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.

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.

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

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.

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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.

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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, 2010	Three Months Ended April 30, 2009	Six Months Ended April 30, 2010	Six Months Ended April 30, 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 Transportation Systems

On April 1, 2010, we acquired the remaining 39.9% minority interest in VeriFone Transportation Systems. We paid $11.7 million in cash and committed to pay an additional $4.0 million of deferred consideration of which $2.0 million will be payable on the second anniversary of the closing date and the remaining $2.0 million will be paid on the third anniversary of the closing date. We also granted 300,000 shares of restricted stock to the former minority shareholders. These shares of restricted stock will vest 25% on the first anniversary of the closing date and then 6.25% each quarter thereafter, subject to the continued employment or service of the holders of such restricted stock.

The transaction was accounted for in accordance with ASC 810-10-45-23. The total consideration, which includes $11.7 million of cash and $3.9 million of deferred consideration, was allocated to the reduction in the minority interest balance of $2.1 million and additional paid in capital of $13.5 million.

Clear Channel Taxi Media LLC

On December 31, 2009, we acquired the business of CCTM under a membership interest purchase agreement. The agreed upon purchase price was zero, as a result, in applying the accounting guidelines under ASC 805-10-65-1, we substituted the zero purchase price with the acquisition date fair value of the equity interest acquired which was estimated at $2.4 million.

The significant assets acquired consisted primarily of intangible assets of $12.4 million, accounts receivable of $11.5 million and property, plant and equipment of $4.8 million. The significant liabilities assumed were mainly the fair value of unfavorable lease contracts totaling $30.1 million and other current liabilities of $5.0 million. We also recorded $6.8 million of goodwill as a result of this business acquisition. The results of CCTM s operations have been included in the condensed consolidated financial statements from the acquisition date.

Note 17. Cost-Method Investments

On February 9, 2010, we invested in Trunkbow International Holdings Ltd. (Trunkbow), a Jinan, People s Republic of China-based mobile payments and value-added service applications company. We paid $5.0 million for 2,500,000 shares of common stock and 500,000 common stock warrants which represents approximately 8.6% of Trunkbow s outstanding shares. The warrants have a strike price of $2 and are exercisable anytime up to 5 years from the closing date. The investment is accounted for using the cost-method and it is recorded in Other Assets in our Condensed Consolidated Balance Sheets.

The carrying value of our cost-method investments as of April 30, 2010 and October 31, 2009 was $10.9 million and $5.7 million, respectively. We did not estimate the fair value of our cost-method investments because there were no identified events or changes in circumstances that had a significant adverse effect on the fair value of the investment and it was not practical for us to estimate the fair value of the investment.

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

This section and other parts of this Quarterly Report on Form 10-Q contain forward-looking statements that involve risks and uncertainties. In some cases, forward-looking statements can be identified by words such as anticipates, expects, believes, plans, predicts, and similar terms. Such forward-looking statements are based on current expectations, estimates, and projections about our industry, management s belief, and assumptions. Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part II, Item 1A Risk Factors below and in Item 1A of our annual report on Form 10-K for the year ended October 31, 2009 filed with the SEC. The following discussion should be read in conjunction with our consolidated financial statements and related notes included in our 2009 annual report on Form 10-K and the Condensed Consolidated Financial Statements and Notes thereto included elsewhere in this Quarterly Report on Form 10-Q. Unless required by law, we expressly disclaim any obligation to update publicly any forward-looking statements, whether as result of new information, future events, or otherwise.

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

Overview

We are a global leader in secure electronic payment solutions. We provide expertise, solutions and services that add value to the point of sale with merchant-operated, consumer-facing, and self-service payment systems for the financial, retail, hospitality, petroleum, government, transportation and healthcare vertical markets. We are one of the largest providers of electronic payment systems worldwide. We believe that we benefit from a number of competitive advantages gained through our 28-year history of success in our industry. These advantages include our globally trusted brand name, large installed base, significant involvement in the development of industry standards, global operating scale, customizable platforms, and investment in research and development. We believe that these advantages position us well to capitalize on the continuing global shift toward electronic payment transactions.

Our industry s growth continues to be driven by the long-term shift toward electronic payment transactions and away from cash and checks in addition to changes in security standards that require more advanced electronic payment systems. Internationally, growth rates have generally been higher because of the relatively low penetration rates of electronic payment transactions in many countries as well as governmental efforts to modernize economies and to encourage electronic payments as a means of improving collection of value-added tax (VAT) and sales tax. Recently, additional factors have driven growth, including the shift from dial up to internet protocol (IP), developments in wireless communications, personal identification number (PIN) based debit transactions and advances in computing technology which enable vertical solutions and non-payment applications to reside at the point of sale (POS). Most recently, there have been well publicized breaches of systems that handle consumer card details, spurring widespread interest in more secure payment systems and end-to-end encryption technology.

Timing of our revenue recognition may cause our revenue to vary from quarter to quarter. Specifically, revenues recognized in some of our fiscal quarters have been back-end weighted when we receive sales orders and deliver a higher proportion of our System Solutions toward the end of such fiscal quarter. This back-end weighting of orders may adversely affect our results of operations in a number of ways and could negatively impact revenues and profits. First, the product mix of orders may not align with manufacturing forecasts which could result in a shortage of the components needed for production. Second, existing manufacturing capacity may not be sufficient to deliver a high volume of orders in a concentrated time at quarter-end. Third, back-end weighted demand could negatively impact gross margins through higher labor, delivery and other manufacturing and distribution costs. If, on the other hand, we were to seek to manage the fulfillment of back-end weighted orders through holding increased inventory levels, we would risk higher inventory obsolescence charges.

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Because timing of our revenue recognition depends on timing of product shipments, decisions we make about product shipments, particularly toward the end of a fiscal quarter, may impact our reported revenues. The timing of product shipments may depend on a number of factors, including price discussions with our customers, operating costs, including the costs of air shipments if required, the delivery date requested by customers and our operating capacity to fill orders and ship products, as well as our own long and short-term business planning. These factors may affect timing of shipment as well as revenues recognized for a particular period.

Security has become a driving factor in our business as our customers endeavor to meet ever escalating governmental requirements directed toward the prevention of identity theft as well as operating safeguards imposed by the credit and debit card associations, which includes Visa International (Visa), MasterCard Worldwide (MasterCard), American Express, Discover Financial Services, and JCB Co., Ltd. (JCB). In September 2006, these card associations established the Payment Card Industry Security Standards Council (PCI SSC) to oversee and unify industry standards in the areas of credit card data security. Standards include Payment Card Industry PIN Transaction Security (PCI-PTS) for pin entry devices, PCI-DSS for enterprise data security and PA-DSS for payment application data security. We are a leader in providing systems and software solutions that meet these standards.

We operate in two business segments: North America and International. We define North America as the United States of America and Canada, and International as all other countries from which we derive revenues. Throughout fiscal year 2009 demand for wireless, IP-enabled, PIN-based debit and vertical solutions was adversely affected by the global financial crisis. Specifically, we experienced lower North American demand as retailers closed redundant or underperforming locations and lower International demand due to the adverse foreign currency impact on the purchasing power of certain International customers. With the exception of China, emerging markets declined at a greater rate than developed markets in fiscal year 2009.

In fiscal year 2010, our sales to emerging economies, particularly in Latin America and Asia, generally recovered more quickly than developed economies. Demand in developed countries increased as well, primarily due to the need for our customers to upgrade their systems in order to comply with the July 1, 2010 PCI-PED deadline. To a lesser degree, demand in developed countries increased as a result of modestly improving macroeconomic conditions. To the extent the worldwide economic recovery continues, we expect demand from emerging economies and certain North American vertical businesses to grow faster than our traditional solutions sold in developed markets. We continue to devote research and development (R&D) resources to address the market needs of both emerging and developed economies.

Results of Operations

Net Revenues

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

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

	Three Months Ended April 30,				Six Months Ended April 30,			
	2010	2009	Net Change	% Change	2010	2009	Net Change	% Change
System Solutions	$ 199,548	$ 173,580	$ 25,968	15.0%	$ 387,562	$ 359,421	$ 28,141	7.8%
Services	41,164	28,034	13,130	46.8%	76,550	56,216	20,334	36.2%
Total	$ 240,712	$ 201,614	$ 39,098	19.4%	$ 464,112	$ 415,637	$ 48,475	11.7%

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System Solutions Revenues

System Solutions net revenues for the three and six months ended April 30, 2010 increased $26.0 million, or 15.0% and $28.1 million, or 7.8%, respectively, compared to the three and six months ended April 30, 2009. For the three months ended April 30, 2010 and 2009, System Solutions net revenues comprised 82.9% and 86.1% of total net revenues, respectively. For the six months ended April 30, 2010 and 2009, System Solutions net revenues comprised 83.5% and 86.5% of total net revenues, respectively.

International System Solutions net revenues increased $14.2 million, or 13.6% and $13.3 million, or 6.1% for the three and six months ended April 30, 2010, respectively, compared to the same periods in fiscal year 2009. System Solutions net revenues in Latin America increased $8.8 million, or 24.4% and $4.3 million, or 5.8% for the three and six months ended April 30, 2010, respectively, compared to the same periods in fiscal year 2009, primarily as a result of strong sales demand in Brazil and a significant order from a major customer. Asia s System Solutions net revenues increased $3.1 million, or 24.9% and $5.5 million, or 17.5% for the three and six months ended April 30, 2010, respectively, compared to the same periods in fiscal year 2009. This increase was largely attributable to increases across the region, particularly in China where economic conditions were generally improved over the prior periods. Europe s System Solutions net revenues increased $2.3 million, or 4.1% and $3.5 million, or 3.1% in the three and six months ended April 30, 2010, respectively, compared to the same periods in fiscal year 2009, primarily due to improved sales in certain parts of Continental Europe, partially offset by lower sales in Turkey and the Balkan countries as a result of an economic slowdown.

North America System Solutions net revenues for the three and six months ended April 30, 2010 increased $11.8 million, or 17.0% and $14.8 million, or 10.6%, respectively, compared to the three and six months ended April 30, 2009, primarily due to an increase in our Petroleum System Solutions revenues, partially offset by a decrease in our North America Financial business revenues. The revenue increase in the Petroleum business was driven by PCI compliance efforts by customers, as more of our Petroleum customers addressed the July 2010 PCI-PED compliance deadlines. Our North America Financial business, which sells payment systems to small and medium sized businesses through ISOs and payment processors, continues to be constrained overall due to persistent adverse economic conditions which have slowed retail store openings.

The weakened macroeconomic environment continued to negatively impact our net revenues in certain regions for the three and six months ended April 30, 2010. Although more recently there have been some signs of improvement in the functioning of financial markets and economic conditions, certain countries, including parts of Europe, have recently experienced continued or further economic stress. We are unable to predict whether initial signs of improvements in the U.S. and other countries will be sustained. Any sustained economic weakness or deterioration in economic conditions, particularly if persistent, would adversely impact our business, operating results, and financial condition. In regards to Multi-lane retailers and Petroleum customers, we expect a less dynamic demand for System Solutions following the passing of the July 2010 PCI-PED compliance deadline.

Services Revenues

Services net revenues increased $13.1 million, or 46.8% and $20.3 million, or 36.2%, respectively, for the three and six months ended April 30, 2010 compared to the three and six months ended April 30, 2009.

International Services revenues increased $2.3 million, or 16.6% and $6.7 million, or 23.5% for the three and six months ended April 30, 2010, respectively, compared to the same periods in fiscal year 2009. This increase was primarily due to revenue growth in Brazil, largely attributable to our growing installed base which in turn led to increased demand for repair services. The increase was also due in part to the appreciation of the Brazilian real against the U.S. dollar.

North America Services revenues increased $10.8 million, or 76.6% and $13.6 million, or 49.3% in the three and six months ended April 30, 2010 compared to the three and six months ended April 30, 2009. The majority of the increase was attributable to the inclusion of revenues from our media solutions business resulting from the CCTM acquisition in December 2009, as well as growth in Petroleum Services.

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Gross Profit

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

	Three Months Ended April 30,				Six Months Ended April 30,			
	Amount		Gross Profit Percentage		Amount		Gross Profit Percentage	
	2010	2009	2010	2009	2010	2009	2010	2009
System Solutions	$ 73,535	$ 51,739	36.9%	29.8%	$ 141,464	$ 109,469	36.5%	30.5%
Services	15,675	13,183	38.1%	47.0%	29,652	24,755	38.7%	44.0%
Total	$ 89,210	$ 64,922	37.1%	32.2%	$ 171,116	$ 134,224	36.9%	32.3%

System Solutions

Gross profit on System Solutions increased $21.8 million, or 42.1% and $32.0 million, or 29.2% for the three and six months ended April 30, 2010, respectively, compared to the three and six months ended April 30, 2009. For the three months ended April 30, 2010 and 2009, gross profit on System Solutions represented 36.9% and 29.8%, respectively, of System Solutions net revenues. For the six months ended April 30, 2010 and 2009, gross profit on System Solutions represented 36.5% and 30.5%, respectively, of System Solutions net revenues. For both the three and six months ended April 30, 2010, International gross profit percentage increased, North American gross profit percentage was approximately flat, and Corporate costs as a percentage of revenues decreased compared to the same periods in fiscal year 2009.

International gross profit percentage increased during the three and six months ended April 30, 2010 compared to the three and six months ended April 30, 2009 primarily as a result of the non-recurrence of a difficult pricing environment in Latin American associated with substantial currency devaluations. In addition, we experienced a favorable product mix impact due to increased sales of newer product solutions, which carry higher margins compared to previous generation solutions. Partially offsetting these factors was a decrease in the wireless gross profit percentage due to pricing pressure from competitors and a shift in sales towards emerging market countries which typically carry lower margins.

North America System Solutions gross profit percentage was relatively flat for the three and six months ended April 30, 2010 compared to the same periods in fiscal year 2009. We experienced increased price competition in our wireless and high-end landline financial solutions and a shift in product mix toward lower margin products in our Petroleum business. These factors were offset by favorable product mix in desktop solutions and cost reductions in the core financial solutions sold in North America.

Corporate costs are comprised of non-cash acquisition charges, including amortization of purchased intangible assets, and other Corporate charges, including inventory obsolescence and scrap, rework, specific warranty provisions, non-standard freight and over-and-under absorption of materials management and supply chain engineering overhead. Since these costs are generally incurred on a company-wide basis, it is impractical to allocate them to either the North America or International segments.

The decrease in Corporate costs for the three and six months ended April 30, 2010 compared to the same periods in fiscal year 2009 was primarily due to lower excess and obsolete inventory and scrap charges compared to the three and six months ended April 30, 2009. We recorded $9.6 million and a $21.3 million in excess and obsolete inventory and scrap charges in the three months and six months ended April 30, 2009, respectively, due to changing demand experienced early in fiscal year 2009 as a result of the deteriorating macroeconomic environment.

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Services

Gross profit on Services increased $2.5 million, or 18.9%, for the three months ended April 30, 2010 compared to the three months ended April 30, 2009, largely attributable to the $13.1 million increase in Services revenues partially offset by a decrease in gross margin percentages. Gross profit on Services represented 38.1% and 47.0% of Services net revenues, respectively, for the three months ended April 30, 2010 and 2009. Gross margin percentages declined in North America, primarily due to a service mix shift towards lower margin media solutions services. International gross margin percentages declined due to changes in service mix.

Gross profit on Services increased $4.9 million, or 19.8%, for the six months ended April 30, 2010 compared to the six months ended April 30, 2009 largely attributable to the $20.3 million increase in Services revenues partially offset by a decrease in gross margin percentages. Gross profit on Services represented 38.7% and 44.0% of Services net revenues, respectively, for the six months ended April 30, 2010 and 2009. Gross margin percentages declined in North America, primarily due to a service mix shift towards lower margin media solutions services. International gross margin percentages were approximately flat for the six months ended April 30, 2010 compared to the six months ended April 30, 2009.

Research and Development Expenses

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

	Three Months Ended April 30,				Six Months Ended April 30,			
	2010	**2009**	**Net Change**	**Percentage Change**	**2010**	**2009**	**Net Change**	**Percentage Change**
Research and development	$ 17,811	$ 15,024	$ 2,787	18.6%	$ 34,911	$ 32,896	$ 2,015	6.1%
Percentage of net revenues	*7.4%*	*7.5%*			*7.5%*	*7.9%*		

R&D expenses for the three months ended April 30, 2010, including the impact of changes in currency exchange rates, increased $2.8 million, or 18.6%, compared to the three months ended April 30, 2009. This increase was primarily due to a $2.5 million increase in expenses associated with the development of new products for the Vx evolution launch in April 2010. These incremental expenses consisted primarily of a $1.5 million increase in personnel related costs and a $0.8 million increase in materials and supplies. In addition, R&D expenses increased $0.6 million as a result of increased demand for localized solutions, primarily in emerging market countries in Europe and Asia. These increases were partially offset by a $0.8 million reduction in stock-based compensation expense. Changes in foreign currency exchange rates had a $0.8 million unfavorable impact on R&D expenses during the three months ended April 30, 2010 compared to the three months ended April 30, 2009.

R&D expenses for the six months ended April 30, 2010, including the impact of changes in currency exchange rates, increased $2.0 million, or 6.1%, compared to the six months ended April 30, 2009. This increase was primarily due to a $3.1 million increase in expenses associated with the development of new products for our Vx evolution launch in April 2010. These incremental expenses consisted primarily of a $1.8 million increase in personnel related costs and a $0.9 million increase in materials and supplies. In addition, R&D expenses increased by $1.0 million as a result of increased demand for localized solutions, primarily in emerging market countries in Europe and Asia. These increases were partially offset by a $1.2 million reduction in stock-based compensation expense and a $0.8 million reduction in restructuring expenses. Changes in foreign currency exchange rates had a $1.1 million unfavorable impact on R&D expenses during the six months ended April 30, 2010 compared to the six months ended April 30, 2009.

We expect R&D expenses, assuming a stable currency environment, to grow modestly in absolute amounts as we address business opportunities in certain markets where we believe economic growth and demand are relatively less affected by the global recession.

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Sales and Marketing Expenses

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

	Three Months Ended April 30,				Six Months Ended April 30,			
	2010	**2009**	**Net Change**	**Percentage Change**	**2010**	**2009**	**Net Change**	**Percentage Change**
Sales and marketing	$ 22,415	$ 17,215	$ 5,200	30.2%	$ 42,890	$ 36,622	$ 6,268	17.1%
Percentage of net revenues	*9.3%*	*8.5%*			*9.2%*	*8.8%*		

Sales and marketing expenses for the three months ended April 30, 2010, including the impact of currency exchange rates, increased $5.2 million, or 30.2%, compared to the three months ended April 30, 2009. International sales and marketing expenses increased $2.5 million primarily as a result of support for higher demand as moderate growth resumed in developed countries and double-digit revenue growth occurred in certain emerging markets countries. North America sales expenses increased by $1.7 million largely to support higher demand in Petroleum and initiatives in vertical and payment based media. The above mentioned increases primarily consisted of personnel related costs. In addition, North America and Corporate marketing expenses grew in total by $0.6 million primarily a result of the launch of a number of new initiatives such as payment based media, end to end encryption and mobile phone credit card acceptance. Changes in foreign currency exchange rates had a $0.8 million unfavorable impact on sales and marketing expenses in the three months ended April 30, 2010, compared to the three months ended April 30, 2009.

Sales and marketing expenses for the six months ended April 30, 2010, including the impact of currency exchange rates, increased $6.3 million, or 17.1%, compared to the six months ended April 30, 2009. International sales and marketing expenses increased $3.0 million primarily in Europe and Latin America to support higher demand as moderate growth resumed in developed countries and double-digit revenue growth occurred in certain emerging markets countries. North America Sales expenses increased by a $2.6 million largely to support higher demand in Petroleum and initiatives in vertical and payment based media. The above mentioned increases primarily consisted of personnel related expenses. In addition, North America and Corporate marketing expenses grew in total by $1.1 million, the increase was primarily a result of the launch of a number of new initiatives such as payment based media, end-to-end encryption and mobile phone credit card acceptance. These increases were partially offset by a $1.1 million decrease in restructuring expenses due to minimal restructuring activities in the six months ended April 30, 2010. Changes in foreign currency exchange rates had a $1.1 million unfavorable impact on sales and marketing expenses in the six months ended April 30, 2010 compared to the six months ended April 30, 2009.

We expect sales and marketing expenses, assuming a stable currency environment, to grow modestly in absolute amounts as we address business opportunities in certain markets where we believe economic growth and demand are relatively less affected by the global recession.

General and Administrative Expenses

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

	Three Months Ended April 30,				Six Months Ended April 30,			
	2010	**2009**	**Net Change**	**Percentage Change**	**2010**	**2009**	**Net Change**	**Percentage Change**
General and administrative	$ 19,680	$ 18,237	$ 1,443	7.9%	$ 40,161	$ 48,965	$ (8,804)	-18.0%
Percentage of net revenues	*8.2%*	*9.0%*			*8.7%*	*11.8%*		

General and administrative expenses for the three months of April 30, 2010, including the impact of changes in currency exchange rates, increased $1.4 million, or 7.9%, compared to the three months ended April 30, 2009. This increase was primarily due to a $1.9 million increase in personnel related costs and a $0.7 million increase in stock-based compensation expense. The increase in personnel related costs included a $1.0 million increase in payroll and employee benefits as a result of higher headcount and an increase in our self-insured medical expense and a $0.8 million increase in executive bonuses based on performance against bonus targets and overall improved business performance. These increases were partially offset by a $0.9 million reduction in restructuring costs. Changes in foreign currency exchange rates had a $0.5 million unfavorable impact on general and administrative expenses in the three months ended April 30, 2010 compared to the three months ended April 30, 2009.

General and administrative expenses for the six months of April 30, 2010, including the impact of changes in currency exchange rates, decreased $8.8 million, or 18.0%, compared to the six months ended April 30, 2009. This decrease was primarily due to the non-recurrence of the following charges incurred during the six months ended April 30, 2009: a $3.6 million stock-based compensation expense as a result of the voluntary surrender of certain option grants by an executive; $2.6 million of remediation related expenses following the independent investigation and the restatement of our 2007 interim financial results; and $1.0 million in litigation and legal settlement fees. The decrease in general and administrative expenses was also attributable to a $2.1 million reduction in outside services, travel, and operating expenses as the result of cost reduction efforts, a $1.9 million reduction in tax accounting professional services due to the transfer of certain functions to our in-house staff, a $1.8 million decrease in restructuring costs and a $0.9 million reduction in bad debt expenses largely due to improved collections in Brazil and China. These reductions were partially offset by a $3.0 million increase in worldwide personnel costs driven by the increase in headcount which led to an increase in payroll, self-insured medical expenses, and bonuses as business performance improved and a $1.0 million increase in stock-based compensation excluding the impact of the above mentioned voluntary stock option surrender. Changes in foreign currency exchange rates had a $0.7 million unfavorable impact on general and administrative expenses in the six months ended April 30, 2010 compared to the six months ended April 30, 2009.

We expect general and administrative expenses, assuming a stable currency environment, to remain relatively flat in absolute amounts for the remainder of fiscal year 2010.

Amortization of Purchased Intangible Assets

Amortization of purchased intangible assets decreased $1.2 million and $2.6 million in the three and six months ended April 30, 2010, respectively, compared to the same periods in fiscal year 2009 primarily due to a decrease in the remaining net book value of intangible assets.

Impairment of Goodwill

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 the three and six months ended April 30, 2010. As a result of the December 1, 2008 goodwill impairment test, we concluded that the carrying amount of our North America and Asia reporting units exceeded their implied fair values and recorded an estimated impairment charge of $178.2 million in the Corporate segment during the first quarter of fiscal year 2009 for these reporting units. The net carrying value of goodwill in the North America and International segments was reduced by $65.6 million and $112.7 million, respectively. We finalized the goodwill evaluation process and recorded a $2.7 million reduction to the estimated impairment charge during the second quarter of fiscal year 2009. The final impairment charge for the North America and Asia reporting units was $175.5 million for the fiscal year ended October 31, 2009.

Interest Expense

Interest expense decreased $0.7 million and $2.4 million, respectively, in the three and six months ended April 30, 2010 compared to the same periods in fiscal year 2009 primarily attributable to lower effective interest rates on our Term-B loan as LIBOR rates declined substantially over the periods and a decrease in the outstanding balance of our debt. We repurchased and extinguished $39.0 million in aggregate outstanding par value of the Notes in April and December 2009 combined.

Interest Income

Interest income decreased $0.1 million and $0.5 million, respectively, in the three and six months ended April 30, 2010 compared to the three and six months ended April 30, 2009. These decreases were primarily attributable to the lower effective interest rates during the three and six months ended April 30, 2010, partially offset by higher average cash balances.

Other Income (Expense), Net

Other income (expense), net decreased $7.2 million during the three months ended April 30, 2010 compared to the three months ended April 30, 2009 primarily due to the non-recurrence of a $7.5 million gain on extinguishment of debt (subsequent to the adoption of ASC 470-20) and a $1.6 million foreign exchange gain as a result of changes in the U.S. Dollar value of a tax accrual denominated in Israeli shekels. These decreases were partially offset by a $1.5 million gain as a result of the reversal of a sales tax accrual during the three months ended April 30, 2010.

Other income (expense), net decreased $13.1 million during the six months ended April 30, 2010 compared to the six months ended April 30, 2009 primarily due to the non-recurrence of several gains recorded in the first six months of fiscal year 2009, including a $7.5 million gain on extinguishment of debt (subsequent to the adoption of ASC 470-20), a $5.3 million foreign exchange gain as a result of changes in the U.S. dollar value of a tax accrual denominated in Israeli shekels and a $0.9 million reversal of previously accrued non-deductible penalty and interest charges after we received an Israeli tax refund in the first quarter of fiscal year 2009. These decreases were partially offset by a $1.5 million gain as a result of the reversal of a sales tax accrual during the three months ended April 30, 2010.

Provision for Income Tax

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 US 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 periods as we reevaluate the underlying basis for our estimates of future domestic and certain foreign taxable income.

We are currently under audit by the Internal Revenue Service (IRS) for our fiscal years 2003 to 2004. Although we believe we have correctly provided income taxes for the years subject to audit, the IRS may adopt different interpretations. We have not yet received any final determinations with respect to this audit 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

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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 in 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. We are currently renegotiating the terms and conditions with respect to the tax benefits under the Singapore Pioneer Tax Holiday provision for 2008 and subsequent years, including deferral or revision of certain of these conditions. We currently expect that we will continue to maintain our tax exempt status in Singapore.

Segment Information

We operate in two business segments: North America and International. We define North America as the United States of America and Canada, and International as the other countries from which we derive revenues.

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.

In fiscal year 2009, we revised the methodology for business segment operating income (loss) reporting. Local inventory obsolescence and scrap costs previously recorded in 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**	**Net Change**	**Percentage Changes**	**2010**	**2009**	**Net Change**	**Percentage Change**
Net revenues:								
International	$ 134,772	$ 118,240	$ 16,532	14.0%	$ 268,558	$ 248,503	$ 20,055	8.1%
North America	106,003	83,444	22,559	27.0%	195,823	167,344	28,479	17.0%
Corporate	(63)	(70)	7	nm	(269)	(210)	(59)	nm
Total net revenues	$ 240,712	$ 201,614	$ 39,098	19.4%	$ 464,112	$ 415,637	$ 48,475	11.7%
Operating income (loss):		**Revised**				**Revised**		
International	$ 32,248	$ 24,666	$ 7,582	30.7%	$ 66,010	$ 59,201	$ 6,809	11.5%
North American	34,487	29,014	5,473	18.9%	62,046	56,938	5,108	9.0%
Corporate	(41,036)	(41,316)	280	-0.7%	(82,999)	(286,608)	203,609	nm
Total operating income (loss)	$ 25,699	$ 12,364	$ 13,335	107.9%	$ 45,057	$ (170,469)	$ 215,526	nm

(1) nm not meaningful

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International Segment

International total net revenues increased $16.5 million, or 14.0%, for the three months ended April 30, 2010 as compared to the three months ended April 30, 2009, primarily due to a $14.2 million increase in System Solutions net revenues and a $2.3 million increase in Services net revenues. International total net revenues increased $20.1 million, or 8.1%, for the six months ended April 30, 2010 as compared to the six months ended April 30, 2009, primarily due to a $13.3 million increase in System Solutions net revenues and a $6.7 million increase in Services net revenues. See discussion under *Results of Operations Net Revenues*.

For the three and six months ended April 30, 2010, International operating income increased $7.6 million and $6.8 million, respectively, compared to the same periods in fiscal year 2009, primarily due to increases in gross margin partially offset by an increase in operating expenses.

North America Segment

North America total net revenues increased $22.6 million, or 27.0%, for the three months ended April 30, 2010 compared to the three months ended April 30, 2009, primarily due to an $11.8 million increase in System Solutions net revenues and a $10.8 million increase in Services net revenues. North America total net revenues increased $28.5 million, or 17.0%, for the six months ended April 30, 2010 compared to the six months ended April 30, 2009, primarily due to a $14.8 million increase in System Solutions net revenues and a $13.6 million increase in Services net revenues. See *Results of Operations Net Revenues*.

The increase in North America operating income for the three and six months ended April 30, 2010 compared to the three and six months ended April 30, 2009 was mainly due to an increase in gross margin partially offset by an increase in operating expenses.

Corporate Segment

Corporate operating loss decreased $0.3 million for the three months ended April 30, 2010 compared to the three months ended April 30, 2009, primarily due to the non-recurrence of a $9.6 million provision for excess and obsolete inventory and scrap charges incurred in the three months ended April 30, 2009, a $1.2 million decrease in restructuring charges, a $1.3 million reduction in amortization of purchased intangible assets and a $1.0 million reduction in manufacturing operating expenses due to the outsourcing of our Israeli manufacturing operations to a third party. These decreases were partially offset by a $5.9 million increase in general operating expenses, the non recurrence of a $2.7 million goodwill impairment credit recognized in the second quarter of fiscal year 2009, a $1.9 million increase in freight and duties due to an increase in sales volume and fuel costs, and a $1.0 million increase in product situation warranty reserves.

Corporate operating loss decreased $203.6 million for the six months ended April 30, 2010 compared to the six months ended April 30, 2009. This decrease was primarily due to the non recurrence of the following charges incurred during the six months ended April 30, 2009: a $175.5 million goodwill impairment charge; a $21.3 million provision for excess and obsolete inventory and scrap charges; a $3.6 million stock-based compensation expense as a result of the voluntary surrender of certain option grants by an executive; a $2.6 million of remediation related expenses following the independent investigation and the restatement of our 2007 interim financial results; and a $1.0 million in litigation and legal settlement fees. Additionally, a $3.4 million decrease in restructuring charges, a $1.9 million reduction in tax accounting professional services due to more tax functions handled by in-house personnel, a $2.8 million reduction in amortization of purchased intangible assets and a $2.2 million reduction in manufacturing operating expenses due to the outsourcing of our Israeli manufacturing operations to a third party also contributed to the reduction in Corporate costs. These decreases were partially offset by a $5.2 million increase in general operating expenses, a $2.6 million increase in freight and duties due to an increase in sales volume and fuel costs, and a $2.4 million increase in product situation warranty reserves.

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Liquidity and Capital Resources

	Six Months Ended April 30,	
	2010	2009
Net cash provided by (used in):		
Operating activities	$ 75,994	$ 69,558
Investing activities	(20,275)	(8,704)
Financing activities	154	(16,125)
Effect of exchange rate fluctuations on cash and cash equivalents	(1,881)	(583)
Net increase in cash and cash equivalents	$ 53,992	$ 44,146

Our primary liquidity and capital resource needs are to service our debt, finance working capital, and to make capital expenditures and investments. At April 30, 2010, our primary sources of liquidity were cash and cash equivalents of $379.0 million as well as $25.0 million available to us under our revolving credit facility.

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

Operating Activities

Net cash flow from operating activities was $76.0 million for the six months ended April 30, 2010.

Cash provided by operations before changes in working capital amounted to $70.4 million for the six months ended April 30, 2010 and consisted of $30.8 million of net income adjusted for $39.5 million of non-cash items consisting primarily of depreciation and amortization, stock-based compensation expense, and non-cash interest expense.

Changes in working capital resulted in a $5.6 million increase in cash and cash equivalents during the six months ended April 30, 2010. The main drivers of this increase were as follows:

A $23.2 million decrease in accounts receivable mainly due to the timing of billings and strong cash collections. Relative to the last quarter of fiscal 2009, we had a higher proportion of shipments in the early part of the current fiscal quarter ended April 30, 2010 which enabled us to collect more of our accounts receivable within the same quarter.

A $15.1 million increase in accounts payable and accrued expenses and other liabilities mainly due to an $11.4 million increase in accounts payable and a $5.9 million increase in customer deposits. The increase in accounts payable was largely due to increased inventory purchases and the timing of vendor invoices and payments. These increases were partially offset by a $1.3 million reduction in VAT payable.

Partially offset by:

A $24.0 million increase in prepaid and other assets mainly due to a $13.0 million increase in prepayments for consigned inventory, an $8.4 million increase in prepaid taxes and a $2.6 million increase in banker s acceptances receivable.

A $14.2 million increase in inventories primarily due to expanding customer demand.

Investing Activities

Net cash used in investing activities was $20.3 million in the six months ended April 30, 2010, and primarily consisted of $11.7 million for the acquisition of the remaining minority interest of VTS, $5.0 million for the equity investment in Trunkbow, $3.6 million for purchases of property, plant and equipment and $1.5 million of capitalized software development costs, partially offset by $1.6 million of proceeds from disposal of property, plant and equipment.

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Financing Activities

Net cash provided by financing activities was $0.2 million in the six months ended April 30, 2010 primarily consisting of $4.6 million of proceeds from issuance of common stock through employee equity incentive plans and $3.6 million of proceeds from advances against banker s acceptances partially offset by $8.0 million of repayments of debt. The $8.0 million repayments of debt primarily consisted of $4.8 million used to repurchase a portion of our outstanding 1.375% Senior Convertible Notes and $2.5 million of Term B loan repayments.

Contractual Obligations

The following table summarizes our contractual obligations as of April 30, 2010 (in thousands):

	For the Fiscal Years Ending October 31,						
	2010 (2)	2011	2012	2013	2014	Thereafter	Total
Term B Loan (including interest) (1)	$ 5,915	$ 11,660	$ 11,525	$ 217,605	$	$	$ 246,705
Senior convertible notes (including interest)	1,917	3,812	281,062				286,791
Capital lease obligations	71	141	53				265
Operating leases (3)	18,805	32,112	14,890	5,817	3,296	3,447	78,367
Minimum purchase obligations	92,542	7,422					99,964
Total	$ 119,250	$ 55,147	$ 307,530	$ 223,422	$ 3,296	$ 3,447	$ 712,092

(1) Interest in the above table has been calculated using the rate in effect at April 30, 2010.

(2) The 2010 balances represent the obligations for the remaining 6 months of fiscal year 2010.

(3) Includes $46.5 million of operating lease commitments as a result of the acquisition of CCTM.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

Information with respect to recent accounting pronouncements may be found in Note 1. *Principles of Consolidation and Summary of Significant Accounting Policies* in the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which section is incorporated herein by reference.

Critical Accounting Policies and Estimates

Management s discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America.

On an ongoing basis, we evaluate our critical accounting policies and estimates, including those related to revenue recognition, inventory valuation, product returns reserves, allowance for doubtful accounts, warranty reserves, contingencies and litigation, income taxes, accounting for goodwill and long-lived assets, stock-based compensation, business combinations and restructuring. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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There were no significant changes to our critical accounting policies except for inventories, during the three months ended April 30, 2010. For information about critical accounting policies, see Note 1. *Principles of Consolidation and Summary of Significant Accounting Policies* and *Critical Accounting Policies and Estimates* in our annual report on Form 10-K for the fiscal year ended October 31, 2009.

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

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

Interest Rates

We are exposed to interest rate risk related to our borrowings under the credit agreement we entered into on October 31, 2006. These borrowings generally bear interest based upon the one or three-month LIBOR rate. As of April 30, 2010, a 50 basis point increase in interest rates on our borrowings subject to variable interest rate fluctuations would increase our interest expense by approximately $1.1 million annually. We generally invest most of our cash in overnight and short-term instruments, which would earn more interest income if market interest rates rise and less interest income if market interest rates fall.

Foreign Currency Risk

A majority of our sales are made to customers outside the United States. A substantial portion of the net revenues we generate from such sales is denominated in currencies other than the U.S. dollar. Additionally, portions of our cost of net revenues and other operating expenses are incurred by our international operations and are denominated in local currencies. For consolidated reporting, revenue and expenses denominated in non-US currencies are translated to US dollars at average currency exchange rates for the period (P&L Exposures). Thus, even if foreign currency results were stable, fluctuating currency rates produce volatile reported results. We have made limited efforts to mitigate P&L Exposures by hedging with currency derivatives. As of April 30, 2010, we have no foreign exchange forward contracts designated as a cash flow hedge pursuant to ASC 815.

We may in the future use foreign exchange forward or option contracts to hedge P&L Exposures, depending upon the risks of the exposures, the costs of hedging, and other considerations. However, hedges of P&L Exposures will only mitigate a portion of our risk and only for a short period. We will remain subject to the currency risk of P&L Exposures.

The balance sheets of our U.S. and international businesses have monetary assets and liabilities denominated in currencies other than the primary currency of such business (Balance Sheet Exposures), such as Canadian dollar receivables held by our U.S. business, or U.S. dollar payables of our U.K. business. As exchange rates fluctuate, Balance Sheet Exposures generate foreign currency transaction gains and losses, which are included in other income (expense), net in the Condensed Consolidated Statements of Operations.

We have in the past run a hedging program to mitigate the risk of Balance Sheet Exposures by entering into foreign exchange forward contracts. The objective is to have gains or losses of the foreign exchange forward contracts largely offset the losses or gains of the Balance Sheet Exposures. Foreign exchange forward contracts are included in Prepaid Expenses and Other Current Assets and Other Current Liabilities in the Condensed Consolidated Balance Sheets. The contracts are marked-to-market on a monthly basis with gains and losses included in other income (expense), net in the Condensed Consolidated Statements of Operations. In some instances, we seek to hedge transactions that are expected to become Balance Sheet Exposures in the very short-term, generally within one month. We do not use foreign exchange forward contracts for speculative or trading purposes.

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Our outstanding foreign exchange forward contracts as of April 30, 2010 are presented in the table below. All forward contracts are representative of the expected payments to be made under these instruments. The fair market value of the contracts represents the difference between the spot currency rate at April 30, 2010 and the contracted rate. All of these forward contracts mature within 35 days of April 30, 2010 (in thousands):

	Currency	Local Currency Contract Amount	Currency	Contracted Amount	Fair Market Value at April 30, 2010
Contracts to buy U.S. dollar					
Argentine peso	ARS	(6,500)	USD	1,667	$
Brazilian real	BRL	(6,500)	USD	3,652	(16)
Canadian dollar	CAD	(6,000)	USD	5,929	7
Chinese yuan	CNY	(80,000)	USD	11,768	(3)
British pound	GPB	(3,000)	USD	4,547	
Euro	EUR	(22,200)	USD	29,190	37
Indian rupee	INR	(50,000)	USD	1,093	(26)
					$ (1)
Contracts to sell U.S. dollar					
Australian dollar	AUD	4,000	USD	(3,685)	(7)
					$ (8)

As of April 30, 2010, our Balance Sheet Exposures amounted to $67.7 million and were partially offset by forward contracts with a notional amount of $61.5 million. Based on our net exposures as of April 30, 2010, a 10% movement in currency rates would result in a gain or loss of $0.6 million.

Hedging of our Balance Sheet Exposures may not always be effective to protect us against currency exchange rate fluctuations, particularly in the event of imprecise forecasts of non-U.S. denominated assets and liabilities. In addition, at times we have not fully hedged our Balance Sheet Exposures, leaving us at risk to foreign exchange gains and losses on the un-hedged amounts. Furthermore, historically we have not hedged our P&L Exposures. Accordingly, if there were an adverse movement in exchange rates, we might suffer significant losses. For instance, for the six months ended April 30, 2010 and 2009, we recorded $1.2 million of net foreign exchange losses and $4.3 million in net foreign exchange gains, respectively, despite our hedging activities.

Equity Price Risk

In June 2007, we sold $316.2 million aggregate principal amount of 1.375% Senior Convertible Notes due 2012 (the Notes) which may be converted prior to maturity into cash and shares of our common stock upon the occurrence of certain events. In April 2009, we repurchased and extinguished $33.5 million par value of our outstanding Notes. In December 2009, we repurchased and extinguished an additional $5.5 million par value of our outstanding Notes. As of April 30, 2010, the remaining par value of the Notes was $277.2 million. The conversion price of the Notes at issuance was approximately $44.02 per share. 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, would be paid in our common stock. Concurrently with the issuance of the Notes, we entered into note hedge transactions to reduce the financial impact from the conversion of the Notes and to mitigate any negative effect such conversion may have on the price of our common stock. We entered into the note hedge transactions with Lehman Brothers OTC Derivatives (Lehman Derivatives) and JP Morgan Chase Bank National Association, London Branch whereby we purchased options to purchase approximately 7.2 million shares of our common stock at a price of $44.02 per share and sold warrants to the same counterparties whereby they have the option to purchase 7.2 million shares of our common stock at a price of approximately $62.36.

The filing by Lehman Brothers of a voluntary Chapter 11 bankruptcy petition in September 2008 constituted an event of default under the note hedge transactions with Lehman Derivatives. On September 21, 2008, we delivered a notice of termination to Lehman Derivatives to cancel 3.6 million options we purchased.

Following the termination of the note hedge transaction with Lehman Derivatives and the repurchases and extinguishment of a portion of our outstanding Notes as described above, as of April 30, 2010, we held an option to purchase up to 3.1 million shares of our common stock at $44.02, and have outstanding warrants for 7.2 million shares of our common stock at $62.36. Therefore, there is no impact if the share price of our common stock is below $44.02. For every $1 increase in the share price of our common stock from $44.02 up to $62.36, we expect to issue the equivalent of $3.2 million in shares of our common stock (at the relevant share price). For every $1 increase in the share price of our common stock above $62.36, we will be required to issue the equivalent of $6.3 million in shares of our common stock.

ITEM 4. ***CONTROLS AND PROCEDURES***

Evaluation of Disclosure Controls and Procedures

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

Our management is responsible for establishing and maintaining our disclosure controls and procedures. Our Chief Executive Officer and Chief Financial Officer participated with our management in evaluating the effectiveness of our disclosure controls and procedures as of April 30, 2010.

Based on our management s evaluation (with the participation of our Chief Executive Officer and our Chief Financial Officer), our Chief Executive Officer and Chief Financial Officer have concluded that, as of April 30, 2010, in light of the material weakness described below, our disclosure controls and procedures were not effective to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our disclosure controls and procedures were not effective as of October 31, 2009, due to a transaction-level material weakness in the design and operating effectiveness of controls related to income taxes. This material weakness has not been remedied, therefore, our management s conclusion that, as of October 31, 2009, our internal control over financial reporting was not effective, remains in effect.

Changes in Internal Controls and Procedures

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We continue to implement our remediation plan for the material weakness in the design and operating effectiveness of controls related to income taxes as described under Item 9A. *Controls and Procedures* in our annual report on Form 10-K for the fiscal year ended October 31, 2009. We believe we will complete the required remedial actions for the material weakness in fiscal year 2010. The material costs associated with the above remedial actions include ongoing compensation expenses for the expanded tax department and engagement fees for third party tax consulting firms to assist with the design and implementation and testing of the new processes and controls.

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PART II OTHER INFORMATION

ITEM 1. *LEGAL PROCEEDINGS*

Information with respect to this Item may be found in Note 12. *Commitments and Contingencies* of Notes to Condensed Consolidated Financial Statements in this Form 10-Q, which is incorporated into this Item 1 by reference.

ITEM 1A. *RISK FACTORS*

Risks Related to Our Business

Our internal processes and controls and our disclosure controls have been inadequate; if the processes and controls we have implemented and continue to implement are inadequate, we may not be able to comply with our financial statement certification requirements under applicable SEC rules, or prevent future errors in our financial reporting.

As described under Part I Item 4. *Controls and Procedures* in this Form 10-Q and under Item 9A. *Controls and Procedures* in our annual report on Form 10-K for the fiscal year ended October 31, 2009, our internal processes and controls continue to be ineffective because of a material weakness in control activities related to income taxes. This material weakness and other material weaknesses in our internal control over financial reporting contributed to our need to restate previously reported interim financial information for each of the first three quarters of our fiscal year ended October 31, 2007, and to the delays in the filing of our annual report on Form 10-K for fiscal year 2007. We also were unable to file our quarterly reports on Form 10-Q for our fiscal quarters ended January 31, 2008 and April 30, 2008 on a timely basis. We have implemented and intend to continue to implement a number of additional and enhanced processes and controls to improve our internal control over financial reporting.

As of April 30, 2010, we have not yet remediated our material weakness in control activities related to income taxes. If we are unsuccessful in adequately implementing improved controls, we may be unable to comply with Exchange Act Rules 13a-15 and 15d-15, which specify the processes and controls that public companies are required to have in place, and we may be unable to provide the executive certificates required by Exchange Act Rules 13a-15 and 15d-15 in our quarterly and annual reports. Even if we implement improved controls, these controls may not be sufficient to detect or prevent future errors in financial reporting. We have devoted additional resources to our financial control and reporting requirements, including hiring additional qualified employees in these areas. We may hire additional employees and may also engage additional consultants in these areas. Competition for qualified financial control and accounting professionals in the geographic areas in which we operate is keen and there can be no assurance that we will be able to hire and retain these individuals.

If recent weakened macroeconomic conditions or economic volatility persist or worsen, our business and results of operations could be adversely affected.

Since the latter half of 2008, the U.S. and international economy and financial markets have experienced significant slowdown and volatility due to uncertainties related to availability of credit, difficulties in the banking and financial services sectors, softness in the housing, retail and consumer markets, energy prices, severely diminished market liquidity, geopolitical conflicts, falling consumer confidence, increased rates of default and bankruptcy and rising unemployment rates. This slowdown resulted in reduced demand for our products, which in turn adversely impacted our revenues, business, financial condition and results of operations. In particular, the slowdown and volatility in the global markets resulted in softer demand in the financial and retail sectors, pricing pressures and more conservative purchasing decisions by customers, including a tendency toward lower-priced products and lower volume of purchases. In some countries where we do business, the weakened economy has lead to economic instability which negatively affected sales, an example of which is decreased purchasing power due to currency devaluations.

While a number of markets have shown signs of improvement and we have experienced some sequential growth in revenues and earnings in recent quarters, certain markets such as parts of southern Europe continue to experience weakened economic conditions. We cannot predict whether such improvements or growth will continue and any future decline in global conditions could negatively impact our business, operating results and financial condition. Continued volatility in market conditions make it difficult to forecast earnings and if we fail to meet our financial guidance or the expectations of investment analysts or investors in any period, the market price of our common stock could decline.

We depend on a limited number of customers, including distributors and resellers, for a large percentage of our System Solutions sales. If we do not effectively manage our relationships with them, our net revenues and operating results will suffer.

A significant percentage of our net revenues are attributable to a limited number of customers, including distributors and ISOs. For the fiscal quarter ended April 30, 2010, our ten largest customers accounted for approximately 28.7% of our net revenues. Although no individual customer accounted for more than 10% of net revenues in the fiscal quarter ended April 30, 2010, three customers accounted for approximately 15.9% of our net revenues in that period. If any of our large customers significantly reduces or delays purchases from us or if we are required to sell products to them at reduced prices or on other terms less favorable to us, our revenues and income could be materially adversely affected.

We sell a significant portion of our solutions through third parties such as independent distributors, independent sales organizations, or ISOs, value-added resellers, and payment processors. We depend on their active marketing and sales efforts. These third parties also provide after-sales support and related services to end user customers. When we introduce new applications and solutions, they also provide critical support for developing and supporting the custom software applications to run on our various electronic payment systems and, internationally, in obtaining requisite certifications in the markets in which they are active. Accordingly, the pace at which we are able to introduce new solutions in markets in which these parties are active depends on the resources they dedicate to these tasks. Moreover, our arrangements with these third parties typically do not prevent them from selling products of other companies, including our competitors, and they may elect to market our competitors products and services in preference to our system solutions. If one or more of our major resellers terminates or otherwise adversely changes its relationship with us, we may be unsuccessful in replacing it. The loss of one of our major resellers could impair our ability to sell our solutions and result in lower revenues and income. It could also be time consuming and expensive to replicate, either directly or through other resellers, the certifications and the custom applications owned by these third parties.

In addition, orders from our distributors and resellers are dependent upon their sales volumes and inventory management decisions. In response to the global economic downturn a number of distributors and resellers have experienced weakened demand and slower sales. In particular, in recent months some of these distributors and resellers have reported increased channel inventory of our products, which may lead such distributors and resellers to decrease or defer orders of our products. Declines or deferral of orders could materially adversely affect our revenues, operating results and cash flows.

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

During the six months ended April 30, 2010 and 2009, approximately 61.9% and 63.0%, respectively, of our net revenues were generated outside of the United States. We expect our percentage of net revenues generated outside of the United States to increase over time, although volatility in individual markets may result in slower international growth in certain periods. Part of our strategy is to expand our penetration in existing foreign markets and to enter new foreign markets and in particular to enter new emerging markets. Our ability to penetrate some international markets may be limited due to different technical standards, protocols or product

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

- securing commercial relationships to help establish our presence in new international markets;
- hiring and training personnel capable of marketing, installing and integrating our solutions, supporting customers, and effectively managing operations in foreign countries;
- localizing our solutions to target the specific needs and preferences of foreign customers, which may differ from our traditional customer base in the markets we currently serve;
- building our brand name and awareness of our services among foreign customers in new international markets; and
- implementing new systems, procedures, and controls to monitor our operations in new international markets.

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

- multiple, changing, and often inconsistent enforcement of laws and regulations;
- satisfying local regulatory or industry imposed security or other certification requirements;
- competition from existing market participants that may have a longer history in and greater familiarity with the international markets we enter;
- tariffs and trade barriers;
- laws and business practices that may favor local competitors;
- fluctuations in currency exchange rates;
- extended payment terms and the ability to collect accounts receivable;
- economic and political instability in certain foreign countries;
- imposition of limitations on conversion of foreign currencies into U.S. dollars or remittance of dividends and other payments by foreign subsidiaries;

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

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

Many of these factors typically become more prevalent during periods of economic stress; therefore, recent weakened global economic conditions may exacerbate certain of these risks. For example, we are subject to foreign currency risk and economic and political instability which can lead to significant and unpredictable volatility in currency rates, including significant currency devaluations, which may negatively impact our revenues, gross margins, results of operations and financial position. Although we engage in some hedging of our foreign currency exposures, we do not hedge all such exposures and our hedging arrangements may not always be effective. See *Foreign Currency Risk* under Item 3. *Quantitative and Qualitative Disclosures About Market Risk* in this Form 10-Q. In addition, compliance with foreign and U.S. laws and regulations that are applicable to our international operations is complex and may increase our cost of doing business in international jurisdictions and our international operations could expose us to fines and penalties if we fail to comply with these regulations. These laws and regulations include import and export requirements, exchange control regulations, U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting corrupt payments to governmental officials. Although we have implemented policies and procedures designed to ensure compliance with these laws, there can be no assurance that our employees, contractors, and agents will not take actions in violation of our policies, particularly as we expand our operations through organic growth and acquisitions. For example, two of our Brazilian subsidiaries that were acquired as a part of the Lipman acquisition have been notified of a number of assessments regarding Brazilian customs penalties that relate to alleged infractions in the importation of goods as well as certain tax assessments and penalties. See Part II Item 1. *Legal Proceedings* of this Form 10-Q. Defending such assessments can be costly and divert management time. Any such violations could subject us to civil or criminal penalties, including the imposition of substantial fines and interest or prohibitions on our ability to offer our products and services to one or more countries, and could also materially damage our reputation, our brand, our international expansion efforts, our business, and negatively impact our operating results. In addition, if we fail to address the challenges and risks associated with international expansion and acquisition strategy, we may encounter difficulties implementing our strategy, which could impede our growth or harm our operating results.

Our solutions may have defects or experience field failures that could delay sales and collection of receivables, increase costs and result in claims against us.

We offer complex solutions that are susceptible to undetected hardware and software errors or failures. Solutions may experience failures when first introduced, as new versions are released, or at any time during their lifecycle. Defects may also arise from third-party components that we incorporate into our products, such as hardware modules, chipsets or battery cells. Any product recalls as a result of errors or failures could result in the loss of or delays in market acceptance of our solutions, adversely affect our business and reputation and increase our product costs which could negatively impact our margins, profitability and results of operations. Any significant returns or warranty claims for any of our products could result in significant additional costs to us and could adversely affect our results of operations. Our customers may also run third-party software applications on our electronic payment systems. Errors in third-party applications could adversely affect the performance of our solutions. Finally, our electronic payment systems may also experience field failures which we would not be able to determine or anticipate prior to occurrence of such failure. Field failure may result from usage with third-party issued payment cards, for example, if such usage generates excess electrostatic discharge.

The existence of defects and delays in correcting them could result in negative consequences, including the following: harm to our brand; delays in shipping system solutions; loss of market acceptance for our system solutions; additional warranty expenses; diversion of resources from product development; and loss of credibility with distributors and customers. Correcting defects can be time consuming and in some circumstances extremely difficult. Software errors may take several months to correct, and hardware defects may take even longer to correct.

Security is vital to our customers and end users and therefore breaches in the security of our solutions could adversely affect our reputation and results of operations.

Protection against fraud is of key importance to the purchasers and end users of our solutions. We incorporate security features, such as encryption software and secure hardware, into our solutions to protect against fraud in electronic payment transactions and to ensure the privacy and integrity of consumer data. Our solutions may be vulnerable to breaches in security due to defects in the security mechanisms, the operating system and applications, or the hardware platform. Security vulnerabilities could jeopardize the security of information transmitted or stored using our solutions. We also provide our customers with repair, encryption key loading and helpdesk services, and have in the past and may in the future also experience security breaches or fraudulent activities related to unauthorized access to sensitive customer information. If the security of our solutions is compromised, our reputation and marketplace acceptance of our solutions will be adversely affected, which would cause our business to suffer, and we may become subject to damages claims.

During some fiscal quarters, a significant percentage of our business is executed towards the end of the fiscal quarters. This could negatively impact our business and results of operations.

Revenues recognized in our fiscal quarters can be back-end loaded. This means that during a particular fiscal quarter the timing of orders could be such that a substantial portion of sales orders are received, product is shipped, and revenue is recognized towards the end of the fiscal quarter. This back-end loading, particularly if it becomes more pronounced, could adversely affect our business and results of operations due to a number of factors including the following:

the manufacturing processes at our third party contract manufacturers could become concentrated in a shorter time period. This concentration of manufacturing could increase manufacturing costs, such as costs associated with the expediting of orders, and negatively impact gross margins. The risk of higher levels of obsolete or excess inventory write-offs would also increase if we were to hold higher inventory levels to counteract this effect;

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

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

in order to fulfill orders at the end of a quarter, we may be forced to deliver our products using air freight which results in increased distribution costs.

We are exposed to credit risk with some of our customers and to credit exposures and currency controls in certain markets, which could result in material losses.

A significant portion of our sales are on an open credit basis, with typical payment terms of up to 60 days in the United States and, because of local customs or conditions, longer in some international markets. In the past, there have been bankruptcies among our customer base. Although credit losses have not been material to date, future losses, if incurred, could harm our business and have a materially adverse effect on our operating results and financial condition. Also, certain customers who are invoiced in U.S. dollars, such as those based in Venezuela, have experienced and may continue to experience difficulties in obtaining U.S. dollar currency due to local currency controls, and therefore may not be able to remit timely payment to us. Additionally, to the degree that the recent turmoil in the credit markets continue to make it more difficult for some customers to obtain financing or access U.S. dollar currency, our customers ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business, cash flows, operating results and financial condition.

Fluctuations in currency exchange rates may adversely affect our results of operations.

A substantial portion of our business consists of sales made to customers outside the United States. A portion of the net revenues we receive from such sales is denominated in currencies other than the U.S. dollar. Additionally, portions of our cost of net revenues and our other operating expenses are incurred by our International operations and denominated in local currencies. Fluctuations in the value of these net revenues, costs and expenses as measured in U.S. dollars have affected our results of operations historically, and adverse currency exchange rate fluctuations may have a material impact in the future. Further, changes in exchange rates that strengthen the U.S. dollar could increase the price of our products in the local currencies of the foreign markets we serve. This would result in making our products relatively more expensive than products that are denominated in local currencies, leading to a reduction in sales and profitability in those foreign markets. In addition, our balance sheet reflects non-U.S. dollar denominated assets and liabilities, primarily intercompany balances, which can be adversely affected by fluctuations in currency exchange rates and cause gains and losses that are included in other income (expense), net in our Consolidated Statements of Operations. We have entered into foreign exchange forward contracts and other arrangements intended to hedge our balance sheet exposure to adverse fluctuations in exchange rates. We have also effectively priced our System Solutions in U.S. dollars in certain countries. Nevertheless, these hedging arrangements may not always be effective, particularly in the event of imprecise forecasts of non-U.S. denominated assets and liabilities. Additionally, our efforts to effectively price products in U.S. dollars may have disadvantages since it may affect demand for our products if the local currency strengthens relative to the U.S. dollar. On the other hand, we could be adversely affected where the U.S. dollar strengthens relative to the local currency between the time of a sale and the time we receive payment, which would be collected in the devalued local currency. Accordingly, if there is an adverse movement in exchange rates, we might suffer significant losses and our results of operations may otherwise be adversely affected. Uncertainty in the global market conditions have resulted in and may continue to cause significant volatility in foreign currency exchange rates which could increase these risks. Additionally, hedging programs expose us to risks that could adversely affect our operating results, including the following:

- we may be unable to hedge currency risk for some transactions because of a high level of uncertainty or the inability to reasonably estimate our foreign exchange exposures; and

- we may be unable to acquire foreign exchange hedging instruments in some of the geographic areas where we do business, or, where these derivatives are available, we may not be able to acquire enough of them to fully offset our exposure.

We depend upon third parties to manufacture our systems and to supply the components necessary to manufacture our products.

We utilize a limited number of third parties to manufacture our hardware products pursuant to our specifications and rely upon these contract manufacturers to produce and deliver products to our customers on a timely basis and at an acceptable cost. Further, a majority of these third party manufacturing activities are concentrated in China. Disruptions to the business or operations of these contract manufacturers, or to their ability to produce the products we require in accordance with our and our customers requirements, and particularly disruptions to the manufacturing operations in China, could significantly affect our ability to fulfill customer demand on a timely basis which could materially harm our revenues and results of operations. During the fiscal quarter ended January 31, 2010, we shifted additional manufacturing activity to our contract manufacturer s facility in Israel, which increases our dependency on our third party contract manufacturers and could exacerbate these risks, including the risk of disruptions related to our ability and the ability of our contract manufacturers to effectively accommodate the shift in production.

Components such as application specific integrated circuits, or ASICs, payment processors, wireless modules, modems and printer mechanisms that are necessary to manufacture and assemble our systems are sourced either directly by us or on our behalf by our contract manufacturers from a variety of component suppliers selected by us. Certain of the components are specifically customized for use in our products and are obtained from sole source suppliers on a purchase order basis. In recent periods, we have experienced a tightening in availability of certain semiconductor commodities that are necessary for the manufacture of our products. If our suppliers are unable or unwilling to deliver the quantities that we require, we would be faced with a shortage of critical components. We also experience from time to time an increase in the lead time for delivery of some of our key components. We may not be able to find alternative sources in a timely manner if suppliers of our key components become unwilling or unable to provide us with adequate supplies of these key components when we need them or if they increase their prices. If we are unable to obtain sufficient key required components, or to develop alternative sources if and as required in the future, or to replace our component and factory tooling for our products in a timely manner if they are damaged or destroyed, we could experience delays or reductions in product shipments. This could harm our relationships with our customers and cause our revenues to decline. Even if we are able to secure alternative sources or replace our tooling in a timely manner, our costs could increase.

The government tax benefits that our subsidiaries have previously received or currently receive require them to meet several conditions and may be terminated or reduced in the future, which could require us to pay increased taxes or refund tax benefits received in the past.

Israel

Our principal subsidiary in Israel (formerly Lipman) previously received tax benefits under Israeli law for capital investments that are designated as Approved Enterprises. We received such tax benefits of approximately $0.4 million in 2009 and $8.0 million in 2008. Due to our restructuring and contract

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manufacturing arrangements entered into in fiscal 2010 we will no longer meet the requirements necessary to maintain the tax benefit status in Israel. Effective beginning November 1, 2009, we will be taxed at the full statutory rate in Israel and no future tax benefit will be recorded. Our principal subsidiary in Israel has undistributed earnings of approximately $179.2 million, the vast majority of which are attributable to Lipman s historic Approved Enterprise programs. As such, these earnings were not subject to Israeli statutory corporate tax at the time they were generated. To the extent that these earnings are distributed to the United States in the future, our Israeli subsidiary would be required to pay corporate tax at the rate ordinarily applicable to such earnings, currently between 12.5% and 36.25% which includes the withholding tax between the U.S. and Israel. We have accrued approximately $48.7 million for taxes associated with potential future distributions of our Israeli subsidiary s approximately $179.2 million in earnings.

Singapore

Our principal subsidiary in Singapore has received tax benefits under the Singapore Pioneer Tax Holiday provision. We received such tax benefits of approximately $4.1 million in 2009 and $1.2 million in 2008. To maintain our eligibility for these benefits, we must meet certain agreed conditions, including maintaining agreed levels of Singapore employees and incurring and documenting total local business spend levels as agreed with the Singapore Economic Development Board. We are currently renegotiating terms and conditions for 2008 and subsequent years, including deferral or revision of certain of these conditions. Although we expect to maintain our tax exempt status, if we are not able to achieve or maintain employment levels and total local business spend levels acceptable to the Singapore Economic Development Board, then all income in Singapore could be taxed at the statutory rate of 17% instead of the agreed Pioneer Tax Holiday rate of 0%, which would adversely affect our results of operations and cash flows.

We have significant operations in Israel and therefore our results of operations may be adversely affected by political or economic instability or military operations in or around Israel.

We have offices and personnel in Israel. In addition, a number of our products are manufactured by our contract manufacturer in facilities located in Israel and many of our suppliers are located in Israel. Therefore, political, economic, and military conditions in Israel directly affect our operations. The future of peace efforts between Israel and its Arab neighbors remains uncertain. Any armed conflicts or further political instability in the region is likely to negatively affect business conditions and materially harm our results of operations. Furthermore, several countries continue to restrict or ban business with Israel and Israeli companies. These restrictive laws and policies may seriously limit our ability to make sales in those countries.

In addition, many employees in Israel are obligated to perform at least 30 days and up to 40 days, depending on rank and position, of military reserve duty annually and are subject to being called for active duty under emergency circumstances. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time. Our operations in Israel could be disrupted by the absence for a significant period of one or more key employees or a significant number of other employees due to military service. Any disruption in our operations in Israel could materially adversely affect our business.

We depend on our contract manufacturing facility in Israel. If operations at these facilities are interrupted for any reason, there could be a material adverse effect on our results of operations.

We recently transferred the manufacture of NURIT products from an in-house facility to a contract manufacturer with operations in Israel, which manufactures products and warehouses components and finished goods inventories. Disruption of the manufacturing process of our contract manufacturer or damage to their facility, whether as a result of fire, natural disaster, act of war, terrorist attack, or otherwise, could materially affect our ability to deliver products on a timely basis and could materially adversely affect our results of operations. We also assemble some of our products in Brazil. To the extent products are manufactured by third parties in additional countries, we may become more dependent on third-party manufacturers to produce and deliver products sold in these markets on a timely basis and at an acceptable cost.

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We may pursue complementary acquisitions and strategic investments, which will involve numerous risks. We may not be able to address these risks without substantial expense, delay or other operational or financial problems.

We may seek to acquire or make investments in related businesses, technologies, or products in the future. Acquisitions or investments involve various risks, such as:

- the difficulty of integrating the technologies, operations, and personnel of the acquired business, technology or product;
- the potential disruption of our ongoing business, including the diversion of management attention;
- the possible inability to obtain the desired financial and strategic benefits from the acquisition or investment;
- the loss of all or part of our investment;
- loss of customers;
- the risk that increasing complexity inherent in operating a larger business may impact the effectiveness of our internal controls and adversely affect our financial reporting processes;
- assumption of unanticipated liabilities;
- the loss of key employees of an acquired business; and
- the possibility of our entering markets in which we have limited prior experience.

Future acquisitions and investments could also result in substantial cash expenditures, potentially dilutive issuance of our equity securities and incurrence of additional debt, contingent liabilities and amortization expenses related to other intangible assets that could adversely affect our business, operating results, and financial condition. We depend on the retention and performance of existing management and employees of acquired businesses for the day-to-day management and future operating results of these businesses.

We have experienced rapid growth in recent years in our operations, and if we cannot adequately manage our growth, our results of operations will suffer.

We have experienced rapid growth in recent years in our operations, both internally and from acquisitions. We cannot be sure that we have made adequate allowances for the costs and risks associated with our expansion, or that our systems, procedures, and managerial controls will be adequate to support further expansion in our operations. Any delay in implementing, or transitioning to, new or enhanced systems, procedures, or controls to accommodate the requirements of our business and operations and to effectively integrate acquired operations may adversely affect our ability to manage our product inventory and record and report financial and management information on a timely and accurate basis. If we are unable to successfully manage expansion, our results of operations may be adversely affected.

Our quarterly operating results may fluctuate significantly as a result of factors outside of our control, which could cause the market price of our common stock to decline.

We expect our revenues and operating results to vary from quarter to quarter. As a consequence, our operating results in any single quarter may not meet the expectations of securities analysts and investors, which could cause the price of our common stock to decline. Factors that may affect our operating results include:

- the type, timing, and size of orders and shipments;
- demand for and acceptance of our new product offerings;
- customers willingness to maintain inventories and/or increased overall channel inventories held by customers in a particular quarter;

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- delays in the implementation and delivery of our products and services, which may impact the timing of our recognition of revenues;
- variations in product mix and cost during any period;
- development of new relationships and penetration of new markets and maintenance and enhancement of existing relationships with customers and strategic partners;
- component supply, manufacturing, or distribution difficulties;
- deferral of customer contracts in anticipation of product or service enhancements;
- timing of commencement, implementation, or completion of major implementation projects;
- timing of governmental, statutory and industry association requirements;
- the relative mix of North America and International net revenues;
- fluctuations in currency exchange rates;
- the fixed nature of many of our expenses; and
- industry and economic conditions, including competitive pressures and inventory obsolescence.

In particular, differences in relative growth rates between our businesses in North America and internationally may have a significant effect on our operating results, particularly our reported gross profit percentage, in any individual quarter, with International sales carrying lower margins.

In addition, we have in the past and may continue to experience periodic variations in sales to our key vertical and international markets. These periodic variations occur throughout the year and may lead to fluctuations in our quarterly operating results depending on the impact of any given market during that quarter and could lead to volatility in our stock price.

We are party to a number of lawsuits and we may be named in additional litigation, all of which are likely to require significant management time and attention and expenses and may result in an unfavorable outcome which could have a material adverse effect on our business, financial condition, and results of operations.

We are currently a party in several litigation proceedings. For example, in connection with the restatements of our historical interim financial statements for fiscal year 2007, a number of securities class action complaints were filed against us and certain of our officers, and purported derivative actions have also been filed against certain of our current and former directors and officers. For a description of our material pending litigation, please see Part II Item 1. *Legal Proceedings* of this Form 10-Q.

The amount of time and resources required to resolve these lawsuits is unpredictable, and defending ourselves is likely to divert management s attention from the day-to-day operations of our business, which could adversely affect our business, financial condition, and results of operations. In addition, an unfavorable outcome in such litigation or a decision by us to settle such lawsuits to avoid the distraction and expense of continued litigation even if we deem the claims to be without merit would have a material adverse effect on our business, financial condition, and results of operations.

Our insurance may not be sufficient to cover our costs for defending these actions or paying any damages in the event of an unfavorable outcome. In addition, we may be obligated to indemnify (and advance legal expenses to) both current and former officers, employees and directors in connection with the securities class action and derivative action matters. We currently hold insurance policies for the benefit of our directors and officers, although our insurance coverage may not be sufficient in some or all of these matters. Furthermore, our insurance carriers may seek to deny coverage in some or all of these matters, in which case we may have to fund the indemnification amounts owed to such directors and officers ourselves.

We are subject to the risk of additional litigation and regulatory proceedings or actions in connection with the restatement. We have responded to inquiries and provided information and documents related to the restatement to the SEC, the U.S. Department of Justice, the New York Stock Exchange, and the Chicago Board Options Exchange. We were the subject of a Wells Notice from the SEC stating that the Staff intends to recommend that the SEC bring a civil injunctive action against us, alleging violations of the federal securities laws arising from the restatement. See additional discussion under Part II Item 1. *Legal Proceedings* of this Form 10-Q. Although we recently settled this matter with the SEC, additional regulatory inquiries may also be commenced by other U.S. federal, state or foreign regulatory agencies. In addition, we may in the future be subject to additional litigation or other proceedings or actions arising in relation to the restatement of our historical interim financial statements. Litigation and any potential regulatory proceeding or action may be time consuming, expensive and distracting from the conduct of our business. The adverse resolution of any specific lawsuit or any potential regulatory proceeding or action could have a material adverse effect on our business, financial condition, and results of operations.

These litigation proceedings could result in substantial additional costs and expenses and adversely affect our cash flows, and may adversely affect our business, financial condition, and results of operations. For example, we have incurred substantial expenses for legal, accounting, tax and other professional services in connection with the investigation by the audit committee of our board of directors, our internal review of our historical financial statements, the preparation of the restated financial statements, inquiries from government agencies, the related litigation, the amendments to our credit agreement as a result of our failure to timely file our Exchange Act reports with the SEC and other current litigation matters. We expect to continue to incur significant expenses in connection with these matters. Many members of our senior management team and our Board of Directors have been and will be required to devote a significant amount of time to the litigation related to the restatement. In addition, certain of these individuals are named defendants in the litigation related to the restatement. Defending these actions may require significant time and attention from them. If our senior management is unable to devote sufficient time in the future developing and pursuing our strategic business initiatives and running ongoing business operations, there may be a material adverse effect on our business, financial condition and results of operations.

We may be subject to additional impairment charges due to potential declines in the fair value of our assets.

As a result of our acquisitions, particularly that of Lipman in November 2006, we have recorded significant goodwill and intangible assets on our balance sheet. We test goodwill and intangible assets for impairment on a periodic basis as required, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The events or changes that could require us to test our goodwill and intangible assets for impairment include a reduction in our stock price and market capitalization and changes in our estimated future cash flows, as well as changes in rates of growth in our industry or in any of our reporting units. In the fourth quarter of 2008, we recorded an impairment charge of $289.1 million for goodwill and developed technology intangible assets due to lower revenue expectations in light of current operating performance and future operating expectations. During the first fiscal quarter of 2009, we concluded that the carrying amount of the North America and Asia reporting units exceeded their implied fair values and recorded an estimated impairment charge of $178.3 million. We finalized the goodwill evaluation process and recorded a $2.7 million reduction of impairment charge during the second quarter of fiscal year 2009. The final goodwill impairment charge was $175.5 million as of April 30, 2009. We have not recorded any further impairment charges since the quarter ended April 30, 2009.

We will continue to evaluate the carrying value of our remaining goodwill and intangible assets and if we determine in the future that there is a potential further impairment in any of our reporting units, we may be required to record additional charges to earnings which could materially adversely affect our financial results and could also materially adversely affect our business. The process of evaluating the potential impairment of goodwill and intangible assets is subjective and requires significant judgment at many points during the analysis and includes estimates of our future cash flows attributable to a reporting unit or asset over its estimated remaining useful life. Any changes in our estimates, such as our estimates of the future cash flows attributable to a reporting unit or asset, or a longer or more significant decline in our market capitalization or the macroeconomic environment, could require us to record additional impairment charges which could materially adversely affect our financial results. See Item 2. *Management s Discussion and Analysis of Financial Condition and Results of Operations* and Note 2. *Goodwill and Purchased Intangible Assets* in the Notes to the Condensed Consolidated Financial Statements for additional information related to impairment of goodwill and intangible assets.

Our North American and International operations are not equally profitable, which may promote volatility in our earnings and may adversely impact future growth in our earnings.

Our International sales of System Solutions have tended to carry lower average selling prices and therefore have lower gross margins than our sales in North America. As a result, if we successfully execute plans to expand our International sales, any improvement in our results of operations will likely not be as favorable as an expansion of similar magnitude in the United States and Canada. In addition, we are unable to predict for any future period our proportion of revenues that will result from International sales versus sales in North America. Variations in this proportion from period to period may lead to volatility in our results of operations which, in turn, may depress the trading price of our common stock.

We may accumulate excess or obsolete inventory that could result in unanticipated price reductions and write-downs and adversely affect our financial condition.

In formulating our solutions, we have focused our efforts on providing to our customers solutions with higher levels of functionality, which requires us to develop and incorporate cutting edge and evolving technologies. This approach tends to increase the risk of obsolescence for products and components we hold in inventory and may compound the difficulties posed by other factors that affect our inventory levels, including the following:

- the need to maintain significant inventory of components that are in limited supply;
- buying components in bulk for the best pricing;
- responding to the unpredictable demand for products;
- cancellation of customer orders; and
- responding to customer requests for quick delivery schedules.

The accumulation of excess or obsolete inventory has in the past resulted in and may in future periods result in price reductions and inventory write-downs and scrap, which could adversely affect our business, results of operations and financial condition. For example, for the fiscal year ended October 31, 2009, we incurred costs for obsolete inventory, scrap, and purchase commitments for excess components at contract manufacturers of $23.0 million due to changing demand we experienced in fiscal year 2009 as a result of the severe deterioration in the macroeconomic environment. See also Part I, Item 2. *Management s Discussion and Analysis of Financial Condition and Results of Operations*.

If we do not accurately forecast customer demand and effectively manage our product mix and inventory levels, we may lose sales from having too few or the wrong mix of products or incur costs associated with excess inventory.

If we improperly forecast demand for our products we could end up with too many products and be unable to sell the excess inventory in a timely manner, if at all, or, alternatively we could end up with too few products and not be able to satisfy demand. This problem is exacerbated because our attempt to closely match inventory levels with product demand leaving limited margin for error, and we generally receive a significant volume of customer orders towards the end of each fiscal quarter which leaves us little room to adjust inventory mix to match demand. Also, during the transition from an existing product to a new replacement product, we must

accurately predict the demand for the existing and the new product. Our inability to properly manage our inventory levels could cause us to incur increased expenses associated with writing off excessive or obsolete inventory or lose sales or have to ship products by air freight to meet immediate demand incurring incremental freight costs above sea freight costs, a preferred method, and suffering a corresponding decline in gross margins. If we do not accurately predict demand, we could also incur increased expenses associated with binding commitments to certain third party contract manufacturers which would negatively impact our gross margins and operating results. See Note 12. *Commitments and Contingencies* in the Notes to the Condensed Consolidated Financial Statements of this Form 10-Q. During times of economic uncertainty, such as that of the current global economic environment, it becomes more difficult to accurately forecast demand and manage our inventory levels. Deteriorating market conditions have in the past and can in future periods cause us to incur additional costs associated with excess and obsolete inventory, scrap and excess inventory held by our contract manufacturers. For example, we incurred approximately $23.0 million of such costs for the fiscal year ended October 31, 2009.

Our proprietary technology is difficult to protect and unauthorized use of our proprietary technology by third parties may impair our ability to compete effectively.

We may not be able to protect our proprietary technology, which could enable competitors to develop services that compete with our own. We rely on copyright, trademark, and trade secret laws, as well as confidentiality, licensing and other contractual arrangements to establish and protect the proprietary aspects of our solutions. Institution of legal proceedings to enforce our intellectual property rights could be costly and divert the efforts and attention of our management and technical personnel from other business operations. In addition, there can be no assurance that such proceedings would be determined in our favor. We do not have patent protection for certain important aspects of our current solutions. The laws of some countries in which we sell our solutions and services may not protect software and intellectual property rights to the same extent as the laws in the United States. If we are unable to prevent misappropriation of our technology, competitors may be able to use and adapt our technology. Our failure to protect our technology could diminish our competitive advantage and cause us to lose customers to competitors.

Our business may suffer if we are sued for infringing the intellectual property rights of third parties, or if we are unable to obtain rights to third-party intellectual property on which we depend.

Third parties have in the past asserted and may in the future assert claims that our system solutions infringe their proprietary rights. Such infringement claims, even if meritless, may cause us to incur significant costs in defending those claims. We may be required to discontinue using and selling any infringing technology and services, to expend resources to develop non-infringing technology or to purchase licenses or pay royalties for other technology. Similarly, we depend on our ability to license intellectual property from third parties. These or other third parties may become unwilling to license to us on acceptable terms intellectual property that is necessary to our business. In either case, we may be unable to acquire licenses for other technology on reasonable commercial terms or at all. As a result, we may find that we are unable to continue to offer the solutions and services upon which our business depends.

We have received, and have currently pending, third-party claims and may receive additional notices of such claims of infringement in the future. Infringement claims may cause us to incur significant costs in defending those claims or to settle claims to avoid costly or protracted litigation even if we deem those claims to be without merit. For example, in September 2007, SPA Syspatronic AG commenced an infringement action against us and others and in March 2008, Cardsoft, Inc. and Cardsoft (Assignment for the Benefit of Creditors), LLC commenced an infringement action against us and others. Infringement claims are expensive and time consuming to defend, regardless of the merits or ultimate outcome. Similar claims may result in additional protracted and costly litigation. There can be no assurance that we will continue to prevail in any such actions or that any license required under any such patent or other intellectual property would be made available on commercially acceptable terms, if at all. See Note 12. *Commitments and Contingencies* in the Notes to the Condensed Consolidated Financial Statements of this Form 10-Q.

We face litigation and tax assessment risks that could force us to incur substantial defense costs and could result in damages awards against us that would negatively impact our business.

As described in Note 12. *Commitments and Contingencies* in the Notes to the Condensed Consolidated Financial Statements of this Form 10-Q, there are a number of pending litigation and tax assessment matters each of which may be time-consuming to resolve, expensive to defend, and disruptive to normal business operations. The outcome of litigation and tax assessments is inherently difficult to predict. An unfavorable resolution of any specific lawsuit or tax assessment could have a material adverse effect on our business, results of operations and financial condition.

We may not be able to attract, integrate, manage, and retain qualified personnel.

Our success depends to a significant degree upon the continued contributions of our key senior management, engineering, sales and marketing, and manufacturing personnel, many of whom would be difficult to replace. In addition, our future success also depends on our ability to attract, integrate, manage, and retain highly skilled employees throughout our businesses. Competition for some of these personnel is intense, and in the past, we have had difficulty hiring employees in our desired time frame, particularly qualified finance and accounting professionals. We may be unsuccessful in attracting and retaining personnel. The loss of the services of any of our key personnel, the inability to attract or retain qualified personnel in the future, or delays in hiring required personnel, particularly engineers and sales personnel, could make it difficult for us to manage our business and meet key objectives, such as timely product introductions.

During the last several fiscal years, we implemented work force reduction plans reducing the number of employees and contractors in certain areas due to redundancies and shifting business needs. These reductions have also required that we reassign certain employee duties. Workforce reductions and job reassignments could negatively affect employee morale, and make it difficult to motivate and retain our remaining employees and contractors, which would affect our ability to deliver our products in a timely fashion and otherwise negatively affect our business.

Shipments of electronic payment systems may be delayed by factors outside of our control, which can harm our reputation and our relationships with our customers.

The shipment of payment systems requires us or our manufacturers, distributors, or other agents to obtain customs or other government certifications and approvals, and, on occasion, to submit to physical inspection of our systems in transit. Failure to satisfy these requirements, and the very process of trying to satisfy them, can lead to lengthy delays in the delivery of our solutions to our direct or indirect customers. Delays and unreliable delivery by us may harm our reputation in the industry and our relationships with our customers.

Force majeure events, such as terrorist attacks, other acts of violence or war, political instability, and health epidemics may adversely affect us.

Terrorist attacks, war and international political instability, along with health epidemics may disrupt our ability to generate revenues. Such events may negatively affect our ability to maintain sales revenues and to develop new business relationships. Because a substantial and growing part of our revenues is derived from sales and services to customers outside of the United States and we have our electronic payment systems manufactured outside the U.S., terrorist attacks, war and international political instability anywhere may decrease international demand for our products and inhibit customer development opportunities abroad, disrupt our supply chain and impair our ability to deliver our electronic payment systems, which could materially adversely affect our net revenues or results of operations. Any of these events may also disrupt global financial markets and precipitate a decline in the price of our common stock.

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Natural or manmade disasters, business interruptions and health epidemics could delay our ability to receive or ship our products, or otherwise disrupt our business.

Our worldwide operations could be subject to earthquakes, power shortages, telecommunications failures, water shortages, tsunamis, floods, hurricanes, typhoons, fires, extreme weather conditions, health epidemics and other natural or manmade disasters or business interruptions. The occurrence of any of these business disruptions could seriously harm our revenue and financial condition and increase our costs and expenses. Our corporate headquarters, and a portion of our research and development activities, are located in California, and other critical business operations and some of our suppliers are located in California and Asia, near major earthquake faults. Certain key servers and information systems are located in Florida, which has in the past experienced major hurricanes and similar extreme weather. Although our office facilities have not been impacted by the flooding, power outages or other effects of such storm systems, any disruption of our Florida operations could materially affect our operations and harm our business. If our manufacturers or warehousing facilities are disrupted or destroyed, we would be unable to distribute our products on a timely basis, which could harm our business. Moreover, if our computer information systems or communication systems, or those of our vendors or customers, are subject to hacker attacks or other disruptions, our business could suffer. We have not established a comprehensive disaster recovery plan. Our back-up operations may be inadequate and our business interruption insurance may not be enough to compensate us for any losses that may occur. A significant business interruption could result in losses or damages and harm our business. For example, much of our order fulfillment process is automated and the order information is stored on our servers. If our computer systems and servers go down even for a short period at the end of a fiscal quarter, our ability to recognize revenue would be delayed until we were again able to process and ship our orders, which could harm our revenues for that quarter and cause our stock price to decline significantly.

While we believe we comply with environmental laws and regulations, we are still exposed to potential risks associated with environmental laws and regulations.

We are subject to other legal and regulatory requirements, including a European Union directive that places restrictions on the use of hazardous substances (RoHS) in electronic equipment, a European Union directive on Waste Electrical and Electronic Equipment (WEEE), and the environmental regulations promulgated by China s Ministry of Information Industry (China RoHS). RoHS sets a framework for producers obligations in relation to manufacturing (including the amounts of named hazardous substances contained in products sold) and WEEE sets a framework for treatment, labeling, recovery, and recycling of electronic products in the European Union which may require us to alter the manufacturing of the physical devices that include our solutions and/or require active steps to promote recycling of materials and components. In addition, similar legislation could be enacted in other jurisdictions, including in the United States. For example, climate change legislation in the United States is a significant topic of discussion and may generate federal or other regulatory responses in the near future. If we do not comply with environmental law and regulations such as the RoHS directives, WEEE directives and China RoHS, we may suffer a loss of revenue, be unable to sell in certain markets or countries, be subject to penalties and enforced fees, and/or suffer a competitive disadvantage. Furthermore, the costs to comply with RoHS, WEEE and China RoHS, or with current and future environmental and worker health and safety laws may have a material adverse effect on our business, results of operations and financial condition.

Risks Related to Our Industry

Our markets are highly competitive and subject to price erosion.

The markets for our system solutions and services are highly competitive, and we have been subject to price pressures. Competition from manufacturers, distributors, or providers of products similar to or competitive with our system solutions or services could result in price reductions, reduced margins, and a loss of market share or could render our solutions obsolete. For example, First Data Corporation, a leading provider of payments processing services, and our largest customer, has developed and continues to develop a series of proprietary electronic payment systems for the U.S. market.

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We expect to continue to experience significant and increasing levels of competition in the future. We compete with suppliers of cash registers that provide built-in electronic payment capabilities and producers of software that facilitates electronic payment over the internet, as well as other manufacturers or distributors of electronic payment systems. We must also compete with smaller companies that have been able to develop strong local or regional customer bases. In certain foreign countries, some competitors are more established, benefit from greater name recognition and have greater resources within those countries than we do. Further, in certain international markets, such as Brazil, we may face competition from refurbished units which could result in reduced demand and pricing pressures.

We must adhere to industry and government regulations and standards and therefore sales will suffer if we cannot comply with them.

Our system solutions must meet industry standards imposed by EMVCo LLC, a payment systems standards setting organization, Visa, MasterCard, and other credit card associations and standard setting organizations. New standards are continually being adopted or proposed as a result of worldwide anti-fraud initiatives, the increasing need for system compatibility and technology developments such as wireless and wireline IP communication. Our solutions also must comply with government regulations, including those imposed by telecommunications authorities and independent standards groups worldwide regarding emissions, radiation, and connections with telecommunications and radio networks. We cannot be sure that we will be able to design our solutions to comply with future standards or regulations on a timely basis, if at all. Compliance with these standards could increase the cost of developing or producing our solutions. New products designed to meet any new standards need to be introduced to the market and ordinarily need to be certified by the credit card associations and our customers before being purchased. The certification process is costly and time consuming and increases the amount of time it takes to sell our products. Our business and financial condition could be adversely affected if we cannot comply with new or existing industry standards, or obtain or retain necessary regulatory approval or certifications in a timely fashion, or if compliance results in increasing the cost of our products. Selling products that are non-compliant may result in fines against us or our customers, which we may be liable to pay. In addition, even if our products are designed to be compliant, compliance with certain security standards is determined based on the merchant s or service provider s network environment in which our systems are installed and, therefore, is dependent upon a number of additional factors such as proper installation of the components of the environment including our systems, compliance of software and system components provided by other vendors, implementation of compliant security processes and business practices and adherence to such processes and practices. Our business and financial condition could be adversely affected if we do not comply with new or existing industry standards, or obtain or retain necessary regulatory approval or certifications in a timely fashion, or if compliance results in increasing the cost of our products.

If we do not continually enhance our existing solutions and develop and market new solutions and enhancements, our net revenues and income will be adversely affected.

The market for electronic payment systems is characterized by:

- rapid technological change;
- frequent product introductions and enhancements;
- evolving industry and government performance and security standards; and
- changes in customer and end-user preferences or requirements.

Because of these factors, we must continually enhance our existing solutions and develop and market new solutions. These efforts require significant investment in research and development as well as increased costs of manufacturing and distributing our system solutions, and we may not necessarily be able to increase or maintain prices to account for these costs.

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We cannot be sure that we will successfully complete the development and introduction of new solutions or enhancements or that our new solutions will be accepted in the marketplace. We may also fail to develop and deploy new solutions and enhancements on a timely basis. In either case, we may lose market share to our competitors, and our net revenues and results of operations could suffer.

Risks Related to Our Capital Structure

Our secured credit facility contains restrictive and financial covenants and, if we are unable to comply with these covenants, we will be in default. A default could result in the acceleration of our outstanding indebtedness, which would have an adverse effect on our business and stock price.

On October 31, 2006, our principal subsidiary, VeriFone, Inc., entered into a secured credit agreement consisting of a Term B Loan facility of $500.0 million and a revolving credit facility permitting borrowings of up to $40.0 million (the Credit Facility). The proceeds from the Term B loan were used to repay all outstanding amounts relating to an existing senior secured credit agreement, pay certain transaction costs, and partially fund the cash consideration in connection with the acquisition of Lipman on November 1, 2006. Through April 30, 2010, we had repaid an aggregate of $276.3 million, leaving a Term B Loan balance of $223.7 million at April 30, 2010.

Our Credit Facility contains customary covenants that require our subsidiaries to maintain certain specified financial ratios and restrict their ability to make certain distributions with respect to their capital stock, prepay other debt, encumber their assets, incur additional indebtedness, make capital expenditures above specified levels, engage in certain business combinations, or undertake various other corporate activities. Therefore, as a practical matter, these covenants restrict our ability to engage in or benefit from such activities. In addition, we have, in order to secure repayment of our Credit Facility, pledged substantially all of our assets and properties. This pledge may reduce our operating flexibility because it restricts our ability to dispose of these assets or engage in other transactions that may be beneficial to us.

If we are unable to comply with the covenants in our Credit Facility, we will be in default, which could result in the acceleration of our outstanding indebtedness. In addition, if our leverage exceeds a certain level set out in our Credit Facility, a portion of our excess cash flows must be used to pay down our outstanding debt. If acceleration occurs, we may not be able to repay our debt and we may not be able to borrow sufficient additional funds to refinance our debt. The U.S. credit markets have contracted significantly and as a result we may not be able to obtain additional financing on acceptable terms, or at all. If we were to default in performance under the Credit Facility, we may pursue an amendment or waiver of the Credit Facility with our existing lenders, but there can be no assurance that the lenders would grant such an amendment or waiver and, in light of current credit market conditions, any such amendment or waiver requested is likely to be on terms, including additional fees, as well as increased interest rates and other more stringent terms and conditions that would be materially disadvantageous to us. For example, as a result of the delay in our financial reports for the 2007 fiscal year and the first two fiscal quarters of 2008, we were required to obtain amendments to our Credit Facility that resulted in an increase in the interest rate payable on our term loan and revolving commitments, as well as increases in the commitment fee for unused revolving commitments and letter of credit fees. We also paid the consenting lenders amendment fees in connection with the amendments. We expect that in light of current market conditions any lender s fees or other terms and conditions for a covenant waiver or amendment would be substantially more costly to us today than the cost we incurred for credit agreement amendments in 2008.

The conditions of the U.S. and international capital markets may adversely affect our ability to draw on our revolving credit facility as well as have an adverse effect on other financial transactions.

Lehman Commercial Paper, Inc. (Lehman CP) was a lender under our revolving credit facility with a commitment of $15 million out of the $40 million facility. As a result of Lehman CP s filing of a voluntary Chapter 11 bankruptcy petition in October 2008, we reduced the revolving credit facility by its commitment.

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In addition, the filing by Lehman Brothers Holdings Inc. (Lehman Brothers) of a voluntary Chapter 11 bankruptcy petition constituted an event of default under our convertible note hedge transaction with Lehman Brothers OTC Derivatives Inc. (Lehman Derivatives), giving us the immediate right to terminate the transaction and entitling us to claim reimbursement for the loss incurred in terminating and closing out the transaction. On September 21, 2008, we delivered a notice of termination to Lehman Derivatives and claimed reimbursement for the loss incurred in termination and close out of the transaction. To date we have not recovered any amounts claimed from Lehman Derivatives. There can be no assurance we will receive any reimbursement of the losses incurred and we could incur significant costs to replace this hedge transaction if we elect to do so. These replacement costs may not be fully offset by any proceeds recoverable from Lehman Brothers and Lehman Derivatives (which has also filed a voluntary Chapter 11 bankruptcy petition) following our termination of the convertible note hedge transaction with Lehman Derivatives.

If other financial institutions that have extended credit commitments to us or have entered into hedge, insurance or similar transactions with us are adversely affected by the conditions of the U.S. and international capital markets, they may become unable to fund borrowings under their credit commitments to us or otherwise fulfill their obligations under the relevant transactions, which could have a material and adverse impact on our financial condition and our ability to borrow additional funds, if needed, for working capital, capital expenditures, acquisitions and other corporate purposes.

Our indebtedness and debt service obligations under our Credit Facility may adversely affect our cash flow, cash position, and stock price.

We intend to fulfill our debt service obligations under our Credit Facility from existing cash, investments and operations. Principal payments on the Term B Loan are due in equal quarterly installments over the term with a maturity date of October 31, 2013. In the future, if we are unable to generate or raise additional cash sufficient to meet these obligations and need to use more of our existing cash than planned or to liquidate investments in order to fund these obligations, we may have to delay or curtail the development and/or the sales and marketing of new payment systems.

Our indebtedness could have significant additional negative consequences, including, without limitation:

- requiring the dedication of a significant portion of our expected cash flow to service the indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures;
- increasing our vulnerability to general adverse economic conditions;
- limiting our ability to obtain additional financing; and
- placing us at a possible competitive disadvantage to less leveraged competitors and competitors that have better access to capital resources.

Additionally, if we are required to refinance or raise additional cash to settle our existing indebtedness on or prior to its maturity, our ability to successfully achieve such objective is dependent on a number of factors, including but not limited to our business outlook, projected financial performance, general availability of corporate credit, and market demand for our securities offerings.

Some provisions of our certificate of incorporation and bylaws may delay or prevent transactions that many stockholders may favor.

Some provisions of our certificate of incorporation and bylaws may have the effect of delaying, discouraging or preventing a merger or acquisition that our stockholders may consider favorable, including transactions in which stockholders might receive a premium for their shares. These provisions include:

- authorization of the issuance of blank check preferred stock without the need for action by stockholders;

the removal of directors or amendment of our organizational documents only by the affirmative vote of the holders of two-thirds of the shares of our capital stock entitled to vote;

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- provision that any vacancy on the board of directors, however occurring, including a vacancy resulting from an enlargement of the board, may only be filled by vote of the directors then in office;
- inability of stockholders to call special meetings of stockholders, although stockholders are permitted to act by written consent; and
- advance notice requirements for board nominations and proposing matters to be acted on by stockholders at stockholder meetings.

Our share price has been volatile and we expect that the price of our common stock may continue to fluctuate substantially.

Our stock price has fluctuated substantially since our initial public offering in 2005 and more recently since the announcement of our anticipated restatement in December 2007 and during the recent turmoil in the worldwide financial markets. In addition to fluctuations related to Company-specific factors, broad market and industry factors may adversely affect the market price of our common stock, regardless of our actual operating performance. Factors that could cause fluctuations in our stock price may include, among other things:

- actual or anticipated variations in quarterly operating results;
- changes in financial estimates by us or by any securities analysts who might cover our stock, or our failure to meet the estimates made by securities analysts;
- changes in the market valuations of other companies operating in our industry;
- announcements by us or our competitors of significant acquisitions, strategic partnerships or divestitures;
- additions or departures of key personnel; and
- sales or purchases of our common stock, including sales or purchases of our common stock by our directors and officers or by our principal stockholders.

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

None

ITEM 3. ***DEFAULTS UPON SENIOR SECURITIES***

None

ITEM 4. ***[REMOVED AND RESERVED]***

ITEM 5. ***OTHER INFORMATION***

None

ITEM 6. ***EXHIBITS***

The following documents are filed as Exhibits to this report:

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

* Filed herewith.

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SIGNATURES

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

VERIFONE SYSTEMS, INC.

By: /s/ DOUGLAS G. BERGERON
Douglas G. Bergeron
Chief Executive Officer

By: /s/ ROBERT DYKES
Robert Dykes
Senior Vice President and Chief Financial Officer

Date: June 4, 2010

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