, among other things, that certain of the Company's current and former directors and officers breached their fiduciary duties to the Company and violated provisions of the California Corporations Code and certain common law doctrines by engaging in alleged wrongful conduct complained of in the securities class action litigation described above. The Company is named solely as a nominal defendant against whom the plaintiffs seek no recovery. Amended consolidated complaints are expected to be filed in September 2008 in each set of consolidated cases.

On January 27, 2008, a class action complaint was filed against the Company in the Central District Court in Tel Aviv, Israel on behalf of purchasers of the Company's stock on the Tel Aviv Stock Exchange. The complaint seeks compensation for damages allegedly incurred by the class of plaintiffs due to the publication of erroneous financial reports. On May 25, 2008, the Court held a hearing on the Company's motion to dismiss or stay the proceedings, after which the Court requested that the plaintiff and the Company submit additional information to the Court with respect to the applicability of Israeli law to dually registered companies. This additional information was submitted to the Court in June 2008 and the parties are currently awaiting the Court's ruling on this issue. At this time, the Company has not recorded any liabilities as it is unable to estimate the potential liabilities.

The foregoing cases are still in the preliminary stages, and the Company is not able to quantify the extent of its potential liability, if any. An unfavorable outcome in any of these matters could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, defending this litigation is likely to be costly and may divert management's attention from the day-to-day operations of the Company's business.

***Regulatory Actions***

The Company has responded to inquiries and provided information and documents related to the restatement of its fiscal year 2007 interim financial statements to the Securities and Exchange Commission, the Department of Justice, the New York Stock Exchange and the Chicago Board Options Exchange. The SEC has also expressed an interest in interviewing several current and former officers and employees of the Company, and the Company is continuing to cooperate with the SEC in responding to the SEC's requests for information. The Company is unable to predict what consequences, if any, any investigation by any regulatory agency may have on the Company. There

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

is no assurance that other regulatory inquiries will not be commenced by other U.S. federal, state or foreign regulatory agencies.

With regard to the civil investigative demand from the Department of Justice discussed in Note 8, on June 20, 2008, counsel for the Company received written confirmation from the Department of Justice that it had closed its civil investigation into the Company's acquisition of Lipman.

***Brazilian Tax Assessment***

On July 12, 2007, the Company was notified of a first administrative level decision rendered in the São Paulo tax assessment, which maintained the total fine of 20.2 million Brazilian reais (approximately \$10.0 million) imposed. On August 10, 2007, the Company appealed the first administrative level decision to the Taxpayers Council. A hearing was held on August 12, 2008 before the Taxpayers Council, but the Taxpayers Council did not render a decision pending its further review of the records. Management expects to receive the decision of the Taxpayers Council sometime in 2008. In the event the Company receives an adverse ruling from the Taxpayers Council, the Company will decide whether or not to appeal to the judicial level.

Two of the Company's Brazilian subsidiaries that were acquired as a part of the Lipman acquisition have been notified of an additional assessment regarding Brazilian customs penalties that relates to alleged infractions in the importation of goods. The assessment was issued by the Federal Revenue Department in the City of Itajai. On May 22, 2008, the Company was notified of a first administrative level decision rendered in the Itajai assessment, which maintained the total fine of 2.0 million Brazilian reais (approximately \$1.0 million) imposed, excluding interest. On May 27, 2008, the Company appealed the first level administrative level decision to the Taxpayers Council.

***Senior Convertible Notes***

On June 22, 2007, the Company entered into an Indenture with U.S. Bank National Association, as trustee, to issue \$316.25 million 1.375% Senior Convertible Notes due 2012 (the "Notes"). The Company will pay 1.375% interest per annum on the principal amount of the Notes, subject to increase in certain circumstances as described below. The Notes are convertible into the Company's common stock based on an initial conversion rate of 22.7190 shares per \$1,000 principal amount of Notes at any time on or prior to the close of business on the second business day immediately preceding the maturity date of the Notes when certain conditions are met. The Notes are senior unsecured obligations and rank equal in right of payment with all of the Company's existing and future senior unsecured indebtedness.

In connection with the sale of the Notes, the Company entered into a registration rights agreement with the initial purchasers of the Notes whereby the Company made certain commitments with regard to the shelf registration statements related to the Notes and the common stock issuable upon conversion of the Notes. Under the Registration Rights Agreement, the Company agreed to register the Notes and the shares underlying the Notes by December 19, 2007 or pay additional interest on the Notes. Due to the delay in the filing of the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2007 (the "2007 Annual Report"), the Company has not been able to register the Notes and the shares underlying the Notes. Accordingly, the interest rate on the Notes increased by 0.25% per annum on December 20, 2007 and by an additional 0.25% per annum on March 19, 2008 relating to the Company's obligations under the Registration Rights Agreement. Once a registration statement covering the Notes and shares

underlying the Notes is declared effective, such additional interest will cease to accrue.

The Company also entered into note hedge transactions with affiliates of the initial purchasers of the Notes whereby the Company has the option to purchase up to 7,184,884 shares of its common stock at a price of approximately \$44.02 per share.

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In addition, the Company sold warrants to the counterparties whereby they have the option to purchase up to approximately 7.2 million shares of VeriFone common stock at a price of \$62.356 per share. The Company received approximately \$31.2 million in cash proceeds from the sale of these warrants.

Because the Company did not increase its authorized capital to permit conversion of all of the Notes at the initial conversion rate by June 21, 2008, beginning on June 21, 2008 the Notes began to bear additional interest at a rate of 2.0% per annum (in addition to the additional interest described herein) on the principal amount of the Notes, which will increase by 0.25% per annum on each anniversary thereafter if the authorized capital has not been increased. If stockholder approval to increase the Company's authorized capital is received, such additional interest will cease to accrue.

In addition, the interest rate on the Notes increased an additional 0.25% per annum on May 1, 2008 (in addition to the additional interest described above) because the Company failed to file and deliver the 2007 Annual Report. Such additional 0.25% interest will cease to accrue upon the filing of the 2007 Annual Report.

***Amendments to the Credit Facility***

On January 25, 2008, the Company's subsidiaries, VeriFone, Inc. (the Borrower) and VeriFone Intermediate Holdings, Inc. entered into a First Amendment to the Credit Agreement and Waiver (the First Amendment) with the Lenders under its Credit Facility, dated October 31, 2006. The First Amendment extends the deadlines for delivery of certain required financial information for the three-month periods ended January 31, April 30 and July 31, 2007, the year ended October 31, 2007, and the three-month period ended January 31, 2008. In connection with the First Amendment, the Borrower paid to consenting Lenders a fee of \$0.7 million, or 0.25% of the aggregate amount outstanding under the Term B loan and revolving credit commitment made available by the consenting Lenders, and agreed to an increase in the interest rate payable on the term loan of 0.25% per annum.

On April 28, 2008, the Borrower and VeriFone Intermediate Holdings, Inc. entered into a Second Amendment to the Credit Agreement (the Second Amendment) with the Lenders under its Credit Facility. The Second Amendment extends the time periods for delivery of certain required financial information for the three-month periods ended January 31, April 30 and July 31, 2007, the year ended October 31, 2007, and the three-month periods ended January 31 and April 30, 2008. In connection with the Second Amendment, the Borrower paid to consenting Lenders a fee of \$0.7 million, or 0.25% of the aggregate amount outstanding under the term loan and revolving credit commitment made available by the consenting Lenders, agreed to an additional increase in the interest rate payable on the Term B loan and any revolving commitments of 0.75% per annum, agreed to an increase of 0.125% per annum to the commitment fee for unused revolving commitments, and agreed to an increase of 0.75% per annum to the letter of credit fees, each of which are effective from the date of the Second Amendment.

On July 31, 2008, the Borrower and VeriFone Intermediate Holdings, Inc. entered into a Third Amendment to the Credit Agreement (the Third Amendment) with the Lenders under its Credit Facility. The Third Amendment extends the time periods for delivery of certain required financial information for the three-month periods ended January 31, April 30, and July 31, 2007, the year ended October 31, 2007, and the three-month periods ended January 31 and April 30, 2008 to August 31, 2008. In connection with the Third Amendment, the Borrower paid to consenting Lenders a fee of \$0.3 million, or 0.125% of the aggregate amount outstanding under the Term B loan and the amount of the revolving credit commitment made available by the consenting Lenders. Following the Third Amendment, the

Borrower pays interest on the Term B loan at a rate of 2.75% over three-month LIBOR (the Borrower may elect at the end of an interest period to have the term loan bear interest at 1.75% over the lender's base rate) and any revolving loans would bear interest, at the Borrower's option, at either 2.0% over LIBOR or 1.0% over the lender's base rate, assuming the Borrower remains in the lowest rate tier based on its total consolidated leverage ratio.

**Table of Contents**

**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Patent Infringement Lawsuits***

On September 18, 2007, SPA Syspatronic AG ( SPA ) commenced an action in the United States District Court for the Eastern District of Texas, Marshall Division, against the Company and others, alleging infringement of U.S. Patent No. 5,093,862 purportedly owned by SPA. The plaintiff is seeking a judgment of infringement, an injunction against further infringement, damages, interest and attorneys fees. The Company filed an answer and counterclaims on November 8, 2007, and intend to vigorously defend this litigation. On January 28, 2008, the Company requested that the U.S. Patent and Trademark Office (the PTO ) perform a re-examination of the patent. The PTO granted the request on April 4, 2008. The Company then filed a motion to stay the proceedings with the Court and on April 25, 2008, the Court agreed to stay the proceedings pending the re-examination.

On March 6, 2008, Cardsoft, Inc. and Cardsoft (Assignment for the Benefit of Creditors), LLC ( Cardsoft ) commenced an action in the United States District Court for the Eastern District of Texas, Marshall Division, against the Company and others, alleging infringement of U.S. Patents No. 6,934,945 and No. 7,302,683 purportedly owned by Cardsoft. The plaintiff is seeking a judgment of infringement, an injunction against further infringement, damages, interest and attorneys fees. The Company intends to vigorously defend this litigation.

***Investment in VeriFone Transportation Systems, Inc. ( VTS )***

During the three months ended July 31, 2007, the Company invested an additional \$5.0 million and increased its equity interest in VTS to 60.1%.



**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward-Looking Statements**

*This section and other parts of this Quarterly Report on Form 10-Q contain forward-looking statements that involve risks and uncertainties. In some cases, forward-looking statements can be identified by words such as anticipates, expects, believes, plans, predicts, and similar terms. Such forward-looking statements are based on current expectations, estimates and projections about our industry, management's beliefs and assumptions made by management. Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part II, Item 1A Risk Factors below and in Item 1A of our Annual Report on Form 10-K for the year ended October 31, 2006 filed with the SEC on December 18, 2006. The following discussion should be read in conjunction with our consolidated financial statements and related notes included in our 2006 Annual Report on Form 10-K and the condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q. Unless required by law, we expressly disclaim any obligation to update publicly any forward-looking statements, whether as result of new information, future events or otherwise.*

When we use the terms VeriFone, we, us and our in this item, we mean VeriFone Holdings, Inc., a Delaware corporation, and its consolidated subsidiaries.

The discussion and analysis set forth below in this Item 2 has been amended to reflect the restatement as described above in the Explanatory Note to this amended Quarterly Report on Form 10-Q/A and in Note 2, Restatement of Condensed Consolidated Financial Statements, to the Notes to Condensed Consolidated Financial Statements. For this reason, the data set forth in this section may not be comparable to discussions and data in our previously filed Quarterly Reports.

**Restatement and Audit Committee Investigation**

***Background***

On December 3, 2007, we announced that our management had identified errors in accounting related to the valuation of in-transit inventory and allocation of manufacturing and distribution overhead to inventory and that as a result of these errors, we anticipated that a restatement of our unaudited condensed consolidated financial statements would be required for the following interim periods:

the three months ended January 31, 2007;

the three and six months ended April 30, 2007; and

the three and nine months ended July 31, 2007.

Our management originally estimated that the restatement would result in changes to previously reported results as follows:

**As of and for the Three Months  
Ended**

	<b>January 31, 2007</b>	<b>April 30, 2007</b>	<b>July 31, 2007</b>
	<b>(In millions)</b>		
Reduction in Inventories	\$ 7.7	\$ 16.5	\$ 30.2
Reduction in Income before income taxes	\$ 8.9	\$ 7.0	\$ 13.8

### ***Audit Committee Investigation***

On December 3, 2007, following our announcement, the Audit Committee approved the commencement of an independent investigation into the errors in accounting that led to the anticipated restatement. The Audit Committee engaged independent counsel, Simpson Thacher & Bartlett LLP ( Simpson Thacher ), to conduct the independent investigation under the Audit Committee's supervision. Simpson Thacher engaged Navigant Consulting, Inc.

**Table of Contents**

( Navigant ) as independent forensic accountants. The scope of the investigation was proposed by Simpson Thacher in consultation with Navigant and approved by the Audit Committee. The investigation involved a program of forensic analysis designed to investigate, among other things:

the circumstances surrounding the errors identified by management and described in our December 3, 2007 announcement;

whether additional errors existed requiring further restatement in the interim periods of fiscal 2007 and the adjustments required to correct and restate our interim financial statements; and

whether evidence existed indicating that periods prior to fiscal 2007 may also be required to be restated.

Simpson Thacher and Navigant assembled an investigative team that ultimately consisted of approximately 70 professionals. Information and documents were gathered from current and former employees worldwide. Using search technology, the investigative team evaluated over five million documents in physical and electronic form. Navigant also reviewed relevant accounting databases and journal entries. The investigative team also conducted more than 25 interviews of senior executives, former senior executives of Lipman and current and former finance, accounting and supply chain personnel.

We announced on April 2, 2008 that the investigation was complete and that the investigation had confirmed the existence of the errors in accounting identified in our December 3, 2007 announcement. In particular, the investigation confirmed that incorrect manual journal and elimination entries had been made primarily by our Sacramento supply chain accounting team with respect to several inventory-related matters.

The investigation also concluded that existing policies with respect to manual journal entries were not followed and that the review processes and controls in place were not sufficient to identify and correct the errors in a timely manner. The investigation found no evidence that any period prior to fiscal year 2007 required restatement.

***Restatement***

Concurrently with the Audit Committee investigation, we also conducted an internal review for the purpose of restating our fiscal 2007 interim condensed consolidated financial statements and preparing our fiscal 2007 annual consolidated financial statements and fiscal 2008 interim condensed consolidated financial statements. This review included evaluations of the previously made accounting determinations and judgments. As a result, we have also corrected additional errors, including errors that had previously not been corrected because our management believed that individually and in the aggregate such errors were not material to our consolidated financial statements. Management also made additional adjustments to reduce certain accruals which had been recorded, such as bonuses, which were accrued based upon information which, following the restatement, was no longer accurate.

The restatements of fiscal 2007 interim results resulted in the following adjustments:

	<b>As of and for the Three Months Ended</b>		
	<b>January 31, 2007</b>	<b>April 30, 2007</b>	<b>July 31, 2007</b>
	<b>(In millions)</b>		
Reduction in Inventories	\$ 13.3	\$ 23.9	\$ 40.6
Reduction in Income before income taxes	\$ 12.5	\$ 9.9	\$ 14.4

Reduction in Net Income	\$ 4.7	\$ 9.7	\$ 55.8
-------------------------	--------	--------	---------

A complete analysis of the adjustments reflected in the restatement as of and for the three and six months ended April 30, 2007 is included in Note 2, Restatement of Condensed Consolidated Financial Statements, to the Notes to Condensed Consolidated Financial Statements.

Among the most significant errors giving rise to the restatement were:

manual journal entries made for the three months ended January 31, 2007 that erroneously added manufacturing and distribution overhead to inventory held at former Lipman subsidiaries, notwithstanding that overhead had already been allocated to that inventory. This duplication erroneously increased reported

## **Table of Contents**

inventory and reduced reported cost of net revenues by \$7.7 million in the three months ended January 31, 2007;

manual journal entries made for the periods ended April 30, 2007 and July 31, 2007 that erroneously recorded in-transit inventory of an additional \$12.7 million at April 30, 2007 and an additional \$7.3 million at July 31, 2007 based on erroneous methodology and application of source documents; and

\$6.3 million in errors made in the elimination of intercompany profit in inventory for the nine months ended July 31, 2007.

In connection with the Audit Committee investigation and restatement process, we identified material weaknesses in our internal control over financial reporting, as a result of which our senior management has concluded that our disclosure controls and procedures were not effective as of April 30, 2007. These material weaknesses and management's remediation efforts are summarized under Item 4, "Controls and Procedures" in this Quarterly Report.

## **Overview**

We are a global leader in secure electronic payment solutions. We provide 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. Since 1981, we have designed and marketed system solutions that facilitate the long-term shift toward electronic payment transactions and away from cash and checks. We believe that we have one of the leading electronic payment solutions brands and, supported by our recent acquisition of Lipman Electronic Engineering Ltd, ( "Lipman" ), we are one of the largest providers of electronic payment systems worldwide in terms of revenues and research and development spending.

Our System Solutions consist of point of sale electronic payment devices that run our proprietary and third-party operating systems, security and encryption software and certified payment software as well as third-party, value-added applications. Our System Solutions are able to process a wide range of payment types including signature and PIN-based debit cards, credit cards, contactless / radio frequency identification, or RFID, cards and tokens, smart cards, pre-paid gift and other stored-value cards, electronic bill payment, check authorization and conversion, signature capture and electronic benefits transfer, or EBT. Our proprietary architecture was the first to enable multiple value-added applications, such as gift card and loyalty card programs, healthcare insurance eligibility and time and attendance tracking, to reside on the same system without requiring recertification when new applications are added to the system. We are an industry leader in multi-application payment system deployments and we believe we have the largest selection of third-party certified value-add applications.

We design our System Solutions to meet the demanding requirements of our direct and indirect customers. Our electronic payment systems are available in several distinctive modular configurations, offering our customers flexibility to support a variety of connectivity options, including wireline and wireless internet protocol, or IP, technologies. We also offer our customers support for installed systems, consulting and project management services for system deployment and customization of integrated software solutions.

Our customers are primarily global financial institutions, payment processors, petroleum companies, large retailers, government organizations and healthcare companies, as well as independent sales organizations, or ISOs. The functionality of our System Solutions includes transaction security, connectivity, compliance with certification standards and the flexibility to execute a variety of payment and non-payment applications on a single system solution.

## **Results of Operations**

***Net Revenues***

We generate net revenues through the sale of our electronic payment systems and solutions that enable electronic payments, which we identify as System Solutions, and to a lesser extent, warranty and support services, field deployment, installation and upgrade services, and customer specific application development, which we identify as Services.

**Table of Contents**

Net revenues, which include System Solutions and Services, are summarized in the following table (in thousands, except percentages):

	Three Months Ended April 30,				Six Months Ended April 30,			
	2007	2006	Change In Dollars	Change In Percent	2007  (Restated)	2006	Change In Dollars	Change In Percent
	<b>(Restated)</b>				<b>(Restated)</b>			
Systems Solutions	\$ 191,469	\$ 128,136	\$ 63,333	49%	\$ 380,435	\$ 246,821	\$ 133,614	54%
Services	25,414	14,054	11,360	81%	52,811	29,999	22,812	76%
Total	\$ 216,883	\$ 142,190	\$ 74,693	53%	\$ 433,246	\$ 276,820	\$ 156,426	57%

**System Solutions**

System Solutions net revenues increased \$63.3 million, or 49%, to \$191.5 million in the three months ended April 30, 2007, from \$128.1 million in the three months ended April 30, 2006. System Solutions net revenues comprised 88% of total net revenues in the three months ended April 30, 2007, as compared to 90% in the three months ended April 30, 2006.

International System Solutions net revenues for the three months ended April 30, 2007 increased \$48.1 million, or 80% to \$108.3 million. The increase was largely attributable to growth across emerging economies, in particular the countries of Brazil, Turkey and Eastern Europe, and to a lesser extent Western Europe. Factors driving the emerging economies increase were the addition of the Nurit, Secura and Xplorer product lines, acquired in the Lipman acquisition, and the continued desire of these countries to modernize their infrastructure and improve collection of VAT. In Western Europe, acquisition-related sales in the UK, Spain and Italy were the primary reason for growth.

North America System Solutions net revenues for the three months ended April 30, 2007 increased \$15.2 million, or 22%, to \$83.2 million. This increase was primarily attributable to an increase in demand for wireless products due to our customers' interest in differentiating the service they provide to merchants, and higher sales in Canada, where customers are preparing for a transition to EMV and Interac Chip acceptance. Partially offsetting this increase was a decline in sales for a legacy check processing solution.

System Solutions net revenues increased \$133.6 million, or 54%, to \$380.4 million in the six months ended April 30, 2007, from \$246.8 million in the six months ended April 30, 2006. System Solutions net revenues comprised 88% of total net revenues in the six months ended April 30, 2007, as compared to 89% in the six months ended April 30, 2006.

International System Solutions net revenues for the six months ended April 30, 2007 increased \$106.4 million, or 92%, to \$222.1 million. The increase was largely attributable to growth across emerging economies, in particular the countries of Brazil, Eastern Europe, Turkey and China, and to a lesser extent Western Europe. Factors driving the emerging economies increase were the addition of the Nurit product line, acquired in the Lipman acquisition, and continued desire of these countries to modernize their infrastructure and improve collection of VAT. In Western Europe, acquisition related sales in the UK, Spain and Italy were the primary reason for growth. We expect that the proportion of International System Solutions net revenues, relative to North America System Solutions net revenues,

will increase at a higher growth rate for at least the next year. In addition, we may experience periodic variations in sales to our International markets.

North America System Solutions net revenues for the six months ended April 30, 2007 increased \$27.8 million, or 21%, to \$158.9 million. This increase was primarily attributable to an increase in demand for wireless products due to our customers' interest in differentiating the service they provide to merchants, and higher sales in Canada, where customers are preparing for a transition to EMV and Interac Chip acceptance, and growth of multi-lane retail solutions, due to the increasing acceptance of the Mx870 product line. Partially offsetting this increase was a decline in sales for a legacy check processing solution.



**Table of Contents****Services**

Services net revenues increased \$11.4 million, or 81%, to \$25.4 million in the three months ended April 30, 2007 from \$14.1 million in the three months ended April 30, 2006. This growth occurred mainly in International Services due to higher growth in maintenance and refurbishment revenues in Europe and Brazil associated with the acquisition of Lipman. North America revenues were unchanged from the prior year.

Services net revenues increased \$22.8 million, or 76%, to \$52.8 million in the six months ended April 30, 2007 compared to the same period ended April 30, 2006. This growth occurred entirely in International, while North America had a slight decline. International growth was due to higher growth in maintenance revenues and deployment revenues in Europe and Brazil associated with the acquisition of Lipman. The North America decline was due to lower installations for quick service restaurant customers and lower repairs.

**Gross Profit**

The following table shows the gross profit for System Solutions and Services (in thousands, except percentages):

	<b>Three Months Ended April 30,</b>				<b>Six Months Ended April 30,</b>				
	<b>Amount</b>		<b>Gross Profit Percentage</b>		<b>Amount</b>		<b>Gross Profit Percentage</b>		
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	
	<b>(Restated)</b>				<b>(Restated)</b>				
Systems Solutions	\$ 65,518	\$ 56,371	34.2%	44.0%	\$ 121,193	\$ 107,941	31.9%	43.7%	
Services	12,128	7,028	47.7%	50.0%	25,076	15,060	47.5%	50.2%	
Total	\$ 77,646	\$ 63,399	35.8%	44.6%	\$ 146,269	\$ 123,001	33.8%	44.4%	

Gross profit on System Solutions, increased \$9.1 million, or 16.2%, to \$65.5 million in the quarter ended April 30, 2007, from \$56.4 million in the three months ended April 30, 2006. Gross profit on System Solutions represented 34.2% of System Solutions net revenues in the three months ended April 30, 2007, down from 44.0% in the three months ended April 30, 2006.

North America gross profit percentage declined primarily due to the lower proportion of Petroleum system solution sales, which carry higher than average gross margins and growth in single application solution sales, which carry lower than average gross margins. Wireless solutions, which increased year over year and carry above average gross margins, partially offset these declines.

International gross profit percentage increased slightly, primarily due to an improved gross profit performance in Brazil. Brazil benefited from a shift towards vertical solutions and wireless solutions, which carry higher than average gross margins relative to other system solutions.

Corporate costs increased as a percentage of System Solutions net revenues in part due to amortization of purchased core and developed technology assets and step-up in inventory fair value. Corporate costs increased to 11.4% of Systems Solutions net revenues in the three months ended April 30, 2007 from 2.3% in the three months ended April 30, 2006, as a result of the Lipman acquisition. Partially offsetting this increase were lower air freight costs as a percentage of Systems Solutions net revenues and a reduction in Singapore International headquarters expenses,

which were high in the three months ended April 30, 2006 as operations were ramping. Corporate costs are comprised of non-cash acquisition charges, including amortization of purchased core and developed technology assets, step-up of inventory and step-down in deferred revenue, and other Corporate charges, including inventory obsolescence and scrap at corporate distribution centers, rework, specific warranty provisions, non-standard freight, over-and-under absorption of materials management, and supply chain engineering overhead. Since these costs are generally incurred on a company wide basis, it is impractical to allocate them to either North America or International segments.

Gross profit on System Solutions, including amortization of purchased core and developed technology assets, increased \$13.3 million, or 12%, to \$121.2 million for the six months ended April 30, 2007 from \$107.9 million for

**Table of Contents**

the six months ended April 30, 2006. Gross profit on System Solutions represented 31.9% of System Solutions net revenues for the six months ended April 30, 2007 down from 43.7% for the six months ended April 30, 2006.

Gross profit percentage declined due to the higher proportion of international net revenues, which typically carry a lower margin than North American net revenues. This decline was partially offset by higher sales of wireless solutions, which typically carry a higher margin than landline solutions.

North America gross profit percentage declined primarily due to the lower proportion of Petroleum system solution sales, which carry higher than average gross margins, and the growth in Retail system solutions and single application solutions sales, which carry lower than average margins.

International gross profit percentage slightly declined primarily due to a shift in sales towards China, Brazil, and Eastern European countries, where price competition is significant, and the inclusion of Secura and Xplorer system solutions, which carry lower than average gross margins relative to other International system solutions. In addition, with our acquisition of Lipman, international sales, which typically carry lower gross profit percentages relative to domestic margins, increased with a resulting adverse impact on gross margins.

Corporate costs increased as a percentage of System Solutions revenues due in part to amortization of purchased core and developed technology assets and step-up of inventory fair value. Corporate costs increased to 12.0% of System Solutions net revenues in the six months ended April 30, 2007 compared to 3.5% in the six months ended April 30, 2006, as a result of the Lipman acquisition. In addition, inventory write-downs relating to the winding down of two former Lipman distribution centers were recorded. Partially offsetting this increase were lower air freight costs as a percentage of System Solutions net revenues and a reduction in Singapore International headquarters expenses, which were high in the six months ended April 30, 2006 as operations were ramping.

Gross profit on Services increased \$5.1 million, or 72.6% to \$12.1 million in the three months ended April 30, 2007, from \$7.0 million in the three months ended April 30, 2006. Gross profit on Services represented 47.7% of Services net revenues in the three months ended April 30, 2007, as compared to 50.0% in the three months ended April 30, 2006. This decline was due to the inclusion of service revenues related to the Lipman acquisition which earned a gross margin percent below our historical averages.

Gross profit on Services increased \$10.0 million, or 66.5%, to \$25.1 million for the first six months ended April 30, 2007, from \$15.1 million in the same period of fiscal 2006. Gross profit represented 47.5% of Services net revenues in the six months ended April 30, 2007, as compared to 50.2% for the same periods in fiscal 2006. The decline was due to the inclusion of service revenues related to the Lipman acquisition which earned a gross margin percent below our historical averages.

**Research and Development Expense**

Research and development ( R&D ) expenses are summarized in the following table (in thousands, except percentages):

Three Months Ended April 30,				Six Months Ended April 30,			
		Change In	Change In			Change In	Change In
2007 (Restated)	2006	Dollars	Percent	2007 (Restated)	2006	Dollars	Percent
\$ 16,009	\$ 12,221	\$ 3,788	31%	\$ 32,907	\$ 23,628	\$ 9,279	39%

Research and  
development  
*Percentage of  
net revenues*

7.4%

8.6%

7.6%

8.5%

R&D expenses increased \$3.8 million, to \$16.0 million in the three months ended April 30, 2007 from \$12.2 million in the three months ended April 30, 2006. The increased expenses were primarily due to \$3.0 million of expenses incurred at Lipman entities, \$1.2 million due to stock-based compensation and \$0.8 million of expenses incurred at PayWare entities, all partially offset by \$1.1 million of higher software costs required to be capitalized under SFAS No. 86 in the three months ended April 30, 2007 as compared to the three months ended April 30, 2006 due to an increase in the number of projects which have software spending.

R&D expenses increased \$9.3 million to \$32.9 million in the six months ended April 30, 2007 compared to the same period ended April 30, 2006. R&D expenses increased primarily due to \$8.7 million of increased personnel expenses, \$2.5 million of increased stock-based compensation expense, and \$0.5 million increased consulting

**Table of Contents**

expenses, partially offset by \$1.8 million of higher software costs required to be capitalized under SFAS No. 86 in the six months ended April 30, 2007 as compared to the six months ended April 30, 2006 due to an increase in the number of projects which have software spending.

**Sales and Marketing Expense**

Sales and marketing expenses are summarized in the following table (in thousands, except percentages):

	Three Months Ended April 30,				Six Months Ended April 30,			
	2007 (Restated)	2006	Change In Dollars	Change In Percent	2007 (Restated)	2006	Change In Dollars	Change In Percent
Sales and marketing	\$ 22,823	\$ 14,404	\$ 8,419	58%	\$ 45,863	\$ 28,605	\$ 17,258	60%
<i>Percentage of net revenues</i>	<i>10.5%</i>	<i>10.1%</i>			<i>10.6%</i>	<i>10.3%</i>		

Sales and marketing expense increased \$8.4 million, to \$22.8 million in the three months ended April 30, 2007 from \$14.4 million in the three months ended April 30, 2006. The higher expenses, due primarily to the acquisitions of Lipman and PayWare, included \$3.4 million of increased personnel costs, \$1.5 million of increased outside services expenses, \$1.3 million of increased stock-based compensation expenses, and \$0.5 million of increased marketing communication expenses.

Sales and marketing expenses increased \$17.3 million to \$45.9 million for the first six months ended April 30, 2007 compared to the same period ended April 30, 2006. The higher expenses, due primarily to the acquisitions of Lipman and PayWare, included \$7.4 million of increased personnel costs, \$2.8 million of increased stock-based compensation, \$2.7 million of increased outside services, and \$1.2 million of increased marketing communication expenses, and \$0.9 million of increased travel expenses. The remainder of the increase reflects a general increase in other expenses as a result of the growth of the company on a year over year basis.

**General and Administrative Expense**

General and administrative expenses are summarized in the following table (in thousands, except percentages):

	Three Months Ended April 30,				Six Months Ended April 30,			
	2007 (Restated)	2006	Change In Dollars	Change In Percent	2007 (Restated)	2006	Change In Dollars	Change In Percent
General and administrative	\$ 25,565	\$ 9,993	\$ 15,572	156%	\$ 42,941	\$ 19,691	\$ 23,250	118%
<i>Percentage of net revenues</i>	<i>11.8%</i>	<i>7.0%</i>			<i>9.9%</i>	<i>7.1%</i>		

General and administrative expenses increased \$15.6 million, to \$25.6 million in the three months ended April 30, 2007 from \$10.0 million in the three months ended April 30, 2006. The higher expenses were primarily due to the acquisition of Lipman and PayWare and included \$5.7 million of consulting and legal integration expenses supporting a review of the operational controls of former Lipman entities, production of documents in response to the U.S. Department of Justice investigation related to the Lipman acquisition and a \$1.0 million charge to terminate a distributor agreement where there was a channel conflict between Lipman and VeriFone. In addition, we incurred \$3.8 million of increased stock-based compensation and \$3.2 million of increased personnel expenses, and \$0.5 million of increased outside contracted services. The remainder of the increase reflects a general increase in other expenses as a result of the growth of the company on a year over year basis.

General and administrative expenses in the first six months ended April 30, 2007 increased \$23.3 million, to \$42.9 million compared to the same period ended April 30, 2006. The higher expenses were primarily due to the acquisition of Lipman and PayWare and included \$7.4 million of integration expenses relating to the acquisition of Lipman and restructuring charges in VeriFone entities, including the \$1.0 million termination charge described above, \$4.6 million of increased personnel costs, \$7.2 million of increased stock-based compensation expenses, \$0.7 million of increased insurance expenses, \$0.7 million of increased outside contracted services, and \$0.5 million of increased legal expenses. The remainder of the increase reflects a general increase in other expenses as a result of the growth of the company on a year over year basis.

## **Table of Contents**

### ***Amortization of Purchased Intangible Assets***

Amortization of purchased intangible assets increased \$4.5 million to \$5.7 million in the second quarter of fiscal 2007 compared with \$1.2 million in the second quarter of fiscal 2006. For the first six months of fiscal 2007, amortization of purchased intangible assets increased \$8.7 million to \$11.0 million from \$2.3 million for the comparable period in fiscal 2006. The increase for both periods was primarily due to additional purchased intangible assets relating to the acquisition of Lipman, which was completed on November 1, 2006.

### ***In-Process Research and Development (IPR&D)***

We recognized IPR&D expense of \$6.7 million during the six months ended April 31, 2007 in connection with our Lipman acquisition. The products considered to be IPR&D were in our consumer-activated and countertop communication modules which have subsequently reached technological feasibility.

*Consumer-activated systems.* We had two projects involving consumer-activated systems in process. The first involved a new category of PIN pad devices with debit, credit and smart card payment capabilities with interfaces to countertop systems and ECRs. The project was 75% complete at October 31, 2006. The estimated cost of completion at October 31, 2006 was \$0.3 million and the expected completion date was December 2006. The project was completed during the three months ended January 31, 2007 for approximately the expected cost.

The second project was a new product family of consumer-activated payment systems for multi-lane retailers. New features include a faster processor, more memory, modular design, a signature capture option, Ethernet/USB option and smart card option. The project was in the pilot stage. The estimated cost of completion at October 31, 2006 was less than \$0.1 million and was completed for approximately the estimated cost during the three months ended January 31, 2007.

*Countertop communication modules.* This project was developing new modem, Ethernet and ISDN communication modules for countertop system solutions, consisting of customer firmware and circuit board design intended to achieve desired functions, operating system drivers, library and application modifications. The project was 50% complete at October 31, 2006. The estimated cost of completion at the acquisition date was \$0.2 million and the expected completion date was December 2006. The project was completed during the three months ended January 31, 2007 for approximately the expected remaining cost.

We prepared cash flow forecasts for the acquired projects and those forecasts were used to develop a discounted cash flow model. The discount rate assigned to in-process technologies was 19% with consideration given to the risk associated with these in-process projects.

### ***Interest Expense***

Interest expense of \$9.5 million in the second quarter of fiscal 2007 increased from \$3.2 million in the second quarter of fiscal 2006. For the first six months of fiscal 2007, interest expense increased \$12.8 million to \$19.3 million from \$6.5 million for the comparable period in fiscal 2006. The increase in both periods was primarily attributable to the increase of our Term B Loan due to the completion of our acquisition of Lipman.

### ***Interest Income***

Interest income of \$1.5 million in the second quarter of fiscal 2007 increased from \$0.9 million in the second quarter of fiscal 2006. For the first six months of fiscal 2007, interest income increased \$0.9 million to \$2.5 million from \$1.6 million for the comparable period in fiscal 2006. The increase in both periods was attributable to higher cash

balances in the fiscal 2007 periods relative to the same periods in fiscal 2006.

***Other Income (Expense), net***

Other income (expense), net in the second quarter of fiscal 2007 was an expense of \$2,000. Foreign currency gains of \$1.9 million were offset by foreign currency contract losses of \$1.8 million and a loss of \$0.1 million on our investment accounted for under the equity method. For the first six months of fiscal 2007, other income (expense), net was expense of \$0.3 million consisting of foreign currency gains of \$1.9 million, offset by foreign currency



## **Table of Contents**

contract losses of \$2.0 million and a loss of \$0.1 million on our investment accounted for under the equity method. Other income, net in the second quarter of fiscal 2006 of \$65,000 resulted primarily from \$192,000 associated with foreign currency transaction gains. This was partially offset by foreign currency contract losses of \$113,000 and a loss of \$14,000 on our investment accounted for under the equity method. For the first six months of fiscal 2006, other income, net was \$266,000 resulting primarily from \$172,000 associated with foreign currency transaction gains and a \$288,000 refund associated with an Indian customs appeal resolution. This was partially offset by foreign currency contract losses of \$189,000 and a loss of \$5,000 on our investment accounted for under the equity method.

### ***Provision for (Benefit from) Income Taxes***

We expect to provide for taxes in fiscal year 2007 notwithstanding an expected loss on our consolidated statement of operations for the full fiscal year. This is because, in significant part, we have net profits in our international operations and a loss in the United States. The tax benefit of the U.S. financial reporting loss is also offset by an expected increase in the valuation allowance on U.S. deferred tax assets. The application of the intraperiod tax accounting rules of FIN 18 coupled with losses at certain entities results in a computed tax provision of \$4.3 million in the three months ended April 30, 2007. For the three months ended April 30, 2006, the tax provision was \$8.4 million. We expect to report a tax provision for fiscal year 2007 estimated at approximately \$24.7 million.

For the six months ended April 30, 2007, the tax provision is \$0.4 million. For the six months ended April 30, 2006 the tax provision was \$15.3 million.

As of April 30, 2007, we have recorded deferred tax assets on our consolidated balance sheet, net of valuation allowance, the realization of which is dependent on our generating sufficient U.S. and certain foreign taxable income. Although realization is not assured, our management believes that it is more likely than not that these deferred tax assets will be realized. The amount of deferred tax assets considered realizable may increase or decrease in subsequent quarters when we reevaluate the underlying basis for our estimates of future domestic and certain foreign taxable income.

We are currently under audit by the Internal Revenue Service ( IRS ) for our fiscal years 2002 to 2004. Although we believe we have correctly provided income taxes for the years subject to audit, the IRS may adopt different interpretations. We have not yet received any final determinations with respect to this audit.

### ***Segment Information***

We are primarily structured in a geographic manner. Our Chief Executive Officer has been identified as the Chief Operating Decision Maker ( CODM ) as defined by SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*. The CODM reviews consolidated financial information on revenues and gross profit percentage for System Solutions and Services. The CODM also reviews operating expenses, certain of which are allocated to our two segments described below.

We operate in two business segments: North America and International. We define North America as the United States and Canada, and International as the countries in which we make sales outside the United States and Canada.

Net revenues and operating income of each business segment reflect net revenues generated within the segment, standard cost of System Solutions net revenues, actual cost of Services net revenues and expenses that directly benefit only that segment. Corporate revenues and operating income reflect non-cash acquisition charges, including amortization of purchased core and developed technology assets, step-up of inventory and step-down in deferred revenue, and other Corporate charges, including inventory obsolescence and scrap at corporate distribution centers, rework, specific warranty provisions, non-standard freight, over-and-under absorption of materials management, and

supply chain engineering overhead.

**Table of Contents**

The following table sets forth net revenues and operating income for our segments (in thousands):

	Three Months Ended April 30,				Six Months Ended April 30,			
	2007 (Restated)	2006	Change In Dollars	Change In Percent	2007 (Restated)	2006	Change In Dollars	Change In Percent
Net revenues								
International	\$ 121,948	\$ 61,845	\$ 60,103	97%	\$ 250,745	\$ 119,502	\$ 131,243	110%
North America	95,857	80,466	15,391	19%	184,938	157,641	27,297	17%
Corporate	(922)	(121)	(801)	662%	(2,437)	(323)	(2,114)	654%
Total net revenues	\$ 216,883	\$ 142,190	\$ 74,693	53%	\$ 433,246	\$ 276,820	\$ 156,426	57%
Operating income:								
International	\$ 30,402	\$ 14,066	\$ 16,336	116%	\$ 61,826	\$ 28,233	\$ 33,593	119%
North America	39,098	31,002	8,096	26%	70,826	61,505	9,321	15%
Corporate	(62,031)	(19,446)	(42,585)	219%	(125,785)	(40,979)	(84,806)	207%
Total operating income	\$ 7,469	\$ 25,622	\$ (18,153)	(71)%	\$ 6,867	\$ 48,759	\$ (41,892)	(86)%

Net revenues growth in International for the three months ended April 30, 2007 as compared to the three months ended April 30, 2006 was primarily driven by an increase of approximately \$48.1 million in System Solutions and \$12.0 million in Services net revenues. Net revenues growth in International for the six months ended April 30, 2007 as compared to the six months ended April 30, 2006 was primarily driven by an increase of approximately \$106.4 million in System Solutions and \$24.9 million in Services net revenues. See Results of Operations Net Revenues for additional commentary.

Net revenues growth in North America for the three months ended April 30, 2007 as compared to the three months ended April 30, 2006 was primarily driven by an increase of approximately \$15.2 million in System Solutions. Net revenues growth in North America for the six months ended April 30, 2007 as compared to the six months ended April 30, 2006 was primarily driven by an increase of approximately \$27.8 million in System Solutions. See Results of Operations Net Revenues for additional commentary.

The increase in International operating income for the three months ended April 30, 2007 compared to the three months ended April 30, 2006 was mainly due to higher revenues and gross profit percentage partially offset by higher operating expenses. See Results of Operations Gross Profit for additional commentary.

The increase in operating income for North America for the three months ended April 30, 2007 as compared to the three months ended April 30, 2006 was mainly due to higher system solutions revenues, partially offset by a declining gross profit percentage. See Results of Operations Gross Profit for additional commentary. In addition, North America research and development expenses for the three months ended April 30, 2006 included \$1.9 million for projects which have since been broadened in scope and will benefit customers outside the North America segment. As a result, the expenses for these projects for the three months ended April 30, 2007 are charged to Corporate.

The increase in International operating income for the six months ended April 30, 2007 compared to the six months ended April 30, 2006 was mainly due to higher revenues as a result of both the acquisition of Lipman and organic growth, partially offset by a declining gross profit percentage and higher operating expenses. See Results of Operations Gross Profit for additional commentary.

The increase in operating income for North America for the six months ended April 30, 2007 as compared to the six months ended April 30, 2006 was mainly due to higher system solutions revenues, partially offset by declining gross profit percentage. The decline in gross profit percentage was due to product mix shifts away from Petroleum solutions and towards Retail and Single Application solutions. See Results of Operations Gross Profit for additional commentary. In addition, North America research and development expenses for the six months ended April 30, 2006 included \$4.2 million for projects which have since been broadened in scope and will

## **Table of Contents**

benefit customers outside the North America segment. As a result, the expenses for these projects for the three months ended April 30, 2007 are charged to Corporate.

The decrease in Corporate operating income for the three months ended April 30, 2007 was primarily due to higher non-cash acquisition related charges including increases of \$8.2 million of amortization of purchased core and developed technology assets, \$4.5 million of amortization of purchased intangible assets, \$3.5 million of amortization of step-up in inventory on acquisition, and \$0.8 million of amortization of step-down in deferred revenue on acquisition. In addition, stock-based compensation increased by \$7.1 million. Furthermore, Corporate costs, comprised of non-cash acquisition charges, including amortization of purchased core and developed technology assets, step-up of inventory and step-down in deferred revenue, and other Corporate charges, including inventory obsolescence and scrap at corporate distribution centers, rework, non-standard freight, over-and-under absorption of materials management, and supply chain engineering overhead increased due to inventory write-downs associated with the winding down of former Lipman sales distribution centers, partially offset by reduced air freight expenses and the non recurrence of 2006 setup charges relating to the Singapore International headquarters. Approximately \$1.9 million of engineering expenses were incurred as projects which previously benefited North American in the three months ended April 30, 2006 were broadened in scope, managed by the Corporate engineering function and charged to Corporate in the three months ended April 30, 2007. Furthermore, Corporate operating expenses increased \$13.3 million primarily due to the acquisitions of Lipman and PayWare and the related integration expenses.

The decrease in Corporate operating income for the six months ended April 30, 2007 was primarily due to higher non-cash acquisition related charges including increases of \$16.2 million of amortization of Core Technology, \$14.0 million of amortization of step-up in inventory on acquisition, \$8.7 million of amortization of purchased intangible assets, \$6.7 million of in-process research and development charges, and \$2.1 million of amortization of step-down in deferred revenue on acquisition. In addition, stock-based compensation increased by \$14.0 million. Furthermore, Corporate costs, comprised of non-cash acquisition charges, including amortization of purchased core and developed technology assets, step-up of inventory and step-down in deferred revenue, and other Corporate charges, including inventory obsolescence and scrap at corporate distribution centers, rework, non-standard freight, over-and-under absorption of materials management, and supply chain engineering overhead, increased due to inventory write-downs associated with the winding down of former Lipman sales distribution centers, partially offset by reduced air freight expenses and the non-recurrence of 2006 setup charges relating to the Singapore International headquarters. Approximately \$4.2 million of engineering expenses for projects which previously benefited North America in the six months ended April 30, 2006 were broadened in scope, managed by the Corporate engineering function and charged to Corporate in the six months ended April 30, 2007. Furthermore, Corporate operating expenses increased \$20.8 million primarily due to the acquisitions of Lipman and PayWare and the related integration expenses.

## **Liquidity and Capital Resources**

Our primary liquidity and capital resource needs are to service our debt, finance working capital, and to make capital expenditures and investments. At April 30, 2007, our primary sources of liquidity were cash and cash equivalents of \$175.8 million and our \$40 million unused revolving credit facility.

Cash flow from operations before changes in working capital amounted to \$47.5 million. Net loss was \$10.5 million. This loss was substantially the result of non-cash charges of \$58.0 million consisting primarily of acquisition related charges of \$36.9 million, stock-based compensation expense of \$16.1 million and depreciation and amortization of property, plant and equipment, as well as capitalized software and debt issuance cost totaling \$5.0 million.

Cash flow from operations due to changes in working capital netted to an outflow of \$7.4 million. The main drivers are as follows:

A reduction in inventories of \$52.2 million following the restatement;

A reduction in accounts payable of \$5.3 million due to the reduction of inventory levels;

**Table of Contents**

An increase in deferred revenue of \$6.5 million due to an increase in deferred service such as customer support and installations;

An increase in accounts receivable of \$13.5 million due to higher sales;

A decrease in accrued compensation of \$3.0 million;

Increases in prepaid expenses and other current assets of \$21.4 million and in other assets of \$3.0 million;

A decrease in accrued expenses and other liabilities of \$20.2 million; and

Increases in deferred tax liabilities of \$9.2 million and income taxes payable of \$0.2 million substantially offset by an increase in deferred tax assets of \$3.4 million and the reclassification of tax benefits from stock-based compensation of \$4.7 million.

Investing activities used cash of \$279.8 million, primarily due to the acquisition of Lipman, net of cash and cash equivalents acquired, of \$260.2 million and a \$4.0 million investment in VTS. Additional uses included the purchases of property, plant and equipment totaling \$12.0 million and the capitalization of software development costs of \$2.9 million.

Financing activities primarily consisted of proceeds from long-term debt (net of costs) of \$305.3 million which were used to fund the Lipman acquisition, proceeds of exercises of stock options of \$18.4 million, and the tax benefit derived from stock-based compensation of \$4.7 million.

We believe that we have the financial resources to meet our business requirements for the next twelve months, including capital expenditures, working capital requirements and future strategic investments, and to comply with our financial covenants.

**Contractual Obligations**

The following table summarizes our contractual obligations as of April 30, 2007 (in thousands):

	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>More Than 5 Years</b>
Term B loan (including interest)	\$ 725,267	\$ 40,887	\$ 80,497	\$ 79,149	\$ 524,734
Capital lease obligation	74	20	54		
Operating leases	41,820	4,565	13,491	9,417	14,347
Minimum purchase obligations	38,112	38,112			
	\$ 805,273	\$ 83,584	\$ 94,042	\$ 88,566	\$ 539,081

**Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA), as adjusted**

We define earnings before interest, taxes, depreciation and amortization, or EBITDA, as adjusted, as the sum of (1) net income (loss) (excluding extraordinary items of gain or loss and any gain or loss from discontinued

operations), (2) interest expense, (3) income taxes, (4) depreciation, amortization, goodwill impairment and other non-recurring charges, (5) non-cash charges, including non-cash stock-based compensation expense and purchase accounting items and (6) acquisition related charges and restructuring costs. EBITDA, as adjusted, is a primary component of the financial covenants to which we are subject under our Credit Facility. If we fail to maintain required levels of EBITDA, as adjusted, we could have a default under our credit Credit Facility, potentially resulting in an acceleration of all of our outstanding indebtedness. Management uses EBITDA, as adjusted, only in addition to and in conjunction with results presented in accordance with generally accepted accounting principles ( GAAP ). Management believes that the use of this non-GAAP financial measure, in conjunction with results presented in accordance with GAAP, helps it to evaluate our performance and to compare our current results with those for prior periods as well as with the results of other companies in our industry. Our competitors may, due to differences in capital structure and investment history, have interest, tax, depreciation, amortization, and other non-cash expenses that differ significantly from ours. Management also uses this non-GAAP financial measure in our



**Table of Contents**

budget and planning process. Management believes that the presentation of this non-GAAP financial measure may be useful to investors for many of the same reasons that management finds these measures useful.

Our EBITDA, as adjusted, contains limitations and should be considered as a supplement to, and not as a substitute for, or superior to, disclosures made in accordance with GAAP. EBITDA, as adjusted, may be different from EBITDA or EBITDA, as adjusted, calculated by other companies and is not based on any comprehensive set of accounting rules or principles. In addition, EBITDA, as adjusted, does not reflect all amounts and costs, such as employee stock-based compensation costs, periodic costs of assets used to generate net revenues and costs to replace those assets, cash expenditures or future requirements for capital expenditures or contractual commitments, cash requirements for working capital needs, interest expense or the cash requirements necessary to service interest or principal payments on our debt, income taxes and the related cash requirements, restructuring and impairment charges and losses from discontinued operations, associated with our results of operations as determined in accordance with GAAP. Furthermore, we expect to continue to incur expenses similar to those amounts excluded from EBITDA, as adjusted. Management compensates for these limitations by also relying on the comparable GAAP financial measure.

As noted above, management excludes the following items from EBITDA, as adjusted:

*Provision for (benefit from) income taxes.* While income taxes are directly related to the amount of pre-tax income, they are also impacted by tax laws and the company's tax structure. As the tax laws and our tax structure are not under the control of our operational managers, management believes that the provision for (benefit from) income taxes should be excluded when evaluating our operational performance.

*Interest expense and interest income.* While working capital supports the business, management does not believe that related interest expense or interest income is directly attributable to the operating performance of our business.

*Depreciation of property, plant and equipment.* Management excludes depreciation because while tangible assets support the business, management does not believe the related depreciation costs are directly attributable to the operating performance of our business. In addition, depreciation may not be indicative of current or future capital expenditures.

*Amortization of capitalized software.* Management excludes amortization of capitalized software because while capitalized software supports the business, management does not believe the related amortization costs are directly attributable to the operating performance of our business. In addition, amortization of capitalized software may not be indicative of current or future expenditures to develop software.

*Amortization of certain acquisition related items.* We incur amortization of purchased core and developed technology assets, amortization of purchased intangible assets, amortization of step-down in deferred revenue on acquisition, and amortization of step-up in inventory on acquisition in connection with acquisitions. Management excludes these items because it does not believe these expenses are reflective of ongoing operating results in the period incurred. These amounts arise from prior acquisitions and management does not believe that they have a direct correlation to the operation of our business.

*In-process research and development.* We incur IPR&D expenses when technological feasibility for acquired technology has not been established at the date of acquisition and no future alternative use for such technology exists. These amounts arise from prior acquisitions and management does not believe they have a direct correlation to the operation of VeriFone's business.

*Stock-based compensation.* These expenses consist primarily of expenses for employee stock options and restricted stock units under SFAS No. 123 (R). Management excludes stock-based compensation expenses from non-GAAP financial measures primarily because they are non-cash expenses which management believes are not reflective of ongoing operating results.

*Acquisition related charges and restructuring costs.* This represents charges incurred for consulting services and other professional fees associated with acquisition related activities. These expenses also include charges related to restructuring activities, including costs associated with severance, benefits, and excess

**Table of Contents**

facilities. As management does not believe that these charges directly relate to the operation of our business, management believes they should be excluded when evaluating our operating performance.

*Non-cash portion of loss on debt extinguishment.* This represents the non-cash portion of loss incurred on the extinguishment of our credit facility. While this credit facility supported our business, management does not believe the related loss on extinguishment is a cost directly attributable to the operating performance of our business.

A reconciliation of net income (loss), the most directly comparable U.S. GAAP measure, to EBITDA, as adjusted, for the three and six months ended April 30, 2007 and 2006 is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	April 30,		April 30,	
	2007	2006	2007	2006
	(Restated)		(Restated)	
U.S. GAAP net income (loss)	\$ (4,818)	\$ 15,036	\$ (10,497)	\$ 28,830
Provision for income taxes	4,312	8,381	363	15,333
Interest expense	9,507	3,197	19,263	6,476
Interest income	(1,534)	(927)	(2,525)	(1,614)
Depreciation and amortization of property, plant and equipment	1,761	877	3,765	1,651
Amortization of capitalized software	275	323	570	598
Amortization of purchased intangible assets	15,276	2,578	30,236	5,330
Amortization of step-down in deferred revenue on acquisition	922	121	2,436	323
Amortization of step-up in inventory on acquisition	3,513		13,961	
In-process research and development	90		6,650	
Stock-based compensation	8,299	1,189	16,095	2,112
Acquisition related charges and restructuring costs	6,623		7,417	
EBITDA as adjusted	\$ 44,226	\$ 30,775	\$ 87,734	\$ 59,039

**Off-Balance Sheet Arrangements**

Our only off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of the SEC's Regulation S-K, consist of interest rate cap agreements and forward foreign currency exchange agreements described under Quantitative and Qualitative Disclosures about Market Risk. See Item 3.

**Recent Accounting Pronouncements**

In June 2006, FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109, which clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position. FIN 48 indicates that an enterprise shall initially recognize the financial statement effects of a tax position when it is more likely than not of being sustained on examination, based on the technical merits of the position. In addition, FIN 48 indicates that the

measurement of a tax position that meets the more likely than not threshold shall consider the amounts and probabilities of the outcomes that could be realized upon ultimate settlement. This interpretation is effective for fiscal years beginning after December 15, 2006 and interim periods within those years. We are in the process of evaluating the impact of adopting FIN 48 on our consolidated results of operations, financial position or cash flows.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 ( SAB 108 ), *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB 108

## **Table of Contents**

provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of determining whether the current year's financial statements are materially misstated. SAB 108 is effective for fiscal years ending after November 15, 2006. The implementation of SAB 108 did not have a material impact on our consolidated results of operations, financial position or cash flows.

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The implementation of SFAS No. 157 is not expected to have a material impact on our consolidated results of operations, financial position or cash flows.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure financial assets and liabilities at fair value. The objective of the guidance is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, provided the provisions of SFAS No. 157 are applied. We are evaluating SFAS No. 159 and have not yet determined the impact of the adoption, if any, it will have on our consolidated financial statements.

## **Critical Accounting Policies**

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of assets and liabilities. On an on-going basis, we evaluate our critical accounting policies and estimates, including those related to revenue recognition, bad debts, income taxes and intangible assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. For further information on our critical accounting policies, see the discussion of critical accounting policies in our Annual Report on Form 10-K for the fiscal year ended October 31, 2006, which was filed with the SEC on December 18, 2006.

## **ITEM 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

We are exposed to market risk related to changes in interest rates and foreign currency exchange rates. To mitigate some of these risks, we utilize derivative financial instruments to hedge these exposures. We do not use derivative financial instruments for speculative or trading purposes nor do we issue or hold leveraged derivative financial instruments.

### **Interest Rates**

We are exposed to interest rate risk related to our debt, which bears interest based upon the three-month LIBOR rate. We have reduced our exposure to interest rate fluctuations through the purchase of interest rate caps covering a portion of our variable rate debt. In 2006, we purchased two-year interest rate caps for \$118,000 with an initial

notional amount of \$200 million declining to \$150 million after one year with an effective date of November 1, 2006 under which we will receive interest payments if the three-month LIBOR rate exceeds 6.5%. Based on effective interest rates at April 30, 2007, a 50 basis point increase in interest rates on our borrowings subject to variable interest rate fluctuations would increase our interest expense by approximately \$2.5 million annually.

**Table of Contents**

**Foreign Currency Risk**

A majority of our business consists of sales made to customers outside the United States. A substantial portion of the net revenues we receive from such sales is denominated in currencies other than the U.S. dollar. Additionally, portions of our costs of net revenues and our other operating expenses are incurred by our International operations and denominated in local currencies. While fluctuations in the value of these net revenues, costs and expenses as measured in U.S. dollars have not materially affected our results of operations historically, we cannot assure you that adverse currency exchange rate fluctuations will not have a material impact in the future. In addition, our balance sheet reflects non-U.S. dollar denominated assets and liabilities which can be adversely affected by fluctuations in currency exchange rates. In certain periods, we have not hedged our exposure to these fluctuations.

We have entered into foreign currency forward contracts and other arrangements intended to hedge our exposure to adverse fluctuations in exchange rates. As of April 30, 2007, we had no foreign currency forward contracts outstanding. On May 1, 2007, the Company entered into foreign currency forward contracts with aggregate notional amounts of \$40.0 million to hedge exposures to non-functional currencies. If we chose not to enter into foreign currency forward contracts to hedge against these exposures and if the hedge currencies were to devalue 5% to 10% against the U.S. dollar, results of operations would include a foreign exchange loss of approximately \$2.0 million to \$4.0 million.

Hedging arrangements of this sort may not always be effective to protect our results of operations against currency exchange rate fluctuations, particularly in the event of imprecise forecasts of non-U.S. denominated assets and liabilities. Accordingly, if there is an adverse movement in exchange rates, we might suffer significant losses.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

VeriFone maintains disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), as appropriate, to allow timely decisions regarding required disclosure.

Our management is responsible for establishing and maintaining our disclosure controls and procedures. Our CEO and CFO participated with our management in evaluating the effectiveness of our disclosure controls and procedures as of April 30, 2007.

At the time that our Quarterly Report on Form 10-Q for the three months ended April 30, 2007 was filed on May 31, 2007, our CEO and CFO concluded that our disclosure controls and procedures were effective as of April 30, 2007. Subsequent to that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures were not effective at a reasonable level of assurance as of April 30, 2007 because of the material weaknesses in our internal control over financial reporting discussed below.

Notwithstanding the material weaknesses described below, we have performed additional analyses and other procedures to enable management to conclude that our consolidated financial statements as restated included in this amended report were prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ). Based in part on these additional efforts, our CEO and CFO have included their certifications as exhibits to this Form 10-Q/A.

A material weakness is a control deficiency, or combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. Management's assessment identified the following material weaknesses in our internal control over financial reporting as of April 30, 2007. As set forth below, management has taken or will take steps to remediate each of these material weaknesses.

A transaction-level material weakness in the design and operation of control activities relating to the preparation, review, approval, and entry of manual, non-standard, journal entries. This material weakness



**Table of Contents**

contributed to adjustments in several accounts and the restatement of the interim condensed consolidated financial statements for the quarterly periods during the fiscal year ended October 31, 2007. The accounts most affected in the restatement included inventories and cost of net revenues; however, this material weakness could impact all financial statement accounts.

An entity-level material weakness in the control environment related to our period-end financial reporting process due to an insufficient number of qualified personnel with the required proficiency to apply our accounting policies in accordance with U.S. GAAP following the November 1, 2006 acquisition of Lipman Electronic Engineering Ltd. This material weakness contributed to adjustments in several accounts and the restatement of the interim condensed consolidated financial statements for the quarterly periods during the fiscal year ended October 31, 2007. The accounts most affected in the restatement include inventories and cost of net revenues; however, this material weakness could impact all financial statement accounts, with a higher likelihood for accounts subject to non-routine or estimation processes, such as inventory reserves and income taxes.

An entity-level material weakness in control activities related to the design and operation of our supervision, monitoring, and monthly financial statement review processes. This material weakness contributed to adjustments in several accounts and the restatement of interim condensed consolidated financial statements for the quarterly periods during the fiscal year ended October 31, 2007. The accounts most affected in the restatement include inventories and cost of net revenues; however, this material weakness could impact all financial statement accounts.

A transaction-level material weakness in the design and operating effectiveness of controls related to income taxes. Specifically, our processes and procedures were not designed to provide for adequate and timely identification, documentation and review of various income tax calculations, reconciliations and related supporting documentation required to apply our accounting policy for income taxes in accordance with U.S. GAAP, particularly following the November 1, 2006 acquisition of Lipman Electronic Engineering Ltd. This material weakness impacted our ability to report financial information related to income tax accounts and resulted in adjustments to income tax expense, income taxes payable, deferred tax assets and liabilities and goodwill accounts during the fiscal year ended October 31, 2007.

Management has determined that each of these control deficiencies constitutes a material weakness.

These control deficiencies gave rise to the required restatements of VeriFone's interim consolidated financial statements for the first three quarters of fiscal 2007. Additionally, notwithstanding VeriFone's remediation initiatives described below, these control deficiencies could result in additional misstatements in the aforementioned accounts that might result in a material misstatement to VeriFone's interim or annual consolidated financial statements that might not be prevented or detected.

**Management's Remediation Initiatives**

Following the Audit Committee independent investigation and in response to the material weaknesses discussed above, we plan to continue the efforts already underway to review and make necessary changes to improve our internal control over financial reporting, including:

We have enhanced our manual journal entry policy, including a more stringent manual journal entry review and approval process that requires tiered approval levels in which escalating dollar amounts require additional approval by increasingly more senior personnel;

We migrated to a new worldwide, integrated, enterprise resource planning ( ERP ) system. The new ERP system is our principal computing platform and provides for a single unified chart of accounts worldwide. This system was activated for the majority of our worldwide operations in the first fiscal quarter of 2008 and by the end of the second fiscal quarter of 2008 over 90% of our consolidated net revenues and cost of net revenues were processed on this system;

**Table of Contents**

We have added and expect to continue to add qualified accounting and finance personnel having sufficient knowledge and experience in general accepted accounting principles, cost accounting, tax, and management of financial systems;

We intend to enhance our review process over the monthly financial results by requiring additional documentation and analysis to be provided that will then be reviewed by appropriate key senior personnel from both finance and non-finance areas;

We expect to enhance the segregation of duties between the financial planning and the accounting and control functions; and

We intend to enhance our governance and compliance functions to improve control consciousness and prevention of errors in financial reporting, as well as to improve tone, communication, education, and training for employees involved in the financial reporting process, including the appointment of a chief legal and compliance officer.

**Changes in internal control over financial reporting**

No change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934) occurred during the three months ended April 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

In the ordinary course of our business, we are subject to periodic lawsuits, investigations and claims. Although we cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against us, we do not believe that any currently pending legal proceeding to which we are a party is likely to have a material adverse effect on our business, results of operations, cash flows or financial condition.

One of our Brazilian subsidiaries has been notified of a tax assessment regarding Brazilian state value added tax, or VAT, for the periods from January 2000 to December 2001 that relates to products supplied to us by a contract manufacturer. The assessment relates to an asserted deficiency of 7.7 million Brazilian reais (approximately \$3.8 million) including interest and penalties. The tax assessment was based on a clerical error in which our Brazilian subsidiary omitted the required tax exemption number on its invoices. Management does not expect that we will ultimately incur a material liability in respect of this assessment, because we believe, based in part on advice of our Brazilian tax counsel, that we are likely to prevail in the proceedings relating to this assessment. On May 25, 2005, we had an administrative hearing with the Brazilian Tax Authority with respect to this audit. Management expects to receive the decision of the administrative judges sometime in 2007. In the event we receive an adverse ruling from the administrative body, we will decide whether or not to appeal and would reexamine the determination as to whether an accrual is necessary. It is currently uncertain what impact this state tax examination may have with respect to our use of a corresponding exemption to reduce the Brazilian federal VAT.

Two of our Brazilian subsidiaries that were acquired as a part of the Lipman acquisition have been notified of tax assessments regarding Brazilian customs penalties that relate to alleged infractions in the importation of goods. The assessments were issued in the City of Vitória and the State of São Paulo and relate to an asserted deficiency of a total of 24.9 million Brazilian reais (approximately \$12.4 million) excluding interest. The tax authorities allege that the

structure used for the importation of goods was simulated with the objective to hide the real seller and buyer of the imported goods and that the simulation was created through a fraudulent interposition of parties.

In the Vitória tax assessment, the fines were reduced on a first level administrative decision on January 26, 2007. The proceeding has been remitted to the Taxpayers Council to adjudicate the appeal of the first level administrative decision filed by the tax authorities. We also appealed the first level administrative decision on February 26, 2007. In this appeal, we argued that the tax authorities did not have enough evidence to determine that the import transactions were indeed fraudulent and that, even if there were some irregularities in such importations,

**Table of Contents**

they could not be deemed to be our responsibility since all the transactions were performed by the third party importer of the goods. Management expects to receive the decision of the Taxpayers Council sometime in 2007. In the event we receive an adverse ruling from the administrative body, we will decide whether or not to appeal to the judicial level. Based on our current understanding of the underlying facts, we believe that it is probable that our Brazilian subsidiary will be required to pay some amount of fines.

The São Paulo tax assessment is pending first administrative level decision, which may maintain the total fine imposed or reduce it (as happened in the Vitória tax assessment). In the event we receive an adverse ruling from the administrative body, we will also decide whether or not to appeal in the administrative level to the Taxpayers Council. Based on our current understanding of the underlying facts, we believe that, although it is possible that the amount claimed may be reduced at the administrative level, it is probable that our Brazilian subsidiary will be required to pay some amount of fines. Until the first administrative level decision is rendered, we are not able to estimate the range of possible fines. As part of our integration activities with respect to the Lipman acquisition, we are reviewing operations in other Lipman entities to ensure that we have in place business and financial controls that are consistent with those we have historically applied to our operations.

On December 11, 2006, we received a civil investigative demand from the U.S. Department of Justice regarding an investigation into our acquisition of Lipman which requests certain documents and other information, principally with respect to the companies' integration plans and communications prior to the completion of this acquisition. We are producing documents in response to this request, but cannot predict what actions, if any, will result from this investigation.

**ITEM 1A. RISK FACTORS**

*The following discussion supplements and amends the risk factors previously disclosed as Item 1A in our Annual Report on Form 10-K for the year ended October 31, 2006 which are incorporated herein by reference.*

**Risks Related to Our Business**

***Although we expect that the acquisition of Lipman will result in benefits to our Company, those benefits may not occur because of integration and other challenges.***

Achieving the benefits we expect from the acquisition of Lipman depends in part on our ability to integrate VeriFone's and Lipman's technology, operations and personnel in a timely and efficient manner. Although much of this integration has already occurred, some of the more complex aspects of integration will take time to complete. The challenges involved in this integration include:

incorporating Lipman's technology and products into our next generation of products;

integrating Lipman's technical team in Israel with our larger and more widely dispersed engineering organization;

coordinating research and development activities to enhance introduction of new products, services and technologies;

integrating Lipman's in-house manufacturing model with the outsource model employed by VeriFone;

integrating Lipman's international operations with those of VeriFone; and

persuading the employees in various jurisdictions that Lipman's business cultures are compatible with ours, maintaining employee morale and retaining key employees.

If our operations after the acquisition do not meet the expectations of existing customers of VeriFone or Lipman, then these customers may cease doing business with the company altogether, which would harm our results of operations and financial condition.

**Table of Contents**

Costs associated with the acquisition are difficult to estimate, may be higher than expected and may harm the financial results of the combined company. We have incurred substantial direct expenses associated with the merger, and expect to incur additional costs associated with consolidation and integration of operations. If the total costs of the acquisition exceed estimates or the benefits of the acquisition do not exceed the total costs of the acquisition, our financial results could be adversely affected.

***A significant percentage of our business is executed towards the end of our fiscal quarters. This could negatively impact our business and results of operations.***

Revenues recognized in our fiscal quarters tend to be back end loaded. This means that sales orders are received and revenue recognized disproportionately towards the end of each fiscal quarter. This back end loading, particularly if it becomes more pronounced, could adversely affect our business and results of operations due to the following factors:

the manufacturing processes in our internal manufacturing could become concentrated in a shorter time period. This concentration of manufacturing could increase labor and other manufacturing costs and negatively impact gross margins. The risk of inventory write offs could also increase if we were to hold higher inventory levels to counteract this;

the higher concentration of orders may make it difficult to accurately forecast component requirements and, as a result, we could experience a shortage of the components needed for production, possibly delaying shipments and causing lost orders; and

if we are unable to fill orders at the end of a quarter, shipments may be delayed. This could cause us to fail to meet our revenue and operating profit expectations for a particular quarter and could increase the fluctuation of quarterly results if shipments are delayed from one fiscal quarter to the next or orders are cancelled by customers.

***We face risks related to a planned migration to a common enterprise resource planning information system to integrate all business and finance activities.***

We are in the process of migrating to a new enterprise resource planning information system, which will replace our existing system. We plan to integrate all business and finance activities into this new system by the first quarter of fiscal year 2008. Due to the size and complexity of our business, which is compounded by the recent acquisition of Lipman, the conversion process will be very challenging. Any disruptions and problems that occur during the system conversion could adversely impact our ability to finish the conversion in a timely and cost effective way and could, moreover, interfere with the normal operations of our business and finance activities. Even if we do succeed in completing the conversion on a timely basis, the implementation may be much more costly than we anticipated. If we are unable to successfully implement our new information system as planned, in addition to adversely impacting our financial position, results of operations and cash flows in the short and long term, it could also affect our ability to collect the information necessary to timely file our financial reports with the SEC.

***A majority of our net revenues is generated outside of North America and we intend to continue to expand our operations internationally. Our results of operations could suffer if we are unable to manage our international expansion and operations effectively.***

During the three months ended April 30, 2007, 56% of VeriFone's net revenues were generated outside of North America. We expect our percentage of net revenues generated outside of North America to continue to increase in the coming years. Part of our strategy is to expand our penetration in existing foreign markets and to enter new foreign markets. Our ability to penetrate some international markets may be limited due to different technical standards,

protocols or product requirements. Expansion of our International business will require significant management attention and financial resources. Our International net revenues will depend on our continued success in the following areas:

securing commercial relationships to help establish our presence in international markets;



**Table of Contents**

hiring and training personnel capable of marketing, installing and integrating our solutions, supporting customers and managing operations in foreign countries;

localizing our solutions to target the specific needs and preferences of foreign customers, which may differ from our traditional customer base in the United States;

building our brand name and awareness of our services among foreign customers; and

implementing new systems, procedures and controls to monitor our operations in new markets on a basis consistent with our domestic operations.

In addition, we are subject to risks associated with operating in foreign countries, including:

multiple, changing and often inconsistent enforcement of laws and regulations;

satisfying local regulatory or industry imposed security or other certification requirements;

competition from existing market participants that may have a longer history in and greater familiarity with the foreign markets we enter;

tariffs and trade barriers;

laws and business practices that favor local competitors;

fluctuations in currency exchange rates;

extended payment terms and the ability to collect account receivables;

economic and political instability in foreign countries;

imposition of limitations on conversion of foreign currencies into U.S. dollars or remittance of dividends and other payments by foreign subsidiaries;

changes in a specific country's or region's political or economic conditions; and

greater difficulty in safeguarding intellectual property in areas such as China, Russia and Latin America.

In addition, compliance with foreign and U.S. laws and regulations that are applicable to our international operations is complex and may increase our cost of doing business in international jurisdictions and our international operations could expose us to fines and penalties if we fail to comply with these regulations. These laws and regulations include import and export requirements, U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting corrupt payments to governmental officials. Although we have implemented policies and procedures designed to ensure compliance with these laws, there can be no assurance that our employees, contractors and agents will not take actions in violation of our policies, particularly as we expand our operations through organic growth and acquisitions. Any such violations could subject us to civil or criminal penalties, including substantial fines or prohibitions on our ability to offer our products and services to one or more countries, and could also materially damage our reputation, our brand, our international expansion efforts, our business and our operating results. In addition, if we fail to address the challenges and risks associated with international expansion and acquisition strategy, we may encounter

difficulties implementing our strategy, which could impede our growth or harm our operating results.

***A significant portion of our gross finished goods consists of non-PCI compliant products. Due to an upcoming PCI deadline, we must successfully deplete the non-PCI inventory while transitioning customers to PCI products. Our results of operations could suffer if we are unable to manage our inventory and marketing programs to meet this objective.***

The major card associations have introduced new security standards to address the growing demand for transaction security. Visa International, MasterCard International and JCB Co., Ltd. continue to cooperate on the development and release of more stringent Payment Card Industry, or PCI, specification and test methods for the certification of electronic payment systems for secure debit transactions. This new set of standards applies wherever Visa, MasterCard, and JCB cards are accepted and must be adhered to by December 31, 2007, which means that we

**Table of Contents**

will not be able to sell non-PCI compliant products after this date. A significant portion of our gross finished goods consist of non-PCI compliant products. While we do not believe that we will have a material exposure, if we are not able to successfully deplete this non-PCI inventory, our financial results could be adversely affected.

***We are exposed to various risks related to legal proceedings or claims that may harm our operating results or financial condition.***

In the ordinary course of our business, we are subject to periodic lawsuits, investigations and claims. Although we cannot predict with certainty the ultimate resolution of lawsuits, investigations and claims asserted against us, we do not believe that any currently pending legal proceeding to which we are a party is likely to have a material adverse effect on our business, results of operations, cash flows or financial condition.

One of our Brazilian subsidiaries has been notified of a tax assessment regarding Brazilian state value added tax, or VAT, for the periods from January 2000 to December 2001 that relates to products supplied to us by a contract manufacturer. The assessment relates to an asserted deficiency of 7.7 million Brazilian reais (approximately \$3.8 million) including interest and penalties. The tax assessment was based on a clerical error in which our Brazilian subsidiary omitted the required tax exemption number on its invoices. On May 25, 2005, we had an administrative hearing with respect to this audit. Management expects to receive the decision of the administrative judges sometime in 2007. In the event we receive an adverse ruling from the administrative body, we will decide whether or not to appeal and would reexamine the determination as to whether an accrual is necessary. It is currently uncertain what impact this state tax examination may have with respect to our use of a corresponding exemption to reduce the Brazilian federal VAT.

Two of our Brazilian subsidiaries that were acquired as a part of the Lipman acquisition have been notified of tax assessments regarding Brazilian customs penalties that relate to alleged infractions in the importation of goods. The assessments were issued in the City of Vitória and the State of São Paulo and relate to an asserted deficiency of a total 24.9 million Brazilian reais (approximately \$12.4 million) excluding interest. The tax authorities allege that the structure used for the importation of goods was simulated with the objective to hide the real seller and buyer of the imported goods and that the simulation was created through a fraudulent interposition of parties.

In the Vitória tax assessment, the fines were reduced on a first level administrative decision on January 26, 2007. The proceeding has been remitted to the Taxpayers Council to adjudicate the appeal of the first level administrative decision filed by the tax authorities. We also appealed the first level administrative decision on February 26, 2007. In this appeal, we argued that the tax authorities did not have enough evidence to determine that the import transactions were indeed fraudulent and that, even if there were some irregularities in such importations, they could not be deemed to be our responsibility since all the transactions were performed by the third party importer of the goods.

Management expects to receive the decision of the Taxpayers Council sometime in 2007. In the event we receive an adverse ruling from the administrative body, we will decide whether or not to appeal to the judicial level. Based on our current understanding of the underlying facts, we believe that it is probable that our Brazilian subsidiary will be required to pay some amount of fines.

The São Paulo tax assessment is pending first administrative level decision, which may maintain the total fine imposed or reduce it (as happened in the Vitória tax assessment). In the event we receive an adverse ruling from the administrative body, we will also decide whether or not to appeal in the administrative level to the Taxpayers Council. Based on our current understanding of the underlying facts, we believe that, although it is possible that the amount claimed may be reduced at the administrative level, it is probable that our Brazilian subsidiary will be required to pay some amount of fines. Until the first administrative level decision is rendered, we are not able to estimate the range of possible fines. As part of our integration activities with respect to the Lipman acquisition, we are reviewing operations in other Lipman entities to ensure that we have in place business and financial controls that are consistent with those

we have historically applied to our operations.

On December 11, 2006, we received a civil investigative demand from the U.S. Department of Justice regarding an investigation into our acquisition of Lipman which requests certain documents and other information, principally with respect to the companies' integration plans and communications prior to the completion of this acquisition. We are producing documents in response to this request, but cannot predict what actions, if any, will result from this investigation.

**Table of Contents****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The following is a tabulation of the votes on proposals considered at our annual meeting of stockholders held on March 27, 2007:

1. To elect eight directors to serve on our Board of Directors for one-year term.

	<b>For</b>	<b>Withheld</b>
Douglas G. Bergeron	53,888,382	482,940
Craig A. Bondy	49,518,821	4,852,501
Dr. James C. Castle	54,185,832	185,490
Dr. Leslie G. Denend	51,477,158	2,894,164
Alex W. Hart	54,207,004	164,318
Robert B. Henske	51,477,474	2,893,848
Charles R. Rinehart	54,271,981	99,341
Collin E. Roche	50,616,140	3,755,182

2. To ratify the selection of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ended October 31, 2007.

For	54,348,118
Against	12,954
Abstain	10,249

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

The following documents are filed as Exhibits to this report:

<b>Exhibit Number</b>	<b>Description</b>
31.1	Certification of the Chief Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.

- 31.2 Certification of the Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer and the Chief Financial Officer as required by Section 906 of the Sarbanes-Oxley Act of 2002.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this amended report to be signed on its behalf by the undersigned thereunto duly authorized.

VERIFONE HOLDINGS, INC

By:  
/s/ Douglas G. Bergeron

Douglas G. Bergeron  
Chief Executive Officer

By:  
/s/ Barry Zwarenstein

Barry Zwarenstein  
Executive Vice President and  
Chief Financial Officer

Date: August 19, 2008

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
31.1	Certification of the Chief Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer and the Chief Financial Officer as required by Section 906 of the Sarbanes-Oxley Act of 2002.