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

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

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended January 31, 2008**
	or
o	**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	**04-3692546**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

2099 Gateway Place, Suite 600
San Jose, CA 95110
(Address of principal executive offices with zip code)

(408) 232-7800
(Registrant s telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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 þ Accelerated filer o Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)

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

At July 31, 2008, the number of shares outstanding of the registrant s common stock, $0.01 par value was 84,194,231.

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PART I FINANCIAL INFORMATION

ITEM 1. *FINANCIAL STATEMENTS*

VERIFONE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	January 31, 2008	October 31, 2007(1)
	(Unaudited)	
	(In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 209,310	$ 215,001
Accounts receivable, net of allowance of $4,694 and $4,270	182,559	194,146
Inventories	116,711	107,168
Deferred tax assets	21,670	23,854
Prepaid expenses and other current assets	79,003	63,413
Total current assets	609,253	603,582
Property, plant and equipment, net	50,600	48,293
Purchased intangible assets, net	155,365	170,073
Goodwill	612,489	611,977
Deferred tax assets	64,782	67,796
Debt issuance costs, net	12,744	12,855
Other assets	41,376	32,733
Total assets	$ 1,546,609	$ 1,547,309
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 100,610	$ 105,215
Income taxes payable	9,041	19,530
Accrued compensation	22,223	21,201
Accrued warranty	10,265	11,012
Deferred revenue, net	59,857	43,049
Deferred tax liabilities	6,123	6,154
Accrued expenses	9,149	8,755
Other current liabilities	88,877	86,465
Current portion of long-term debt	5,202	5,386
Total current liabilities	311,347	306,767
Accrued warranty	644	655

Deferred revenue, net	11,691	11,274
Long-term debt	547,211	547,766
Deferred tax liabilities	90,977	87,142
Other long-term liabilities	32,690	10,296
Total liabilities	994,560	963,900
Minority interest	2,164	2,487
Stockholders equity:		
Preferred stock: 10,000 shares authorized at January 31, 2008 and October 31, 2007; zero issued and outstanding at January 31, 2008 and October 31, 2007		
Common stock: $0.01 par value; 100,000 shares authorized at January 31, 2008 and October 31, 2007; 84,194 and 84,060 shares issued and outstanding at January 31, 2008 and October 31, 2007	842	841
Additional paid-in capital	642,690	635,404
Accumulated deficit	(112,349)	(77,484)
Accumulated other comprehensive income	18,702	22,161
Total stockholders equity	549,885	580,922
Total liabilities and stockholders equity	$ 1,546,609	$ 1,547,309

(1) Amounts as of October 31, 2007 were derived from the October 31, 2007 audited consolidated financial statements.

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

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VERIFONE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended January 31	
	2008	2007
	(Unaudited) (In thousands, except per share data)	
Net revenues:		
Systems Solutions	$ 155,601	$ 188,966
Services	29,920	27,397
Total net revenues	185,521	216,363
Cost of net revenues:		
Systems Solutions	109,604	133,291
Services	18,553	14,449
Total cost of net revenues	128,157	147,740
Gross profit	57,364	68,623
Operating expenses:		
Research and development	22,462	16,898
Sales and marketing	24,643	23,040
General and administrative	26,066	17,376
Amortization of purchased intangible assets	5,890	5,351
In-process research and development		6,560
Total operating expenses	79,061	69,225
Operating loss	(21,697)	(602)
Interest expense	(6,440)	(9,756)
Interest income	2,088	991
Other expense, net	(4,520)	(261)
Loss before income taxes	(30,569)	(9,628)
Provision for (benefit from) income taxes	2,929	(3,949)
Net loss	$ (33,498)	$ (5,679)
Net loss per share:		
Basic	$ (0.40)	$ (0.07)
Diluted	$ (0.40)	$ (0.07)

Weighted average shares used in computing net loss per share:		
Basic	84,153	80,993
Diluted	84,153	80,993

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

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VERIFONE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended January 31	
	2008	2007
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net loss	$ (33,498)	$ (5,679)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of purchased intangible assets	14,065	14,960
Depreciation and amortization of property, plant and equipment	3,027	2,004
Amortization of capitalized software development costs	471	295
In-process research and development		6,560
Write-off of capitalized software development costs	2,700	
Amortization of debt issuance costs	616	328
Stock-based compensation	5,470	7,796
Minority interest and equity in earnings of affiliates	(227)	24
Net cash provided (used in) by operating activities before changes in working capital	(7,376)	26,288
Changes in operating assets and liabilities:		
Accounts receivable, net	11,703	(2,623)
Inventories	(9,543)	35,289
Deferred tax assets	5,707	(1,903)
Prepaid expenses and other current assets	(16,421)	(14,458)
Other assets	(11,370)	(2,362)
Accounts payable	(4,605)	(6,905)
Income taxes payable	8,179	(1,705)
Tax benefit from stock-based compensation	(957)	(2,342)
Accrued compensation	934	(3,762)
Accrued warranty	(758)	(1,226)
Deferred revenue, net	17,225	6,862
Deferred tax liabilities	3,930	4,981
Accrued expenses and other liabilities	5,373	(13,796)
Net cash provided by operating activities	2,021	22,338
Cash flows from investing activities:		
Software development costs capitalized	(662)	(1,145)
Purchase of property, plant and equipment	(5,383)	(6,571)
Acquisition of businesses, net of cash acquired	(2,858)	(259,857)
Net cash used in investing activities	(8,903)	(267,573)

Cash flows from financing activities:		
Proceeds from exercise of stock options	1,704	12,986
Tax benefit from stock-based compensation	957	2,342
Proceeds from long-term debt, net of costs	439	304,950
Repayment of long-term debt	(1,250)	(13)
Payment of debt amendment fees	(740)	
Other	(31)	22
Net cash provided by financing activities	1,079	320,287
Effect of foreign exchange rate on cash and cash equivalents	112	273
Net increase (decrease) in cash and cash equivalents	(5,691)	75,325
Cash and cash equivalents at beginning of period	215,001	86,564
Cash and cash equivalents at end of period	$ 209,310	$ 161,889
Supplemental disclosure for cash flow information:		
Cash paid for interest	$ 6,238	$ 3,556
Cash paid for income taxes	$ 2,232	$ 2,404
Supplemental schedule for non-cash transaction:		
Issuance of common stock and stock options for acquisition	$	$ 435,228

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

VERIFONE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The Company

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.

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 Statements

The accompanying condensed consolidated balance sheet as of January 31, 2008 and condensed consolidated statements of operations and cash flows for the three months ended January 31, 2008 and 2007 are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and Rule 10-01 of Regulation S-X and the instructions for Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) and, therefore, do not include all information and notes normally provided in audited financial statements prepared under GAAP. 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 January 31, 2008 and its results of operations and cash flows for the three months ended January 31, 2008 and 2007. The condensed consolidated balance sheet at October 31, 2007 has been derived from audited consolidated financial statements, but does not include all disclosures required by GAAP. These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended October 31, 2007 filed with the Securities and Exchange Commission.

Summary of Significant Accounting Policies

The Company adopted the Financial Accounting Standards Board (FASB) Interpretation 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, effective November 1, 2007. FIN 48 clarifies the accounting for income taxes recognized in accordance with Statement of Financial Accounting Standards (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. The impact on adoption of FIN 48 is described in Note 8, Income Taxes .

Other than this change, there have been no changes in the Company s significant accounting policies during the three months ended January 31, 2008 as compared to the significant accounting policies described in the Company s audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended October 31, 2007.

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VERIFONE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with GAAP 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 condensed consolidated financial statements.

Concentrations of Credit Risk

As of January 31, 2008, one customer accounted for 13.7% of the Company s accounts receivable. As of October 31, 2007, no customer accounted for 10% or more of accounts receivable. No customer accounted for 10% or more of net revenues in the three months ended January 31, 2008 and 2007.

Recent Accounting Pronouncements

In September 2006, the 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. On February 12, 2008 the FASB issued FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157*. FSP FAS 157-2 defers the implementation of SFAS No. 157 for certain nonfinancial assets and nonfinancial liabilities. The remainder of SFAS No. 157 is effective for the Company beginning in the first quarter of fiscal year 2009. The aspects that have been deferred by FSP FAS 157-2 will be effective for the Company beginning in the first quarter of fiscal year 2010. The implementation of SFAS No. 157 is not expected to have a material impact on the Company s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS No. 159 permits entities to elect 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, its adoption will have on the Company s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*. SFAS No. 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests (NCI) and classified as a component of equity. In conjunction with SFAS No. 141(R), discussed below, SFAS No. 160 will significantly change the accounting for partial and/or step acquisitions. SFAS No. 160 will be effective for the Company in the first quarter of fiscal year 2010. Early adoption is not permitted. The Company is currently evaluating SFAS No. 160 and has not yet determined the impact, if any, its adoption will have on the Company s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*. SFAS No. 141(R) changes the accounting for business combinations including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for pre-acquisition gain and loss contingencies, the recognition of capitalized in-process research and development as an indefinite-lived intangible asset until approved or discontinued rather than as an immediate expense, expensing restructuring costs in connection with an acquisition rather than considering them a liability assumed in the acquisition, the treatment of acquisition-related transaction costs, including the fair value of contingent consideration at the date of an acquisition, the recognition of changes in the acquirer s income tax valuation allowance, and accounting for partial and/or step acquisitions.

VERIFONE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SFAS No. 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies under SFAS No. 109, *Accounting for Income Taxes*. Early adoption is not permitted. When SFAS No. 141(R) becomes effective, which, for the Company, will be in the first quarter of fiscal year 2010, any adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS No. 141(R) will be recorded through income tax expense, whereas currently the accounting treatment would require any adjustment to be recognized through the purchase price. The Company is currently evaluating SFAS No. 141(R) and has not yet determined the impact, if any, its adoption will have on the Company s consolidated financial statements.

In May 2008, the FASB issued FASB Staff Position (FSP) APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*. FSP APB 14-1 requires the issuer of a convertible debt instrument with cash settlement features to account separately for the liability and equity components of the instrument. The debt would be recognized at the present value of its cash flows discounted using an entity specific nonconvertible debt borrowing rate at the time of issuance. The equity component would be recognized as the difference between the proceeds from the issuance of the note and the fair value of the liability. The FSP also requires accretion of the resultant debt discount over the expected life of the debt. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years. Entities are required to apply the FSP retrospectively for all periods presented. The Company is currently evaluating FSP APB 14-1 and has not yet determined the impact its adoption will have on the Company s consolidated financial statements. However, the impact of this new accounting treatment will be significant and will result in a significant increase to non-cash interest expense beginning in fiscal year 2010 for financial statements covering past and future periods.

Note 2. Balance Sheet and Statement of Operations Details

Inventories

Inventories consisted of the following (in thousands):

	January 31, 2008	October 31, 2007
Raw materials	$ 36,276	$ 29,548
Work-in-process	6,911	3,849
Finished goods	73,524	73,771
	$ 116,711	$ 107,168

Prepaid Expenses and Other Current Assets

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

	January 31, 2008	October 31, 2007
Prepaid taxes	$ 54,467	$ 38,390
Prepaid expenses	14,047	15,266
Other receivables	6,420	7,827
Other current assets	4,069	1,930
	$ 79,003	$ 63,413

The Company had $1.5 million and $1.3 million of restricted cash as of January 31, 2008 and October 31, 2007, respectively. The restricted cash balances were comprised mainly of pledge deposits for bank guarantees.

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):

	January 31, 2008			October 31, 2007		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Developed technology	$ 172,160	$ (73,098)	$ 99,062	$ 172,564	$ (64,981)	$ 107,583
Core technology	14,442	(14,442)		14,442	(14,442)	
Trade name	22,225	(22,225)		22,225	(22,225)	
Internal use software	4,399	(1,097)	3,302	4,485	(853)	3,632
Customer relationships	90,696	(37,695)	53,001	91,023	(32,165)	58,858
Total	$ 303,922	$ (148,557)	$ 155,365	$ 304,739	$ (134,666)	$ 170,073

Amortization of purchased intangibles assets for the three months ended January 31, 2008 and 2007 was allocated as follows (in thousands):

	Three Months Ended January 31,	
	2008	2007
Included in cost of net revenues	$ 8,175	$ 9,609
Included in operating expenses	5,890	5,351
	$ 14,065	$ 14,960

Estimated future amortization expense of purchased intangible assets recorded as of January 31, 2008 is as follows (in thousands):

Fiscal Year	Cost of Net Revenues	Operating Expenses	Total
2008 (remaining 9 months)	$ 23,721	$ 19,791	$ 43,512
2009	31,754	20,469	52,223
2010	24,853	11,995	36,848
2011	15,061	3,293	18,354

2012	2,683	466	3,149
Thereafter	990	289	1,279
Total	$ 99,062	$ 56,303	$ 155,365

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VERIFONE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Goodwill

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

	Three Months Ended January 31, 2008	Year Ended October 31, 2007
Balance at beginning of period	$ 611,977	$ 52,689
Additions related to acquisitions	2,757	540,043
Resolution of tax contingencies and adjustments to tax reserves and valuation allowances established in purchase accounting	1,326	(5,229)
Currency translation adjustments	(3,571)	24,474
Balance at end of period	$ 612,489	$ 611,977

Accrued Warranty

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

	Three Months Ended January 31, 2008	Year Ended October 31, 2007
Balance at beginning of period	$ 11,667	$ 5,432
Warranty charged to cost of net revenues	2,329	3,664
Utilization of warranty	(3,434)	(13,089)
Change in estimates	312	4,768
Warranty liabilities assumed in acquisitions	35	10,892
Balance at end of period	10,909	11,667
Less current portion	(10,265)	(11,012)
Long-term portion	$ 644	$ 655

Deferred Revenue, net

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

	January 31, 2008	October 31, 2007
Deferred revenue	$ 91,228	$ 58,992
Deferred cost of revenue	(19,680)	(4,669)
	71,548	54,323
Less current portion	(59,857)	(43,049)
Long-term portion	$ 11,691	$ 11,274

VERIFONE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other Current Liabilities

Other current liabilities consisted of the following (in thousands):

	January 31, 2008	October 31, 2007
Other tax liabilities(1)	$ 39,686	$ 39,310
Interest payable	1,538	2,620
Accounts payable related accrual	17,553	16,246
Accrued legal and audit fees	7,463	4,693
Other liabilities	22,637	23,596
Total other current liabilities	$ 88,877	$ 86,465

(1) Two of the Company s Brazilian subsidiaries that were acquired as part of the Lipman acquisition have been notified of assessments regarding Brazilian customs penalties and interest that relate to alleged infractions in the importation of goods. The Company has accrued $19.5 million as of January 31, 2008 and $19.4 million as of October 31, 2007 related to these assessments. See Note 9. Commitments and Contingencies for additional information related to these tax assessments.

Other Income (Expense), net

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

	Three Months Ended January 31,	
	2008	2007
Foreign currency transaction gains (losses), net	$ (5,363)	$ 27
Foreign currency contract gains (losses), net	642	(214)
Other, net	201	(74)
	$ (4,520)	$ (261)

Note 3. Financings

The Company s financings as of January 31, 2008 and October 31, 2007 consisted of the following (in thousands):

	January 31, 2008	October 31, 2007
Term B Loan	$ 235,000	$ 236,250
1.375% Senior Convertible Notes	316,250	316,250
Capital lease and other notes payable	1,163	652
Total	552,413	553,152
Less current portion	(5,202)	(5,386)
Long-term portion	$ 547,211	$ 547,766

Secured Credit Facility

On October 31, 2006, the Company s principal subsidiary, VeriFone, Inc. (the Borrower) entered into a credit agreement consisting of a Term B Loan facility of $500 million and a revolving loan permitting borrowings of up to $40 million (the Credit Facility). At January 31, 2008 and October 31, 2007, $235.0 million and

VERIFONE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$236.2 million, respectively, were outstanding under the Term B Loan and there was no borrowing under the revolving 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. Following the effective date of the First Amendment, described below, at the Company s option, the Term B Loan bears interest at a rate of 2.00% over the three-month LIBOR, or 1% over the lender s base rate, which was 5.25% as of January 31, 2008.

At October 31, 2007, prior to the First Amendment, described below, the Term B Loan bore interest at a rate of 7.11% which was 1.75% over the three-month LIBOR.

At the Borrower s option, the revolving loan bears interest at a rate of 1.25% over the three-month LIBOR, or 0.25% over the lender s base rate. The effective borrowing rates were 4.50% and 6.61% at January 31, 2008 and October 31, 2007, respectively.

The terms of the Credit Facility require the Company to comply with certain financial as well as non-financial covenants. As of January 31, 2008, the Company was in compliance with the covenants under the Credit Facility.

Effective January 25, 2008, 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. The Amendment extended 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 period ended January 31, 2008. In connection with the First Amendment, the Borrower paid to the consenting Lenders a fee of $0.7 million, or 0.25% of the aggregate amount outstanding under Term B Loan and the amount of the revolving credit commitment made available by the consenting Lenders under the Credit Facility and agreed to an increase in the interest rate payable on the Term B Loan of 0.25% per annum.

On April 28, 2008, the Borrower and VeriFone Intermediate Holdings, Inc. entered into a Second Amendment to 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 B loan and the amount of the revolving credit commitment made available by the consenting Lenders, agreed to an 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.

VERIFONE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1.375% Senior Convertible Notes

On June 22, 2007, the Company issued and sold $316.2 million aggregate principal amount of its 1.375% Senior Convertible Notes due 2012 (the Notes) in an offering through Lehman Brothers Inc. and JP Morgan Securities Inc. (together the initial purchasers) to qualified institutional buyers pursuant to Section 4(2) of, and Rule 144A under the Securities Act. The net proceeds from the offering, after deducting transaction costs, were approximately $307.9 million. The Company incurred approximately $8.3 million of debt issuance costs. The transaction costs, consisting of the initial purchasers discounts and offering expenses, were primarily recorded in debt issuance costs, net and are being amortized to interest expense using the effective interest method over five years. The Company will pay 1.375% interest per annum on the principal amount of the Notes, payable semi-annually in arrears in cash on June 15 and December 15 of each year, commencing on December 15, 2007, subject to increase in certain circumstances as described below. The fair value of the 1.375% Senior Convertible Notes was $253.9 million as of January 31, 2008 based on the trading price at the end of the day.

The Notes were issued under an Indenture with U.S. Bank National Association, as trustee. Each $1,000 of principal of the Notes will initially be convertible into 22.719 shares of VeriFone common stock, which is equivalent to a conversion price of approximately $44.02 per share, subject to adjustment upon the occurrence of specified events. Holders of the Notes may convert their Notes prior to maturity during specified periods as follows: (1) on any date during any fiscal quarter beginning after October 31, 2007 (and only during such fiscal quarter) if the closing sale price of the Company s common stock was more than 130% of the then current conversion price for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter; (2) at any time on or after March 15, 2012; (3) if the Company distributes to all holders of its common stock rights or warrants (other than pursuant to a rights plan) entitling them to purchase, for a period of 45 calendar days or less, shares of the Company s common stock at a price less than the average closing sale price for the ten trading days preceding the declaration date for such distribution; (4) if the Company distributes to all holders of its common stock, cash or other assets, debt securities or rights to purchase the Company s securities (other than pursuant to a rights plan), which distribution has a per share value exceeding 10% of the closing sale price of the Company s common stock on the trading day preceding the declaration date for such distribution; (5) during a specified period if certain types of fundamental changes occur; or (6) during the five business-day period following any five consecutive trading-day period in which the trading price for the Notes was less than 98% of the average of the closing sale price of the Company s common stock for each day during such five trading-day period multiplied by the then current conversion rate. Upon conversion, the Company would pay the holder the cash value of the applicable number of shares of VeriFone common stock, up to the principal amount of the Note. Amounts in excess of the principal amount, if any, will be paid in stock. Unless and until the Company obtains stockholder approval to amend its certificate of incorporation to increase its authorized capital, the maximum number of shares available for issuance upon conversion of each $1,000 principal amount of Notes will be the pro rata portion of an aggregate of 3,250,000 shares allocable to such Note, which equates to 10.2766 shares per $1,000 principal amount of Notes. 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 below) 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.

As of January 31, 2008, none of the conditions allowing holders of the Notes to convert had been met. If a fundamental change, as defined in the indenture pursuant to which the Notes were issued, occurs prior to the maturity date, holders of the Notes may require the Company to repurchase all or a portion of their Notes for cash at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest (including additional interest, if any) to, but excluding, the repurchase date.

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VERIFONE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. The Notes are effectively subordinated to any secured indebtedness to the extent of the value of the related collateral and structurally subordinated to indebtedness and other liabilities of the Company s subsidiaries including any secured indebtedness of such subsidiaries.

In connection with the sale of the Notes, the Company entered into a registration rights agreement, dated as of June 22, 2007, with the initial purchasers of the Notes (the Registration Rights Agreement). Under the Registration Rights Agreement, the Company has agreed (1) to use reasonable best efforts to cause a shelf registration statement covering resales of the Notes and the shares of common stock issuable upon conversion of the Notes to be declared effective by December 19, 2007 or to cause an existing shelf registration statement to be made available within 180 days after the original issuance of the Notes and (2) to use its reasonable best efforts to keep effective the shelf registration statement until the earliest of (i) the date when the holders of transfer-restricted Notes and shares of common stock issued upon conversion of the Notes are able to sell all such securities immediately without restriction under Rule 144(k) under the Securities Act of 1933, as amended (the Securities Act), (ii) the date when all transfer-restricted Notes and shares of common stock issued upon conversion of the Notes are registered under the registration statement and sold pursuant thereto and (iii) the date when all transfer-restricted Notes and shares of common stock issued upon conversion of the Notes have ceased to be outstanding. If the Company fails to meet these terms, it will be required to pay additional interest on the Notes at a rate of 0.25% per annum for the first 90 days and at a rate of 0.50% per annum thereafter.

Due to the delay in the filing of the Company s Annual Report on Form 10-K for fiscal 2007, 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. As of January 31, 2008, the Company accrued $0.9 million which was included in Other Current Liabilities on the Condensed Consolidated Balance Sheets.

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. As of January 31, 2008, the fair value of the derivative related to this interest penalty on the Notes was determined to be $0.1 million and was included in Other Current Liabilities on the Condensed Consolidated Balance Sheets.

In connection with the offering of the Notes, the Company entered into note hedge transactions with affiliates of the initial purchasers (the counterparties) 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. The cost to the Company of the note hedge transactions was approximately $80.2 million. The note hedge transactions are intended to mitigate the potential dilution upon conversion of the Notes in the event that the volume weighted average price of the Company s common stock on each trading day of the relevant conversion period or other relevant valuation period is greater than the applicable strike price of the convertible note hedge transactions, which initially corresponds to the conversion price of the Notes and is subject, with certain exceptions, to the adjustments applicable to the conversion price of the Notes.

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. If the volume weighted average price of the Company s common stock on each trading day of the measurement period at maturity of the warrants exceeds the applicable strike price of the warrants, there would be dilution to the extent that such volume weighted average price of the Company s common stock exceeds the applicable strike price of the warrants. Unless and until the Company obtains stockholder approval to amend its certificate of incorporation to increase its authorized capital, the maximum number of shares issuable upon exercise of the warrants will be 1,000,000 shares of the Company s

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VERIFONE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

common stock. If the Company does not obtain stockholder approval to amend its certificate of incorporation to increase its authorized capital by the date of the second annual meeting of the Company s stockholders after the date of the pricing of the Notes, the number of shares of the Company s common stock underlying the warrants will increase by 10%, and the warrants will be subject to early termination by the counterparties.

The cost incurred in connection with the note hedge transactions, net of the related tax benefit and the proceeds from the sale of the warrants, is included as a net reduction in additional paid-in capital in the accompanying condensed consolidated balance sheets as of January 31, 2008, in accordance with the guidance in Emerging Issues Task Force Issue No. 00-19 (EITF 00-19), *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock.*

In accordance with SFAS No. 128, *Earnings per Share*, the Notes will have no impact on diluted earnings per share, or EPS, until the price of the Company s common stock exceeds the conversion price of $44.02 per share because the principal amount of the Notes will be settled in cash upon conversion. Prior to conversion the Company will include the effect of the additional shares that may be issued if its common stock price exceeds $44.02 per share using the treasury stock method. If the price of the Company s common stock exceeds $62.356 per share, it will also include the effect of the additional potential shares that may be issued related to the warrants using the treasury stock method. Prior to conversion, the note hedge transactions are not considered for purposes of the EPS calculation as their effect would be anti-dilutive.

Note 4. Comprehensive Income (Loss)

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

	Three Months Ended January 31,	
	2008	**2007**
Net loss	$ (33,498)	$ (5,679)
Other comprehensive income (loss):		
Foreign currency translation adjustments	(3,466)	6,335
Unrealized gain (loss) on interest rate hedge, net of tax	7	(19)
Comprehensive income (loss)	$ (36,957)	$ 637

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