UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended April 30, 2010

Or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 001-32465

VERIFONE SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**04-3692546**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**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)

VeriFone Holdings, Inc.

(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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ 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 x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

At May 28, 2010, the number of shares outstanding of the registrant s common stock, $0.01 par value was 85,449,335.

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VERIFONE SYSTEMS, INC.

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PART I FINANCIAL INFORMATION

ITEM 1. ***FINANCIAL STATEMENTS (Unaudited)***

VERIFONE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	**2009 (1)**	**2010**	**2009 (1)**
	(Unaudited) (In thousands, except per share data)			
Net revenues:				
System Solutions	$ 199,548	$ 173,580	$ 387,562	$ 359,421
Services	41,164	28,034	76,550	56,216
Total net revenues	240,712	201,614	464,112	415,637
Cost of net revenues:				
System Solutions	126,013	121,841	246,098	249,952
Services	25,489	14,851	46,898	31,461
Total cost of net revenues	151,502	136,692	292,996	281,413
Gross profit	89,210	64,922	171,116	134,224
Operating expenses:				
Research and development	17,811	15,024	34,911	32,896
Sales and marketing	22,415	17,215	42,890	36,622
General and administrative	19,680	18,237	40,161	48,965
Amortization of purchased intangible assets	3,605	4,827	8,097	10,698
Impairment of goodwill		(2,745)		175,512
Total operating expenses	63,511	52,558	126,059	304,693
Operating income (loss)	25,699	12,364	45,057	(170,469)
Interest expense	(7,134)	(7,793)	(14,388)	(16,790)
Interest income	258	369	554	1,016
Other income (expense), net	982	8,157	(778)	12,371
Income (loss) before income taxes	19,805	13,097	30,445	(173,872)
Provision (benefit) for income taxes	(420)	2,382	(401)	(2,029)
Net income (loss)	$ 20,225	$ 10,715	$ 30,846	$ (171,843)
Net income (loss) per share:				
Basic	$ 0.24	$ 0.13	$ 0.36	$ (2.03)
Diluted	$ 0.23	$ 0.13	$ 0.35	$ (2.03)
Weighted average shares used in computing net income (loss) per share:				
Basic	85,008	84,461	84,847	84,454

Diluted	87,535	84,508	87,070	84,454

(1) Amounts for the three and six months ended April 30, 2009 have been adjusted to reflect the retroactive application of ASC 470-20. See Note 4. *Accounting Changes-Convertible Debt Instruments*.

The accompanying Notes to Condensed Consolidated Financial Statements

are an integral part of these financial statements.

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VERIFONE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	April 30, 2010 (Unaudited)	October 31, 2009 (1)
	(In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 378,988	$ 324,996
Accounts receivable, net of reserves of $4,074 and $4,556	145,649	157,357
Inventories	110,103	95,921
Deferred tax assets	7,358	7,393
Prepaid expenses and other current assets	60,713	36,526
Total current assets	702,811	622,193
Property, plant and equipment, net	46,596	46,978
Purchased intangible assets, net	46,887	52,974
Goodwill	154,888	150,845
Deferred tax assets	4,629	4,158
Debt issuance costs, net	6,214	7,393
Other assets	37,704	32,749
Total assets	$ 999,729	$ 917,290
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 99,008	$ 87,094
Income taxes payable	4,051	2,650
Accrued compensation	21,515	20,942
Accrued warranty	10,183	10,870
Deferred revenue, net	49,704	45,668
Deferred tax liabilities	1,173	408
Accrued expenses	8,925	7,844
Other current liabilities	88,233	64,478
Short-term debt	8,650	5,699
Total current liabilities	291,442	245,653
Accrued warranty	2,991	2,938
Deferred revenue, net	18,774	18,294
Long-term debt	462,903	463,165
Deferred tax liabilities	67,303	67,495
Other long-term liabilities	54,775	45,326
Total liabilities	898,188	842,871
Stockholders equity:		
Preferred stock: 10,000 shares authorized as of April 30, 2010 and October 31, 2009; no shares issued and outstanding as of April 30, 2010 and October 31, 2009		
Common stock: $0.01 par value, 200,000 shares authorized as of April 30, 2010 and October 31, 2009; 85,427 and 84,544 shares issued and outstanding as of April 30, 2010 and October 31, 2009	854	845

Additional paid-in capital	729,345	727,497
Accumulated deficit	(619,441)	(650,287)
Accumulated other comprehensive loss	(9,822)	(6,037)
Total stockholders equity	100,936	72,018
Noncontrolling interests	605	2,401
Total equity	101,541	74,419
Total liabilities and equity	$ 999,729	$ 917,290

(1) Amounts as of October 31, 2009 were derived from the October 31, 2009 audited Consolidated Balance Sheets and have been adjusted to reflect the retroactive application of ASC 470-20. See Note 4. *Accounting Changes-Convertible Debt Instruments*.

The accompanying Notes to Condensed Consolidated Financial Statements

are an integral part of these financial statements.

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VERIFONE SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended April 30, 2010	Six Months Ended April 30, 2009 (1)
	(Unaudited) (In thousands)	
Cash flows from operating activities		
Net income (loss)	$ 30,846	$ (171,843)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization, net	25,111	30,368
Stock-based compensation	8,682	12,611
Non-cash interest expense	7,055	7,365
Impairment of goodwill		175,512
Gain on extinguishment of debt	(61)	(7,479)
Deferred income taxes	137	(9,449)
Other non-cash items, net	(1,422)	1,449
Net cash provided by operating activities before changes in working capital	70,348	38,534
Changes in operating assets and liabilities, net of effects of business acquisition:		
Accounts receivable, net	23,178	4,407
Inventories	(14,182)	62,824
Prepaid expenses and other assets	(23,957)	4,218
Accounts payable	11,437	(20,070)
Income taxes payable	1,401	2,709
Accrued compensation	1,025	743
Accrued warranty	(634)	(1,357)
Deferred revenue, net	3,691	108
Accrued expenses and other liabilities	3,687	(22,558)
Net cash provided by operating activities	75,994	69,558
Cash flows from investing activities		
Purchases of property, plant and equipment	(3,606)	(6,449)
Software development costs capitalized	(1,524)	(1,024)
Purchase of equity investment	(5,000)	
Acquisitions of businesses, net of cash and cash equivalents acquired	(11,740)	(1,326)
Proceeds from disposals of property, plant and equipment	1,595	95
Net cash used in investing activities	(20,275)	(8,704)
Cash flows from financing activities		
Proceeds from advances against banker s acceptances	3,561	8,558
Repayments of debt and advances against banker s acceptances	(8,005)	(24,736)
Proceeds from issuance of common stock through employee equity incentive plans	4,598	47
Other		6
Net cash provided by (used in) financing activities	154	(16,125)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(1,881)	(583)
Net increase in cash and cash equivalents	53,992	44,146

Cash and cash equivalents, beginning of period	324,996	157,160
Cash and cash equivalents, end of period	$ 378,988	$ 201,306
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 5,405	$ 10,003
Cash paid for income taxes, net of refunds	$ 8,183	$ 874

(1) Amounts for the six months ended April 30, 2009 have been adjusted to reflect the retroactive application of ASC 470-20. See Note 4. *Accounting Changes-Convertible Debt Instruments*.

The accompanying Notes to Condensed Consolidated Financial Statements

are an integral part of these financial statements.

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VERIFONE SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Principles of Consolidation and Summary of Significant Accounting Policies

Business Description

VeriFone Systems, Inc. (VeriFone) was incorporated in the state of Delaware on June 13, 2002 in order to acquire VeriFone, Inc. on July 1, 2002. VeriFone, Inc. was incorporated in 1981 and became our principal operating subsidiary on July 1, 2002. Effective May 18, 2010, we changed our corporate name from VeriFone Holdings, Inc. to VeriFone Systems, Inc. We design, market, and service electronic payment solutions that enable secure electronic payments among consumers, merchants, and financial institutions.

We acquired Lipman Electronic Engineering Ltd (Lipman) on November 1, 2006. Prior to that acquisition, Lipman was a provider of electronic payment systems headquartered in Israel that developed, manufactured and marketed a variety of handheld, wireless and landline point-of-sale (POS) terminals, electronic cash registers, retail ATM units, PIN pads and smart card readers, as well as integrated PIN and smart card solutions.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of VeriFone and our wholly owned and majority-owned subsidiaries. Amounts pertaining to the noncontrolling ownership interests held by third parties in the operating results and financial position of our majority-owned subsidiaries are reported as noncontrolling interests. All significant intercompany accounts and transactions have been eliminated.

Unaudited Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In our opinion, all adjustments (consisting of normal and recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended April 30, 2010 are not necessarily indicative of the results that may be expected for fiscal year ending October 31, 2010.

The Condensed Consolidated Balance Sheets at October 31, 2009 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the fiscal year ended October 31, 2009.

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. We primarily base our estimates on historical experience and various other assumptions that we believe 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.

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Summary of Significant Accounting Policies

Other than the following items, there have been no other changes to our significant accounting policies during the six months ended April 30, 2010 as compared to the significant accounting policies described in our audited consolidated financial statements included in our annual report on Form10-K for the fiscal year ended October 31, 2009.

Inventories

Consigned inventories from our contract manufacturers where title has not been transferred are excluded from our inventories. In certain circumstances, we are obligated to make prepayments to our contract manufacturers based on a percentage of the value of the inventories consigned to us and after a certain period of time has elapsed, we may be required to prepay the full amount if we have not taken title to the inventory. Generally, we take title to consigned inventories when we ship to our customers, and record the full cost of the inventories as cost of sales at that time. After 52 weeks, we must purchase the consigned inventories from our contract manufacturers. Prepayments for consigned inventory are included in Prepaid Expenses and Other Current Assets in the Condensed Consolidated Balance Sheets. Consigned inventories are included in our calculation of minimum order commitments from our contract manufacturers.

Adoption of new accounting standards

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements (Topic 820) Fair Value Measurements and Disclosures* that requires additional fair value disclosures. These disclosure requirements are effective in two phases. In the second quarter of fiscal year 2010, we adopted the requirements for disclosures about inputs and valuation techniques used to measure fair value as well as disclosures about significant transfers. Beginning in fiscal year 2011, these amended standards will require presentation of disaggregated activity with the reconciliation for fair value measurements using significant unobservable inputs (level 3). These amended standards do not significantly impact our consolidated financial statements.

Effective November 1, 2009, we adopted ASC 805 (formerly SFAS No. 141(R), *Business Combinations*). ASC 805 generally requires an entity to recognize the assets acquired, liabilities assumed, contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally are expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. In addition, acquired in-process research and development is capitalized as an intangible asset and amortized over its estimated useful life. ASC 805 is applicable to business combinations on a prospective basis beginning in the first quarter of fiscal year 2010. We applied ASC 805 to account for our acquisition of Clear Channel Taxi Media LLC (CCTM) in December 2009.

Effective November 1, 2009, we adopted ASC 810 (formerly SFAS No. 160 *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*). This accounting standard changes the accounting and reporting for minority interests, which will be re-characterized as noncontrolling interests and classified as a component of equity. In conjunction with ASC 805, this standard significantly changes the accounting for partial and/or step acquisitions. In accordance with the adoption of this accounting standard, we reclassified for all periods presented the noncontrolling interests, formerly known as minority interest, to a component of equity in the Condensed Consolidated Balance Sheets. The noncontrolling interests included in our net income (loss) were not significant to our consolidated financial results for the periods presented and therefore have been included as a component of other income (expense), net in our Condensed Consolidated Statements of Operations. ASC 810 applies prospectively, except for presentation and disclosure requirements, which are applied retroactively.

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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*) (or ASC 470-20), which 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 is 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 is recognized as the difference between the proceeds from the issuance of the note and the fair value of the liability. In the first quarter of fiscal year 2010, we adopted this accounting standard and modified our accounting for our 1.375% Senior Convertible Notes (the Notes). To retroactively apply this standard, the proceeds from the issuance of the Notes were allocated between a liability (issued at a discount) and equity in a manner that reflects interest expense at the market interest rate for similar nonconvertible debt as of the original issuance date. The debt discount is being accreted from issuance through June 2012, the period the Notes are expected to be outstanding, and is recorded as additional non-cash interest expense. The equity component is included in the paid-in capital portion of stockholders equity on our Condensed Consolidated Balance Sheets. The initial value of the equity component, which reflects the equity conversion feature of the Notes, is equal to the initial debt discount. See Note 4. *Accounting changes Convertible Debt Instruments* for additional information on the adoption of ASC 470-20.

In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157* (or ASC 820-10), which delayed the effective date of SFAS No. 157, *Fair Value Measurements* (or ASC 820) for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the first quarter of fiscal year 2010. We adopted ASC 820-10 for non-financial assets and non-financial liabilities that are not measured and recorded at fair value on a recurring basis in the first quarter of fiscal year 2010. The adoption of this accounting standard did not have a significant impact on our condensed consolidated financial statements.

Concentrations of Credit Risk

For the three and six months ended April 30, 2010 and 2009, no customer accounted for more than 10% of our total net revenues. At April 30, 2010 and October 31, 2009, no customer accounted for more than 10% of our accounts receivable.

Reclassifications

Certain amounts reported in previous periods have been reclassified to conform to the current period presentation. The reclassifications did not affect previously reported revenues, total operating expense, operating income, net income, or total equity.

Recent Accounting Pronouncements

There have been no significant changes in accounting pronouncements as compared to the recent accounting pronouncements described in our audited consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended October 31, 2009.

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Note 2. Goodwill and Purchased Intangible Assets

Goodwill

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

	Six Months Ended April 30, 2010	Year Ended October 31, 2009
Balance at beginning of period	$ 150,845	$ 321,903
Additions related to acquisition	6,803	
Resolution of tax contingencies and adjustments to tax reserves and valuation allowance established in purchase accounting and tax benefits for exercise of vested stock options assumed		(5,366)
Goodwill impairment		(175,512)
Currency translation adjustments	(2,760)	9,820
Balance at end of period	$ 154,888	$ 150,845

Our review for potential indicators of impairment performed during the six months ended April 30, 2010 did not result in any impairment of goodwill. In fiscal year 2009, we recorded impairment charges for the North America and Asia reporting units totaling $175.5 million.

Purchased Intangible Assets

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

	April 30, 2010			October 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed and core technology	$ 111,097	$ (90,628)	$ 20,469	$ 159,903	$ (130,736)	$ 29,167
Trade name	2,692	(494)	2,198	24,917	(22,584)	2,333
Internal use software	4,985	(3,081)	1,904	5,143	(2,745)	2,398
Customer relationships	88,389	(66,073)	22,316	94,750	(75,674)	19,076
	$ 207,163	$ (160,276)	$ 46,887	$ 284,713	$ (231,739)	$ 52,974

Amortization of purchased intangible assets for the three and six months ended April 30, 2010 and 2009 was allocated as follows (in thousands):

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
Included in cost of net revenues	$ 5,033	$ 5,141	$ 10,135	$ 10,309
Included in operating expenses	3,605	4,827	8,097	10,698
	$ 8,638	$ 9,968	$ 18,232	$ 21,007

Estimated future amortization expense of purchased intangible assets recorded as of April 30, 2010 is as follows (in thousands):

Fiscal Years Ending October 31:	Cost of Net Revenues	Operating Expenses	Total
2010 (remaining 6 months)	$ 9,632	$ 6,338	$ 15,970
2011	9,328	5,408	14,736
2012	337	2,770	3,107
2013	337	2,505	2,842
2014	236	2,483	2,719
Thereafter	599	6,914	7,513
	$ 20,469	$ 26,418	$ 46,887

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Note 3. Balance Sheets and Statements of Operations Details

Inventories

Inventories consisted of the following (in thousands):

	April 30, 2010	October 31, 2009
Raw materials	$ 26,991	$ 34,955
Work-in-process	701	1,155
Finished goods	82,411	59,811
	$ 110,103	$ 95,921

Restricted Cash

We had $2.2 million and $2.1 million of restricted cash as of April 30, 2010 and October 31, 2009, respectively. The restricted cash balances were comprised mainly of pledged deposits for bank guarantees to customers. As of April 30, 2010, $1.6 million of the restricted cash was included in Other Assets and the remaining $0.6 million was included in Prepaid Expenses and Other Current Assets in the Condensed Consolidated Balance Sheets. As of October 31, 2009, $1.7 million of the restricted cash was included in Other Assets and the remaining $0.4 million was included in Prepaid Expenses and Other Current Assets in the Condensed Consolidated Balance Sheets.

Prepaid Expenses and Other Current Assets

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

	April 30, 2010	October 31, 2009
Prepaid taxes	$ 23,771	$ 15,382
Other prepaid expenses	24,678	10,585
Other receivables	5,970	3,293
Other	6,294	7,266
	$ 60,713	$ 36,526

Accrued Warranty

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

	Six Months Ended April 30, 2010	Year Ended October 31, 2009
Balance at beginning of period	$ 13,808	$ 10,017
Warranty charged to cost of net revenues	3,822	7,886
Utilization of warranty	(5,040)	(9,038)

Change in estimates	584	4,943
Balance at end of period	13,174	13,808
Less current portion	(10,183)	(10,870)
Long-term portion	$ 2,991	$ 2,938

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Deferred Revenue, net

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

	April 30, 2010	October 31, 2009
Deferred revenue	$ 83,689	$ 77,919
Deferred cost of revenue	(15,211)	(13,957)
	68,478	63,962
Less current portion	(49,704)	(45,668)
Long-term portion	$ 18,774	$ 18,294

Other Current Liabilities

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

	April 30, 2010	October 31, 2009
Other tax liabilities	$ 34,287	$ 34,655
Accrued interest	1,884	2,122
Accounts payable related accruals	15,041	15,368
Unfavorable lease contracts accrual	14,897	
Accrued legal and audit fees	3,055	1,541
Customer deposits	9,953	4,068
Other	9,116	6,724
Total other current liabilities	$ 88,233	$ 64,478

Other Long-Term Liabilities

Other long-term liabilities consisted of the following (in thousands):

	April 30, 2010	October 31, 2009
Other tax liabilities	$ 29,241	$ 32,555
Unfavorable lease contracts accrual	10,062	
Deferred acquisition consideration payable	3,870	
Other liabilities	11,602	12,771
Total other long-term liabilities	$ 54,775	$ 45,326

Other Income (Expense), net

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009 (1)	2010	2009 (1)
Foreign currency transaction gains/(losses), net	$ (1,141)	$ 2,077	$ (3,394)	$ 6,533
Foreign exchange forward contract gains/(losses), net	698	(1,172)	2,148	(2,273)
Gain on extinguishment of debt		7,479	61	7,479
Other, net	1,425	(227)	407	632
	$ 982	$ 8,157	$ (778)	$ 12,371

(1) Amounts for the three and six months ended April 30, 2009 have been adjusted to reflect the retroactive application of ASC 470-20. See Note 4. *Accounting Changes-Convertible Debt Instruments*.

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Note 4. Accounting Changes Convertible Debt Instruments

In the first quarter of fiscal year 2010, we adopted ASC 470-20 (formerly APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*), and modified our accounting for the 1.375% Senior Convertible Notes (the Notes). To retroactively apply this new accounting standard, the principal amount of the Notes was allocated between liability (issued at a discount) and equity in a manner that reflects interest expense at the market interest rate for similar nonconvertible debt as of the original issuance date of the Notes. The debt discount is accreted from issuance through June 2012, the period during which the Notes are expected to be outstanding, and recorded as additional non-cash interest expense. The equity component is included in the paid-in capital portion of stockholders equity on our Condensed Consolidated Balance Sheets. The initial value of the equity component, which reflects the equity conversion feature of the Notes, is equal to the initial debt discount.

As a result of the adoption of ASC 470-20, we allocated $236.0 million to the liability component and $80.2 million to the equity component as of the date of issuance. The amount allocated to the liability component was recognized at the present value of its cash flows using a discount rate of 7.6%, our approximate borrowing rate at the date of the issuance for a similar debt instrument without the conversion feature. There has not been any change to the effective interest rate of 7.6% since the issuance date.

In April 2009, we repurchased and extinguished $33.5 million principal amount of our outstanding Notes for $19.8 million, excluding accrued interest paid. We realized a $13.1 million gain under accounting guidance prevailing at that time, net of a $0.6 million write-off of related deferred debt issuance costs. In accordance with the provisions of ASC 470-20, we recorded a revised gain of approximately $7.5 million.

The effect of retroactive application of ASC 470-20 on accumulated deficit as of October 31, 2009 was an increase of $8.3 million. For the three and six months ended April 30, 2010, the effect of applying the provisions of ASC 470-20 was an increase in non-cash interest expense of approximately $3.5 million and $7.1 million, respectively, which represents accretion of the unamortized debt discount associated with the Notes.

The following tables represent other information related to the Notes in accordance with the disclosure requirements of ASC 470-20. Information related to the equity and debt components is as follows (in thousands):

	April 30, 2010	October 31, 2009
Accounting amount of the equity component	$ 77,903	$ 78,096
Carrying amount of the Notes	$ 277,250	$ 282,750
Unamortized discount (1)	(33,190)	(41,000)
Net carrying amount	$ 244,060	$ 241,750

(1) As of April 30, 2010, the remaining period over which the unamortized discount will be amortized is 26 months.

A summary of interest expense of the Notes for the three and six months ended April 30, 2010 and 2009 is as follows (in thousands):

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
Interest expense related to contractual interest coupon	$ 953	$ 1,065	$ 1,918	$ 2,152
Interest expense related to amortization of discount	3,480	3,625	7,051	7,365
Total interest cost recognized	$ 4,433	$ 4,690	$ 8,969	$ 9,517

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The following tables show the financial statement line items affected by the retroactive application of ASC 470-20 for the periods indicated (in thousands, except per share data):

	Years Ended October 31, 2009			2008		
	As Reported	ASC 470-20 Adjustments	As Adjusted	As Reported	ASC 470-20 Adjustments	As Adjusted
Interest expense	$ (12,481)	$ (13,995)	$ (26,476)	$ (28,413)	$ (13,796)	$ (42,209)
Other income (expense), net	11,340	(5,624)	5,716	(13,181)		(13,181)
Loss before income taxes	(128,590)	(19,619)	(148,209)	(351,438)	(13,796)	(365,234)
Provision for income taxes	9,246		9,246	73,884	(28,046)	45,838
Net loss	(137,836)	(19,619)	(157,455)	(425,322)	14,250	(411,072)
Net loss per share:						
Basic and diluted net loss per share	$ (1.63)		$ (1.86)	$ (5.05)		$ (4.88)
Weighted average shares used in computing net loss per share:						
Basic and diluted	84,473		84,473	84,220		84,220

	Three Months Ended April 30, 2009			Six Months Ended April 30, 2009		
	As Reported	ASC 470-20 Adjustments	As Adjusted	As Reported	ASC 470-20 Adjustments	As Adjusted
Interest expense	$ (4,285)	$ (3,508)	$ (7,793)	$ (9,646)	$ (7,144)	$ (16,790)
Other income (expense), net	13,781	(5,624)	8,157	17,995	(5,624)	12,371
Income (loss) before income taxes	22,229	(9,132)	13,097	(161,104)	(12,768)	(173,872)
Provision (benefit) for income taxes	3,673	(1,291)	2,382	2,329	(4,358)	(2,029)
Net income (loss)	18,556	(7,841)	10,715	(163,433)	(8,410)	(171,843)
Net income (loss) per share:						
Basic and diluted net income (loss) per share	$ 0.22		$ 0.13	$ (1.94)		$ (2.03)
Weighted average shares used in computing net income (loss) per share:						
Basic	84,461		84,461	84,454		84,454
Diluted	84,508		84,508	84,454		84,454

	As of October 31, 2009		
	As Reported	ASC 470-20 Adjustments	As Adjusted
Assets:			
Deferred tax assets-current	$ 7,982	$ (589)	$ 7,393
Debt issuance costs	8,424	(1,031)	7,393
Total assets	918,910	(1,620)	917,290
Liabilities:			
Deferred tax liabilities-long-term	68,084	(589)	67,495
Long-term debt, less current portion (1)	504,165	(41,000)	463,165
Stockholders equity:			
Additional paid-in capital (2)	679,250	48,247	727,497
Accumulated deficit (3)	(642,009)	(8,278)	(650,287)
Total liabilities and equity	$ 918,910	$ (1,620)	$ 917,290

(1) The adjustment to long-term debt as of October 31, 2009 includes the discount determined as of the original issuance date of the Notes ($80.2 million), less amortization of the discount from the issuance date ($33.5 million) and the amount of debt discount written-off in connection with the April 2009 repurchase of the Notes allocated to the debt component ($5.7 million).

(2) The adjustment to additional paid-in capital at October 31, 2009 includes the discount determined as of the original issuance date of the Notes ($80.2 million) less deferred tax assets ($29.9 million) and the portion of the original debt issuance costs allocated to equity ($2.1 million).

(3) The adjustment to accumulated deficit at October 31, 2009 includes the amortization of the discount from the issuance date ($33.5 million) and an adjustment to the previously reported gain on the April 2009 repurchase of the Notes ($5.7 million) less a valuation allowance for deferred tax on the equity component ($29.9 million) and the reduction in debt issuance costs amortization for the portion allocated to equity at the date of issuance ($1.0 million).

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Note 5. Financings

Our financings as of April 30, 2010 and October 31, 2009 consisted of the following (in thousands):

	April 30, 2010	October 31, 2009 (1)
Term B Loan	$ 223,750	$ 226,250
Senior convertible notes	244,060	241,750
Banker s acceptances	3,561	
Other	182	864
Total	471,553	468,864
Less current portion	(8,650)	(5,699)
Long-term portion	$ 462,903	$ 463,165

(1) Amounts as of October 31, 2009 have been adjusted to reflect the retroactive application of ASC 470-20. See Note 4. *Accounting Changes-Convertible Debt Instruments*.

Secured Credit Facility

In October 2006, our principal subsidiary, VeriFone, Inc., entered into a credit agreement (the Credit Facility) consisting of a Term B Loan facility of $500.0 million and a revolving loan permitting borrowings of up to $40.0 million. The available revolving loan was reduced to $25.0 million after Lehman Commercial Paper, Inc. declared bankruptcy in October 2008. The 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. Principal payments on the Term B Loan are due in equal quarterly installments aggregating $5.0 million per year over the seven-year term on the last business day of each calendar quarter with the balance due on maturity.

The Credit Facility is guaranteed by VeriFone and certain of our subsidiaries and is secured by collateral including substantially all of VeriFone s assets and stock of our subsidiaries.

The Term B loan bears interest at 2.75% over the applicable LIBOR rate. The interest rate was 3.03% and 3.00% as of April 30, 2010 and October 31, 2009, respectively. The outstanding balance of the Term B loan was $223.8 million and $226.3 million as of April 30, 2010 and October 31, 2009, respectively. We repaid an aggregate of $2.5 million during the first six months of fiscal year 2010.

The revolving loan credit facility bears interest at 2.00% over the applicable LIBOR rate. The interest rate was 2.28% and 2.25% as of April 30, 2010 and October 31, 2009, respectively. As of April 30, 2010 and October 31, 2009, no amounts were outstanding under the revolving loan.

The terms of the Credit Facility require us to comply with financial covenants, including maintaining leverage and fixed charge coverage ratios at the end of each fiscal quarter. As of April 30, 2010, we were required to maintain a total leverage ratio of not greater than 3.5 to 1.0 and a fixed charge coverage ratio of at least 2.0 to 1.0. We were in compliance with our financial and non-financial covenants as of April 30, 2010 and October 31, 2009.

1.375% Senior Convertible Notes

On June 22, 2007, we issued and sold $316.2 million aggregate principal amount of our 1.375% Senior Convertible Notes due in June 2012. The Notes are senior unsecured obligations and rank equal in right of payment with all of our 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 our subsidiaries including any secured indebtedness of such subsidiaries. We 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, subject to increase in certain circumstances.

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As discussed in Note 4. *Accounting Changes-Convertible Debt Instruments*, we separately account for the liability and equity components of the Notes.

In December 2009, we repurchased and extinguished $5.5 million par value of our outstanding Notes for $4.8 million, excluding accrued interest. We recorded a $0.1 million gain in accordance with ASC470-20. As of April 30, 2010, the remaining par value of the Notes outstanding was $277.3 million.

Each $1,000 of principal of the Notes are initially convertible into 22.719 shares of our common stock, which is equivalent to a conversion price of approximately $44.02 per share, subject to adjustment upon the occurrence of specified events. Upon conversion, we would pay the holder the cash value of the applicable number of shares of our common stock, up to the principal amount of the Notes. Amounts in excess of the principal amount, if any, will be paid in stock.

As of April 30, 2010, none of the conditions allowing holders of the Notes to convert had been met. If a fundamental change, as defined in the Indenture, occurs prior to the maturity date, holders of the Notes may require us 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) up to, but excluding, the repurchase date.

In connection with the offering of the Notes, we entered into note hedge transactions with affiliates of the initial purchasers (the counterparties), consisting of Lehman Brothers OTC Derivatives (Lehman Derivatives) and JPMorgan Chase Bank, National Association, London Branch, whereby we have the option to purchase up to 7.2 million shares of our common stock at a price of approximately $44.02 per share. The note hedge transactions expire on the earlier of the last day on which any Notes remain outstanding and June 14, 2012. The cost of the note hedge transactions was approximately $80.2 million. The cost incurred in connection with the note hedge transactions and the proceeds from the sale of the warrants, are included as a net reduction in additional paid-in capital in the accompanying Condensed Consolidated Balance Sheets as of April 30, 2010 and October 31, 2009, in accordance with the guidance in ASC 815-40 *Derivatives and Hedging-Contracts in Entity s Own Equity*.

In addition, we 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. We received approximately $31.2 million in cash proceeds from the sale of these warrants. The warrants expire progressively from December 19, 2013 to February 3, 2014. See Note 4. *Financings* in our audited consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended October 31, 2009 for more information on the terms of the 1.375% senior convertible notes.

Banker s Acceptances

We received $3.6 million as advances against banker s acceptances in the three months ended April 30, 2010, which was recorded as short-term debt. The advances will be repaid by the end of fiscal year 2010.

Note 6. Fair Value Measurements

ASC 820 *Fair Value Measurement and Disclosures* defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, we consider the principal or most advantageous market in which we would transact, and we consider assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of non-performance.

Our financial assets and liabilities are measured and recorded at fair value on a recurring basis, except for our long-term debt. Our non-financial assets, such as goodwill, purchased intangible assets, and property, plant and equipment are measured at fair value when there is an indicator of impairment and recorded at fair value only when an impairment charge is recognized.

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ASC 820 establishes three levels of inputs that may be used to measure fair value:

Level 1	Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
Level 2	Include other inputs that are directly or indirectly observable in the marketplace.
Level 3	Unobservable inputs which are supported by little or no market activity.

The following table presents our assets and liabilities that were measured at fair value on a recurring basis as of April 30, 2010 and October 31, 2009, classified by the level within the fair value hierarchy (in thousands):

		April 30, 2010		
	Carrying Value	Quoted Price in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market funds	$ 123,410	$ 123,410	$	$
Israeli severance funds	2,020		2,020	
Foreign exchange forward contracts	44		44	
Total assets measured and recorded at fair value	$ 125,474	$ 123,410	$ 2,064	$
Liabilities				
Foreign exchange forward contracts	$ 52	$	$ 52	$
Total liabilities measured and recorded at fair value	$ 52	$	$ 52	$

		October 31, 2009		
	Carrying Value	Quoted Price in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market funds	$ 123,348	$ 123,348	$	$
Israeli severance funds	2,420		2,420	
Foreign exchange forward contracts	189		189	
Total assets measured and recorded at fair value	$ 125,957	$ 123,348	$ 2,609	$
Liabilities				
Foreign exchange forward contracts	$ 16	$	$ 16	$
Total liabilities measured and recorded at fair value	$ 16	$	$ 16	$

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. In accordance with ASC 820, we measure and record our cash equivalents, Israeli severance funds and foreign exchange forward contracts at fair value. The money market funds are classified as Level 1 because the funds are valued using quoted market prices.

Fair Value of Other Financial Instruments

Financial instruments consist principally of cash and cash equivalents, accounts receivable, accounts payable, long-term debt, foreign exchange forward contracts and Israeli severance funds. The estimated fair value of cash, accounts receivable, and accounts payable approximates their carrying value. Cash equivalents, foreign exchange forward contracts, and Israeli severance funds are recorded at fair value based on the quoted market prices and other observable date of similar instrument in active markets. The estimated fair value of long-term debt related to the Term B loan approximates the carrying value since the rate of interest on the long-term debt adjusts to market rates on a periodic basis. The fair value of the 1.375% Senior Convertible Notes as of April 30, 2010 was $259.4 million based on the closing trading price of the day.

Note 7. Derivative Financial Instruments

We have used and from time to time in the future may use foreign currency derivatives such as forward contracts and options as hedges against anticipated sales or purchases denominated in foreign currencies. We enter into these contracts to protect us against the risk that the eventual net cash flows will be adversely affected by changes in foreign exchange rates. We do not use derivative financial instruments for speculative or trading purposes, nor do we hold or issue leveraged derivative financial instruments.

Foreign exchange forward contracts, both designated and not designated as hedging instruments pursuant to ASC 815 *Derivatives and Hedging*, are recognized either as assets or liabilities on the balance sheet at fair value at the end of each reporting period.

Cash Flow Hedges

For foreign exchange forward contacts that are designated and qualify as a cash flow hedge under ASC 815, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income (loss) (AOCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

We had no cash flow hedges as of April 30, 2010. No cash flow hedges were discontinued during the three and six months ended April 30, 2010.

Derivatives Not Designated as Hedging Instruments

We primarily utilize foreign exchange forward contracts to offset the risks associated with certain foreign currency balance sheet exposures. Under this program, foreign exchange forward contracts are arranged and maintained so as to yield gains or losses to offset changes in foreign currency denominated assets or liabilities due to movements in foreign exchange rates, thus mitigating the volatility associated with foreign currency transaction gains or losses. Our foreign currency exposures are predominantly intercompany receivables and payables arising from product sales from one VeriFone entity to another. Foreign exchange forward contracts generally settle within 90 days. We do not use these foreign exchange forward contracts for trading purposes.

Gains or losses resulting from changes in the fair value of these foreign exchange forward contracts are recorded as other income (expense), net, in the Condensed Consolidated Statement of Operations.

As of April 30, 2010, the notional amounts of the forward contracts we held to purchase and sell U.S. Dollars in exchange for other major international currencies were $57.8 million and $3.7 million, respectively. As of October 31, 2009, the notional amounts of the forward contracts we held to purchase and sell U.S. Dollars in exchange for other major international currencies were $50.9 million and $13.9 million, respectively.

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The following table presents the fair value of our outstanding derivative instruments as of April 30, 2010 and October 31, 2009 (in thousands):

	Balance Sheet Location	Fair Value of Financial Instruments April 30, 2010	October 31, 2009
Derivative Assets			
Derivatives designated as hedging instruments:			
Foreign exchange forward contracts	Prepaid expenses and other current assets	$	$ 26
Derivatives not designated as hedging instruments:			
Foreign exchange forward contracts	Prepaid expenses and other current assets	44	163
Total		$ 44	$ 189
Derivative Liabilities			
Derivatives designated as hedging instruments:			
Foreign exchange forward contracts	Other current liabilities	$	$
Derivatives not designated as hedging instruments:			
Foreign exchange forward contracts	Other current liabilities	52	16
Total		$ 52	$ 16

The effects of derivative instruments designated as cash flow hedges on income and AOCI for the three and six months ended April 30, 2010 and 2009 are summarized below (in thousands):

	Losses Recognized in AOCI on Derivatives Before Tax Effect (Effective Portion)			
	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
Foreign exchange forward contracts	$	$ (46)	$	$ (46)
Total	$	$ (46)	$	$ (46)

	Location	Losses Reclassified from AOCI into Income (Effective Portion)			
		Three Months Ended April 30,		Six Months Ended April 30,	
		2010	2009	2010	2009
Foreign exchange forward contracts	Cost of net revenues-System Solutions	$	$ (70)	$ (82)	$ (70)

Total		$	$ (70)	$ (82)	$ (70)

		Losses Recognized in Income on Derivatives (Ineffective Portion)			
		Three Months Ended April 30,		Six Months Ended April 30,	
	Location	2010	2009	2010	2009
Foreign exchange forward contracts	Other income (expense), net	$	$ (167)	$ (9)	$ (167)
Total		$	$ (167)	$ (9)	$ (167)

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The effects of derivatives instruments not designated as hedging instruments on income are summarized as follows (in thousands):

		Gains (Losses) Recognized in Income on Derivatives			
		Three Months Ended April 30,		Six Months Ended April 30,	
	Location	2010	2009	2010	2009
Foreign exchange forward contracts	Other income (expense), net	$ 698	$ (1,005)	$ 2,157	$ (2,106)
Total		$ 698	$ (1,005)	$ 2,157	$ (2,106)

Note 8. Comprehensive Income (Loss)

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009 (1)	2010	2009 (1)
Net income (loss)	$ 20,225	$ 10,715	$ 30,846	$ (171,843)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(1,397)	1,129	(3,866)	(7,886)
Changes in unrealized losses on cash flow hedges, net of taxes		(37)	82	(37)
Comprehensive income (loss)	$ 18,828	$ 11,807	$ 27,062	$ (179,766)

(1) Amounts for the three and six months ended April 30, 2009 have been adjusted to reflect the retroactive application of ASC 470-20. See Note 4. *Accounting Changes-Convertible Debt Instruments*.

Note 9. Income Taxes

We recorded an income tax benefit of $0.4 million for each of the three and six months ended April 30, 2010. For the three and six months ended April 30, 2009, we previously recorded tax provisions of $3.7 million and $2.3 million, respectively. Following the adoption of ASC 470-20 in the first quarter of fiscal year 2010, we reduced the tax provision for the three months ended April 30, 2009 to $2.4 million and we revised the tax provision for the six months ended April 30, 2009 to a tax benefit of $2.0 million. The effective tax rate for the three and six months ended April 30, 2010 is lower than the U.S. statutory tax rate due to earnings in countries where we are taxed at lower rates compared to the U.S. federal and state statutory rates, utilization of previously unbenefitted U.S. tax attributes and reversal of uncertain tax position liabilities as statutes of limitations expired or where matters have been resolved. The income tax benefit for the three and six months ended April 30, 2010 is primarily related to discrete items, including a reversal of uncertain tax position liabilities and related interest of approximately $1.8 million and $2.6 million, respectively, partially offset by an interest accrual associated with uncertain tax positions.

As of April 30, 2010, we remain in a net deferred tax liability position. The realization of our deferred tax assets depends primarily on our ability to generate sufficient U.S. and foreign taxable income in future periods. We have determined that it is not more likely than not the deferred tax assets in the U.S. and certain foreign jurisdictions will be realized. Therefore we continue to record a full valuation allowance against these assets as of April 30, 2010. The amount of deferred tax assets considered realizable may increase or decrease in subsequent quarters as we reevaluate the underlying basis for our estimates of future domestic and certain foreign taxable income.

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We are currently under audit by the Internal Revenue Service (IRS) for our fiscal years 2003 to 2004. Although we believe we have correctly provided income taxes for the years subject to audit, the IRS may adopt different interpretations, which if not resolved in our favor, could result in a significant impact on our provision for income taxes. We have not yet received any final determinations with respect to this audit, although certain adjustments have been agreed with the IRS, none of which have a material impact to the current period income tax provision. Some of our subsidiaries are also under audit by the Israeli tax authorities for calendar years 2005 to 2008 and the Mexican tax authorities for calendar year 2007. With few exceptions, we are no longer subject to tax examination outside of the U.S. for periods prior to 2000.

We have recorded our uncertain tax position liability as a long-term liability as we do not expect significant payments to occur over the next 12 months. Our existing tax positions will continue to generate an increase in liabilities for uncertain tax benefits. We will continue to recognize interest and penalties related to income tax matters as income tax expense. The amount of unrecognized tax benefits could be reduced upon closure of tax examinations or if the statute of limitations on certain tax filings expire without assessment from the tax authorities. We believe that it is reasonably possible that there could be a reduction in unrecognized tax benefits due to statute of limitation expirations in multiple tax jurisdictions during the next 12 months of approximately $4.4 million**.** Interest and penalties accrued on these uncertain tax positions will also be released upon the expiration of statutes of limitations.

Note 10. Stockholders Equity

We grant stock awards pursuant to stockholder approved stock option plans. We maintain certain equity incentive plans, as described in detail in Note 9. *Stockholders Equity* of Notes to Consolidated Financial Statements in our annual report on Form 10-K for the fiscal year ended October 31, 2009. All stock options, restricted stock units (RSUs) and restricted stock granted during the three and six months ended April 30, 2010 were granted under the 2006 Equity Incentive Plan, as amended.

Valuation Assumptions

We estimate the grant-date fair value of stock options using a Black-Scholes valuation model, consistent with the provisions of ASC 718 *Compensation-Stock Compensation*, using the weighted-average assumptions noted in the following table:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
Expected term of the options (in years)	4.0	4.0	4.0	4.0
Risk-free interest rate	2.1%	1.4%	2.1%	2.2%
Expected stock price volatility	69.5%	68.3%	69.8%	60.0%
Expected dividend rate	0.0%	0.0%	0.0%	0.0%

Stock-based Compensation

The following table presents the stock-based compensation expense recognized in accordance with ASC 718 during the three and six months ended April 30, 2010 and 2009 (in thousands):

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
Cost of net revenues	$ 14	$ 221	$ 408	$ 725
Research and development	329	1,129	1,267	2,495
Sales and marketing	2,017	1,789	3,843	3,648
General and administrative	1,636	915	3,164	5,743
Total stock-based compensation	$ 3,996	$ 4,054	$ 8,682	$ 12,611

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As of April 30, 2010, total unrecognized compensation expense adjusted for estimated forfeitures related to unvested stock options, RSUs and restricted stock was $33.5 million and $13.5 million, respectively, which is expected to be recognized over the remaining weighted-average vesting periods of 2.9 years for stock options and 2.7 years for RSUs.

Equity Award Activity

Stock option activity for the six months ended April 30, 2010, was as follows:

	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance at October 31, 2009	12,049	$ 18.06		
Granted	193	19.22		
Options exchange-granted (1)	1,475	14.29		
Exercised	(563)	8.16		
Options exchange-cancelled (1)	(3,322)	31.96		
Cancelled	(81)	11.35		
Expired	(282)	28.33		
Balance at April 30, 2010	9,469	$ 12.96	5.4	$ 72,634
Vested or expected to vest at April 30, 2010	8,662	$ 13.16	5.3	$ 65,869
Exercisable at April 30, 2010	2,605	$ 18.68	3.9	$ 13,264

(1) Represents options granted and cancelled in connection with the Offer to Exchange as described below.

The weighted average fair value of options granted, excluding options exchanged, during the six months ended April 30, 2010 and 2009 was $10.28 and $3.12, respectively. The total intrinsic value of options exercised was $5.7 million and $40 thousand during the six months ended April 30, 2010 and 2009, respectively.

In November 2009, we completed an offer to exchange certain options to purchase shares of our common stock, par value $0.01 per share, for a lesser number of replacement options to purchase shares of common stock (the Offer to Exchange). The Offer to Exchange expired on November 6, 2009. Pursuant to the terms and conditions of the Offer to Exchange, we accepted for cancellation eligible options covering 3,322,075 shares of our common stock, representing approximately 74.5% of the total shares of common stock underlying options eligible for exchange. All surrendered options were cancelled as of November 6, 2009. We issued replacement options covering 1,474,970 shares of our common stock in exchange for the eligible options tendered and accepted in the Offer to Exchange. The exercise price of the replacement options is $14.29, which was the closing price of our common stock on November 6, 2009 as reported by the New York Stock Exchange. The Offer to Exchange was structured as a value-for-value exchange.

The following table summarizes RSU and restricted stock activity for the six months ended April 30, 2010:

	Shares (in thousands)	Aggregate Intrinsic Value

		(in thousands)
Outstanding at October 31, 2009	47	
Granted	966	
Vested	(29)	
Outstanding at April 30, 2010	984	$ 18,722
Expected to vest at April 30, 2010	929	$ 17,682

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The weighted-average grant date fair value per share of RSUs and restricted stock granted during the six months ended April 30, 2010 and 2009 was $18.17 and $5.30, respectively. The total fair value of RSUs that vested in the six months ended April 30, 2010 and 2009 was $0.5 million and $0.1 million, respectively.

We issued 300,000 shares of restricted stock in connection with our acquisition of the remaining shares of VeriFone Transportation Systems (VTS) from VTS s minority shareholders. These shares of restricted stock have the right to vote as of the date of grant. However, they will vest 25% on the first anniversary of the issuance and then 6.25% each quarter thereafter, subject to the continued employment or service of the holders of such restricted stock. See Note 16. *Business Acquisitions*.

Note 11. Net Income (Loss) Per Common Share

Basic net income (loss) per share of common stock is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding for the period. Diluted net income (loss) per share of common stock is computed using the weighted average number of shares of common stock outstanding plus the effect of common stock equivalents, unless the common stock equivalents are anti-dilutive. The potential dilutive shares of our common stock resulting from the assumed exercise of outstanding stock options and equivalents and the assumed exercise of the warrants relating to the convertible senior notes are determined using the treasury stock method. Under the treasury stock method, an increase in the fair market value of our common stock can result in a greater number of dilutive securities.

The following details the computation of the net income (loss) per common share (in thousands, except per share data):

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009 (1)	2010	2009 (1)
Basic and diluted net income (loss) per share:				
Numerator:				
Net income (loss)	$ 20,225	$ 10,715	$ 30,846	$ (171,843)
Denominator:				
Weighted average common stock outstanding	85,008	84,461	84,847	84,454
Weighted average effect of dilutive securities:				
Stock options, RSUs and restricted stock	2,527	47	2,223	
Weighted average shares diluted	87,535	84,508	87,070	84,454
Net income (loss) per share:				
Basic	$ 0.24	$ 0.13	$ 0.36	$ (2.03)
Diluted	$ 0.23	$ 0.13	$ 0.35	$ (2.03)

(1) Amounts for the three and six months ended April 30, 2009 have been adjusted to reflect the retroactive application of ASC 470-20. See Note 4. *Accounting Changes-Convertible Debt Instruments.*

For the three months ended April 30, 2010 and 2009, stock awards to purchase 2.8 million and 8.4 million, respectively, and for the six months ended April 30, 2010 and 2009, stock awards to purchase 3.2 million and 10.1 million, respectively, shares of common stock were excluded from the calculation of diluted earnings per share as they were anti-dilutive. These awards could be included in the calculation in the future if the market value of the common shares increases.

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The Notes are considered to be Instrument C securities as defined by ASC 815-15-55-18 (formerly EITF No. 90-19, *Convertible Bonds with Issuer Option to Settle for Cash upon Conversion*), therefore, only the conversion spread relating to the Notes is included in our diluted earnings per share calculation, if dilutive. Under such method, the settlement of the conversion spread of the Notes has a dilutive effect when the average share price of our common stock during the period exceeds $44.02. The average share price of our common stock during the three and six months ended April 30, 2010 and 2009 did not exceed $44.02, therefore the effect of the Notes was anti-dilutive for those periods.

Warrants to purchase 7.2 million shares of our common stock were outstanding at April 30, 2010 and October 31, 2009 but were not included in the computation of diluted earnings per share because the warrants exercise price was greater than the average share price of our common stock during the three and six months ended April 30, 2010 and 2009; therefore, the effect of the warrants was anti-dilutive for those periods.

Note 12. Commitments and Contingencies

Commitments

We lease certain facilities under non-cancelable operating leases that contain free rent periods and/or rent escalation clauses. Rent expense under these leases has been recorded on a straight-line basis over the lease term. We are committed to pay a portion of the related actual operating expenses under certain of these lease agreements. These operating expenses are not included in the table below. The difference between amounts paid and rent expense is recorded as deferred rent and the short-term and long-term portions are included in Other Current Liabilities and Other Long-term Liabilities, respectively, in the Condensed Consolidated Balance Sheets. Additionally, we sublease certain real property to third parties.

In connection with the acquisition of CCTM, we assumed approximately $52.2 million of non-cancelable operating leases which mainly represent future payments for the rights to place advertising on taxicabs. As of April 30, 2010, the remaining outstanding obligations for these non-cancelable operating leases were $46.5 million.

Future minimum lease payments, including CCTM, and sublease rental income under these leases as of April 30, 2010, were as follows (in thousands):

Fiscal Years Ending October 31:	**Minimum Lease Payments**	**Sublease Rental Income**	**Net Minimum Lease Payments**
2010 (remaining 6 months)	$ 18,805	$ (140)	$ 18,665
2011	32,112	(297)	31,815
2012	14,890	(306)	14,584
2013	5,817	(316)	5,501
2014	3,296	(326)	2,970
Thereafter	3,447	(595)	2,852
Total	$ 78,367	$ (1,980)	$ 76,387

Manufacturing Agreements

We work on a purchase order basis with third-party contract manufacturers with facilities in China, Singapore, Israel and Brazil, and component suppliers located throughout the world to supply nearly all of our finished goods inventories, spare parts, and accessories. We provide each supplier with a purchase order to cover the manufacturing requirements, which constitutes a binding commitment by us to purchase materials and finished goods produced by the manufacturer as specified in the purchase order. These purchase orders are generally considered to be non-cancellable and are expected to be paid within one year of the issuance date. As of April 30, 2010, the amount of purchase commitments issued to contract manufacturers and component suppliers totaled approximately $100.0 million. Of this amount, $3.2 million has been recorded in Other Current Liabilities in the accompanying Condensed Consolidated Balance Sheets as of April 30, 2010 because these commitments are not expected to have future value to us.

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We utilize a limited number of third parties to manufacture our products and rely upon these contract manufacturers to produce and deliver products to our customers on a timely basis and at an acceptable cost. Furthermore, a majority of our manufacturing activities is concentrated in China. As a result, disruptions to the business or operations of the contract manufacturers or to their ability to produce the required products in a timely manner, and particularly disruptions to these manufacturing facilities located in China, could significantly impact our business and operations. In addition, a number of components that are necessary to manufacture and assemble our systems are specifically customized for use in our products and are obtained from sole source suppliers on a purchase order basis. Because of the customized nature of these components and the limited number of available suppliers, it would be difficult and costly to find alternative sources in a timely manner.

Contingencies

Accrued Warranty

We provide reserves for the estimated costs of product warranty obligations based on a number of factors including the size of the installed base of products subject to warranty protection, historical and projected warranty claim rates, historical and projected costs associated with claims, and knowledge of specific product failures that are outside of our typical experience. We assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary based on our actual experience and any changes in future estimates. As of April 30, 2010, our warranty accrual included product specific warranty accruals of approximately $4.0 million related to specific issues with our products. The amount accrued represents our best estimate of the costs expected to be incurred based on currently available information. We may incur additional warranty expense related to these products in future periods.

Brazilian State Tax Assessments

State Value Added Tax

One of our Brazilian subsidiaries has been notified of a tax assessment regarding Brazilian state value added tax (VAT), for the periods from 2000 to 2002 that relates to products supplied to us by a contract manufacturer. The assessment relates to an asserted deficiency of 4.7 million Brazilian reais (approximately $2.7 million). The tax assessment was based on a clerical error in which our Brazilian subsidiary omitted the required tax exemption number on our invoices. On August 27, 2003, the tax authorities rendered a first level decision that maintained the tax assessment. We have appealed the first level decision. On March 30, 2009, the proceeding was remitted to the State Court of Appeals. We presented further oral arguments in our defense before the State Court of Appeals on April 28, 2010. This proceeding is currently pending second administrative level decision. We do not expect that we will ultimately incur a material liability in respect of this assessment and have not recorded a reserve for 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. 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.

Importation of Goods Assessments

Two of our Brazilian subsidiaries that were acquired as a part of the Lipman acquisition have been notified of assessments regarding Brazilian customs penalties that relate to alleged infractions in the importation of goods. The assessments were issued by the Federal Revenue Department in the City of Vitória, the City of São Paulo, and the City of Itajai. The assessments relate to asserted deficiencies initially totaling 26.9 million Brazilian reais (approximately $15.2 million) excluding interest. The tax authorities allege that the structure used for the importation of goods was simulated with the objective of evading taxes levied on the importation by under-invoicing the imported goods. The tax authorities allege that the simulation was created through a fraudulent interposition of parties, where the real sellers and buyers of the imported goods were hidden.

In the Vitória tax assessment, the fines were reduced from 4.7 million Brazilian reais (approximately $2.6 million) to 1.5 million Brazilian reais (approximately $0.8 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. 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. On February 27, 2008, the Taxpayers Council rendered its decision to investigate the first level administrative decision for further analysis of the matter. This proceeding was initially scheduled for judgment before the decision of the Taxpayers Administrative Council of Tax Appeals in 2009, but has been postponed to the next judgment session. In the event we receive an adverse ruling from the Taxpayers Council, 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. At April 30, 2010, we have accrued 4.7 million Brazilian reais (approximately $2.6 million) for this matter, excluding interest, which we believe is the probable payment.

On July 12, 2007, we were 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 $11.5 million) imposed. On August 10, 2007, we appealed the first administrative level decision to the Taxpayers Council. A hearing was held on August 12, 2008 before the Taxpayers Council, and on October 14, 2008, the Taxpayers Council granted our appeal and dismissed the São Paulo assessment based upon the assessment being erroneously calculated on the value of the sale of the products in question to end customers in the local market rather than on the declared importation value of such products. We were subsequently notified of the Taxpayers Council s decision and the case was dismissed on May 19, 2009. In August 2009, the Brazilian tax authorities requested additional materials from us. In October 2009, we received a revised assessment in this matter of 1.9 million Brazilian reais (approximately $1.1 million). On May 20, 2010, we were notified of a first level decision canceling the revised tax assessment. This decision is currently pending second level review. In addition, pursuant to a contingency legal representation agreement entered into between one of our Brazilian subsidiaries (prior to the Lipman acquisition) and Brazilian counsel, our Brazilian subsidiary has agreed to pay to Brazilian counsel legal fees in the amount of 5.0 million Brazilian reais (approximately $2.8 million) for achieving the successful dismissal of the São Paulo tax assessment. As of April 30, 2010, we have paid a total of 3.3 million Brazilian reais (approximately $1.8 million) of this legal fee. At April 30, 2010, we have reduced the accrual for this matter to 3.4 million Brazilian reais (approximately $1.9 million), including the remaining Brazilian counsel legal fees. We paid the remaining legal fees in May 2010.

On May 22, 2008, we were notified of a first administrative level decision rendered in the Itajai assessment, which maintained the total fine of 2.0 million Brazilian reais (approximately $1.1 million) imposed, excluding interest. On May 27, 2008, we appealed the first level administrative level decision to the Taxpayers Council. 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. Accordingly, at April 30, 2010, we have accrued 2.0 million Brazilian reais (approximately $1.1 million) for this matter, excluding interest.

Municipality Tax on Services Assessment

One of the Brazilian subsidiaries that was acquired as part of the Lipman acquisition has been notified of a tax assessment regarding alleged nonpayment of tax on services rendered for the period from September 2004 to December 2004. This assessment was issued by the tax authority for the Municipality of Sao Paulo, and asserts a services tax deficiency totaling 0.7 million Brazilian reais (approximately $0.4 million) excluding interest. The tax authority claims that the Brazilian subsidiary rendered certain services within the municipality of Sao Paulo but simulated that those services were rendered in another city. In January 2010, we presented our administrative defense and the proceeding is currently pending first administrative level decision. At April 30, 2010, we have accrued for this alleged tax deficiency.

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Patent Infringement and Commercial Litigation

Heartland Payment Systems, Inc.

On September 6, 2009, we commenced an action in the United States District Court for the Northern District of California against Heartland Payment Systems, Inc. (Heartland), a card payment processor, for infringement of U.S. Patent No. 6,853,093 (the 093 Patent) by certain Heartland payment terminals. We are seeking a judgment of infringement, an injunction against further infringement, damages, interest and attorneys fees. On September 16, 2009, Heartland sued us in the Superior Court of New Jersey, Mercer County, alleging certain unfair business activities. On October 13, 2009, we amended our original complaint to request declaratory judgment that we did not engage in such unfair business activities. On November 6, 2009, we filed a second lawsuit against Heartland in the United States District Court for the Northern District of California, alleging certain false advertising and unfair competition claims. On that same day, Heartland also filed a second lawsuit against us in the United States District Court, District of New Jersey, alleging trademark infringement, false advertising and violation of the Anti-cybersquatting Protection Act, and an emergency application for a temporary restraining order which was subsequently denied by the New Jersey District Court. A preliminary injunction hearing in the matter was held in December 2009 before the New Jersey District Court, which also denied Heartland s request for a preliminary injunction. Heartland appealed the decision. In April 2010, the parties stipulated to dismiss this appeal and the Court of Appeals for the Third Circuit entered dismissal of the appeal on April 29, 2010.

On February 16, 2010, we filed our answer to the Heartland New Jersey District Court lawsuit and asserted counterclaims that are the same claims as we alleged in our two Northern District of California lawsuits, and concurrently dismissed without prejudice those two California lawsuits, which we voluntarily dismissed without prejudice. Heartland also filed a declaratory judgment lawsuit in the United States District Court for the Northern District of California against VeriFone Israel Ltd. seeking a declaration by the court that Heartland does not infringe the 093 Patent. We moved in the Northern District of California to dismiss or transfer Heartland s declaratory relief action to the District of New Jersey, and Heartland moved to dismiss our counterclaims in the New Jersey District Court lawsuit or, in the alternative, transfer the claims to the Northern District of California. In April 2010, the court in the Northern District of California granted our motion, transferring Heartland s declaratory judgment lawsuit to the District of New Jersey, and we have filed our answer to this complaint. These actions are in the preliminary stages of litigation and at this time we are not able to predict the outcome or quantify any potential liability, if any, that could arise there from. An unfavorable outcome could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

SPA Syspatronic AG v. VeriFone Holdings, Inc., VeriFone, Inc., et al.

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 us and others, alleging infringement of U.S. Patent No. 5,093,862 purportedly owned by SPA. SPA is seeking a judgment of infringement, an injunction against further infringement, damages, interest and attorneys fees. We filed an answer and counterclaims on November 8, 2007, and intend to vigorously defend this litigation. On January 28, 2008, we 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. We 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 December 19, 2008, the PTO rejected all claims of the subject patent on the same basis as was identified in our request for re-examination. Upon appeal by SPA, certain claims were permitted to be granted by the PTO but construed in a way that we do not believe any of our products to infringe. The case is now being allowed to continue in district court and we are in the discovery phase. The case is still in the preliminary stages, and it is not possible to quantify the extent of our potential liability, if any, related to this action. An unfavorable outcome could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Cardsoft, Inc. et al v. VeriFone Holdings, Inc., VeriFone, Inc., et al.

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 us and others, alleging infringement of U.S. Patents No. 6,934,945 and No. 7,302,683 purportedly owned by Cardsoft. Cardsoft is seeking a judgment of infringement, an injunction against further infringement, damages, interest and attorneys fees. We intend to vigorously defend this litigation. The case is still in the preliminary stages, and it is not possible to quantify the extent of our potential liability, if any, related to this action. An unfavorable outcome could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Avlis Importacão e Exportacão Ltda. v. Lipman do Brasil Comercio de Eletronicos Ltda.

In February 2010, we were served with notice of an action filed by Avlis Importacão e Exportacão (Avlis) in the Fourth Civil Central Court of São Paulo, Brazil, against one of our Brazilian subsidiaries that was part of the Lipman acquisition in 2006. Avlis has asserted claims of non-payment by our Brazilian subsidiary of certain invoices for purchase of goods totaling 7.9 million Brazilian reais (approximately $4.5 million) and loss of profits of 5.9 Brazilian reais (approximately $3.3 million). We intend to vigorously defend this litigation. However, 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 to Avlis for its collection claim. At April 30, 2010, we have accruals totaling 7.9 million Brazilian reais (approximately $4.5 million) for this matter.

Class Action and Derivative Lawsuits

On or after December 4, 2007, several securities class action claims were filed against us and certain of our officers, former officers, and a former director. These lawsuits were 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. 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 August 22, 2008, the court appointed plaintiff National Elevator Fund lead plaintiff and its attorneys lead counsel. Plaintiff filed its consolidated amended class action complaint on October 31, 2008, which asserts claims under the Securities Exchange Act Sections 10(b), 20(a), and 20A and Securities and Exchange Commission Rule 10b-5 for securities fraud and control person liability against us and certain of our current and former officers and directors, based on allegations that we and the individual defendants made false or misleading public statements regarding our business and operations during the putative class periods and seeks unspecified monetary damages and other relief. We filed our motion to dismiss on December 31, 2008. The court granted our motion on May 26, 2009 and dismissed the consolidated amended class action complaint with leave to amend within 30 days of the ruling. The proceedings were stayed pending a mediation held in October 2009 at which time the parties failed to reach a mutually agreeable settlement. Plaintiffs first amended complaint was filed on December 3, 2009 followed by a second amended complaint filed on January 19, 2010. We filed a motion to dismiss the second amended complaint and the hearing on our motion was held on May 17, 2010. Our motion is currently pending ruling by the court. Although discovery has not yet commenced in this action, on November 20, 2009, plaintiffs filed a motion to partially lift the Private Securities Litigation Reform Act discovery stay in order to obtain documents produced by us to the SEC in connection with the SEC s investigation into the restatement of our fiscal year 2007 interim financial statements. We filed our opposition to this motion in January 2010 and at a hearing in February 2010 the court denied the plaintiffs motion to lift the discovery stay. At this time, we have not recorded any liabilities related to this action as we are unable to determine the outcome or estimate the potential liability.

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Beginning on December 13, 2007, several actions were also filed against certain current and former directors and officers derivatively on our behalf. 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 MHP, 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). On May 15, 2008, the court in the federal derivative action appointed Charles R. King as lead plaintiff and his attorneys as lead counsel. On October 31, 2008, plaintiffs in the federal action filed their consolidated amended derivative complaint, which names us as a nominal defendant and brings claims for insider selling, breach of fiduciary duty, unjust enrichment, waste of corporate assets and aiding and abetting breach of fiduciary duty against us and certain of our current and former officers and directors. On December 15, 2008, we and the other defendants filed a motion to dismiss. The parties agreed by stipulation that briefing on this motion would relate only to the issue of plaintiffs failure to make a pre-suit demand on our Board of Directors. The court granted our motion on May 26, 2009 and dismissed the consolidated amended derivative complaint with leave to amend within 30 days of the ruling. The proceedings were stayed pending a mediation held in October 2009 at which time the parties failed to reach a mutually agreeable settlement. Plaintiffs second amended complaint was filed on December 10, 2009. We filed our motion to dismiss the second amended complaint on January 25, 2010 and a hearing on our motion to dismiss was held on May 17, 2010. Our motion is currently pending ruling by the court. While discovery is not yet underway in this action, on June 9, 2009, plaintiffs in the federal derivative action made a demand to inspect certain of our books and records. In response to this demand, we provided certain of our books and records, including minutes and materials for our Board of Directors, Audit Committee and Compensation Committee meetings for the relevant period. We produced documents responsive to each category of plaintiffs request except that we withheld production, on the basis of privilege, of the Audit Committee s report of the independent investigation into the events leading to the restatement of our fiscal year 2007 interim financial statements. On November 6, 2009, plaintiffs filed a complaint in Delaware Chancery Court seeking to compel production of the independent investigation report. We filed a motion to dismiss this complaint on December 3, 2009, and briefs on this motion were submitted during January 2010. A hearing on our motion to dismiss was held on March 10, 2010 and on May 12, 2010, the court issued an opinion dismissing with prejudice plaintiffs complaint seeking to compel production of the independent investigation report. At this time, we have not recorded any liabilities for this action as we are unable to determine the outcome or estimate the potential liability.

On October 31, 2008, the derivative plaintiffs filed their consolidated derivative complaint in California Superior Court for the County of Santa Clara naming us as a nominal defendant and bringing claims for insider selling, breach of fiduciary duty, unjust enrichment, waste of corporate assets and aiding and abetting breach of fiduciary duty against certain of our current and former officers and directors and our largest shareholder as of October 31, 2008, GTCR Golder Rauner LLC. On November 10, 2008, we filed a motion to stay the state court action pending resolution of the parallel federal actions, and the parties have agreed by stipulation to delay briefing on the motion to stay until after the issue of demand futility is resolved in the federal derivative case. The case management conference in the state court action has been continued until June 2010, pending the resolution of our motion to dismiss filed in the federal derivative action. At this time, we have not recorded any liabilities for this action as we are unable to determine the outcome or estimate the potential liability.

On January 27, 2008, a class action complaint was filed against us in the Central District Court in Tel Aviv, Israel on behalf of purchasers of our 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. We filed a motion to stay the action, in light of the proceedings already filed in the United States, on March 31, 2008. A hearing on the motion was held on May 25, 2008. Further briefing in support of the stay motion, specifically with regard to the threshold issue of applicable law, was submitted on June 24, 2008. On September 11, 2008, the Israeli District Court ruled in our favor, holding that U.S. law would apply in determining our liability. On

October 7, 2008, plaintiffs filed a motion for leave to appeal the District Court s ruling to the Israeli Supreme Court. Our response to plaintiffs appeal motion was filed on January 18, 2009. The District Court has stayed its proceedings until the Supreme Court rules on plaintiffs motion for leave to appeal. On January 27, 2010, after a hearing before the Supreme Court, the court dismissed the plaintiff s motion for leave to appeal and addressed the case back to the District Court. The Supreme Court instructed the District Court to rule whether the Israeli class action should be stayed, under the assumption that the applicable law is U.S. law. Plaintiff subsequently filed an application for reconsideration of the District Court s ruling that U.S. law is the applicable law. Following a hearing on plaintiff s application, on April 12, 2010, the parties agreed to stay the proceedings pending resolution of the U.S. securities class action, without prejudice to plaintiff s right to appeal the District Court s decision regarding the applicable law to the Supreme Court. At this time, we have not recorded any liabilities for this action as we are unable to determine the outcome or estimate the potential liability.

Certain of the foregoing cases are still in the preliminary stages, and we are not able to quantify the extent of our potential liability, if any. An unfavorable outcome in any of these matters could have a material adverse effect on our business, financial condition, results of operations, and cash flows. In addition, defending these legal proceedings is likely to be costly, which may have a material adverse effect on our financial condition, results of operations and cash flows, and may divert management s attention from the day-to-day operations of our business.

Regulatory Actions

During fiscal year 2009 we were the subject of a Wells Notice from the SEC in connection with the investigation by the staff of the SEC s Division of Enforcement (the Staff) notifying us that the Staff intended to recommend that the SEC bring a civil injunctive action against us, alleging violations of the federal securities laws arising from the restatement of our fiscal year 2007 interim financial statements. On September 1, 2009, without admitting or denying the SEC s allegations, we agreed to a permanent injunction against future violations of certain reporting, books and records and internal accounting control provisions of the federal securities laws. No other charge or monetary penalty was assessed against us, and we cooperated fully with the Commission s investigation. This settlement, which was approved by the United States District Court for the Northern District of California in November 2009, concluded the SEC s investigation of this matter with respect to us.

Other Litigation

We are subject to various other legal proceedings related to commercial, customer, and employment matters that have arisen during the ordinary course of business. Although there can be no assurance as to the ultimate disposition of these matters, our 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 our consolidated financial position, results of operations or cash flows.

Note 13. Restructuring Charges

The following table summarizes restructuring expenses for the three and six months ended April 30, 2010 and 2009 (in thousands):

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	**2009**	**2010**	**2009**
Cost of net revenues	$ 188	$ 23	$ 519	$ 218
Research and development		238		829
Sales and marketing	33	253	33	1,127
General and administrative	(128)	750	(39)	1,710
Total restructuring expense	$ 93	$ 1,264	$ 513	$ 3,884

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Additionally, we also incurred $0.6 million of accelerated depreciation expense during the six months ended April 30, 2010, mainly in relation to our decision to outsource our Israeli in-house manufacturing to Sanmina-SCI Corporation. Of the $0.6 million, $0.7 million was recorded in general and administrative expenses and a negative $0.1 million was recorded in cost of net revenues in the Condensed Consolidated Statement of Operations.

Restructuring activity for the six months ended April 30, 2010 was as follows (in thousands):

	Employee Severance and Benefit Arrangements	Facilities Related Costs	Total
Balance at November 1, 2009	$ 957	$ 3,528	$ 4,485
Current year charges	622	(109)	513
Other adjustments	(26)	(64)	(90)
Cash payments	(614)	(1,098)	(1,712)
Balance at April 30, 2010	$ 939	$ 2,257	$ 3,196

As of April 30, 2010, $1.7 million of restructuring accruals were included in Other Current Liabilities and $1.5 million of restructuring accruals were included in Other Long-term Liabilities in the Condensed Consolidated Balance Sheets.

We may incur additional restructuring or restructuring related charges in the future for additional employee severance and benefit arrangements, and facility-related activities.

Note 14. Related-Party Transactions

For the three and six months ended April 30, 2010, we recorded $1.3 million and $3.7 million, respectively, of sales to certain companies of which members of our Board of Directors also serve on the boards of each such company. As of April 30, 2010 and October 31, 2009, we have outstanding accounts receivable balances of $0.2 million and $1.3 million, respectively, related to such companies. For the three and six months ended April 30, 2009, we recorded $1.4 million and $3.4 million, respectively, of sales to certain companies of which members of our Board of Directors also serve on the boards of each such company.

Note 15. Segment and Geographic Information

Segment Information

We operate in two business segments: North America and International. North America segment is defined as the United States of America and Canada, and International segment is defined as the other countries from which we derive revenues. Total assets and goodwill by segment are based on the location of the assets.

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

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In the fourth quarter of fiscal year 2009, we revised the methodology for business segment operating income (loss) reporting. Local inventory obsolescence and scrap costs previously recorded in the International and North America segments were reclassified to the Corporate segment. The following table sets forth net revenues and operating income (loss), as revised, for our segments (in thousands):

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
Net revenues:				
International	$ 134,772	$ 118,240	$ 268,558	$ 248,503
North America	106,003	83,444	195,823	167,344
Corporate	(63)	(70)	(269)	(210)
Total net revenues	$ 240,712	$ 201,614	$ 464,112	$ 415,637
Operating income (loss):		Revised		Revised
International	$ 32,248	$ 24,666	$ 66,010	$ 59,200
North America	34,487	29,014	62,046	56,938
Corporate	(41,036)	(41,316)	(82,999)	(286,607)
Total operating income (loss)	$ 25,699	$ 12,364	$ 45,057	$ (170,469)

Our goodwill by segment was as follows (in thousands):

	April 30, 2010	October 31, 2009
International	$ 144,604	$ 147,363
North America	10,284	3,482
Total	$ 154,888	$ 150,845

Our total assets by segment were as follows (in thousands):

	April 30, 2010	October 31, 2009 (1)
International	$ 614,600	$ 611,260
North America	385,129	306,030
Total	$ 999,729	$ 917,290

(1) Amounts as of October 31, 2009 have been adjusted to reflect the retroactive application of ASC 470-20. See Note 4. *Accounting Changes-Convertible Debt Instruments*.

Geographic Information

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
United States	$ 94,847	$ 78,762	$ 176,671	$ 153,813
Europe	66,538	63,773	135,913	129,914
Latin America	50,488	40,339	91,111	83,947
Asia	17,746	14,128	41,536	34,642
Canada	11,093	4,612	18,881	13,321
Total net revenues	$ 240,712	$ 201,614	$ 464,112	$ 415,637

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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.

Note 16. Business Acquisitions

VeriFone Transporta