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Superior Court of CA, County of Santa Clara  
Case #1-07-CV-100980 Filing #G-11806  
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12 SUPERIOR COURT OF THE STATE OF CALIFORNIA

13 COUNTY OF SANTA CLARA

14 IN RE VERIFONE HOLDINGS, INC.  
15 DERIVATIVE LITIGATION

Master File No.: 1-07-CV-100980

16 This relates to:

17 ALL ACTIONS

18 **CONSOLIDATED SHAREHOLDER  
DERIVATIVE COMPLAINT FOR: (1)  
VIOLATIONS OF CALIFORNIA  
CORPORATIONS CODE; (2) BREACH  
OF FIDUCIARY DUTY; (3) WASTE OF  
CORPORATE ASSETS; (4) UNJUST  
ENRICHMENT; AND (5) AIDING AND  
ABETTING**

19 Judge: Honorable Jack Komar  
20 Dept.: 17C  
21 Date Action Filed: December 13, 2007

22 DEMAND FOR JURY TRIAL

1 **NATURE AND SUMMARY OF THE ACTION**

2 1. Plaintiffs Catholic Medical Mission Board and Gilbert Carpel, by their attorneys,  
3 submit this Consolidated Shareholder Derivative Complaint (the "Complaint") against  
4 defendants named herein. This is a shareholder derivative action brought by shareholders of  
5 VeriFone Holdings, Inc. ("VeriFone" or the "Company"), on behalf of the Company against  
6 certain of its officers and directors seeking to remedy defendants' violations of California law,  
7 including breaches of fiduciary duty, waste of corporate assets, unjust enrichment and violations  
8 of the California Corporations Code that occurred between August 2006 and the present (the  
9 "Relevant Period"), which have caused substantial losses to VeriFone and other damages,  
10 including damage to its reputation and goodwill.

11 2. VeriFone designs, markets and services secure electronic payment solutions.  
12 During the Relevant Period, defendants directed VeriFone to report and project record revenues,  
13 earnings and gross margins. However, VeriFone's public statements concerning its financial  
14 performance and business prospects were false and misleading because VeriFone executives,  
15 including certain defendants, manipulated the Company's results with manual – or non-standard  
16 – journal entries to the Company's reported inventories.

17 3. Generally, non-standard journal entries are entries made outside the normal  
18 course of business, such as the provision for loan losses, provision for inventory obsolescence  
19 and cut-off or period end adjustments. Non-standard journal entries warrant careful scrutiny as  
20 such entries may conceal attempts by management to manipulate earnings and can be recorded in  
21 virtually any account. Indeed, transactions processed outside the normal course of business have  
22 a higher risk of misstatement than other transactions. Accordingly, public companies like  
23 VeriFone must have an established routine or set of procedures for processing transactions  
24 outside the normal course of business and sufficient internal controls in place to detect and verify  
25 non-standard journal entries.

26 4. For example, the American Institute of Certified Public Accountants ("AICPA")  
27 stresses that directors at public companies must establish dialogues with corporate executives to  
28 ascertain the procedures and oversight applied to non-standard journal entries. Upon information

1 and belief, Ernst & Young LLP ("E&Y"), VeriFone's own auditor, regularly echoes this  
2 admonition in the presentations that it gives to audit committees at public companies. Further,  
3 the AICPA warns in its Audit Committee Toolkit that audit committees must engage in  
4 discussions with corporate executives to ensure public companies have sufficient internal  
5 controls to detect and prevent non-standard journal entries. On information and belief, all of this  
6 information was passed on to VeriFone's Audit Committee and thereafter to many of the  
7 Individual Defendants (defined below at ¶39).

8         5.       The dangers represented by non-standard journal entries are best illustrated by the  
9 2002 Worldcom accounting scandal. Worldcom executives used non-standard journal entries to  
10 create billions in imaginary profits. The eventual discovery that those entries were fraudulent led  
11 to billions of dollars of losses and the largest bankruptcy filing in United States history.  
12 Importantly, certain members of VeriFone's Board of Directors (the "Board") were on the Board  
13 in 2002 as the Worldcom scandal unfolded and garnered national attention. On information and  
14 belief, this information was shared with many of the Individual Defendants. Thus, members of  
15 the Board and others were aware of the problems posed by non-standard journal entries and  
16 should have exercised the utmost care to ensure VeriFone had sufficient internal controls to  
17 refrain from utilizing non-standard accounting journal entries. This they failed to do.

18         6.       During the Relevant Period, VeriFone publicly reported that the Company had  
19 sufficient internal controls and procedures relating to its accounting systems and public  
20 disclosures. Despite these reassurances, however, the truth of the matter was that the Individual  
21 Defendants had failed to implement the requisite financial controls and procedures with respect  
22 to, *inter alia*, non-standard journal entries and were unable to ensure that the Company's  
23 financial statements were accurate and in accordance with applicable accounting standards. As  
24 a result of certain of the Individual Defendants' failure to maintain adequate internal and  
25 financial controls at VeriFone, the Company reported inflated revenues and income during the  
26 Relevant Period.

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1           7.       Given the widely recognized risks associated with non-standard journal entries,  
2 the failure to ensure that VeriFone had adequate financial and internal controls to oversee these  
3 entries was purposeful, reckless and/or grossly negligent.

4           8.       The Individual Defendants' day of reckoning came on December 3, 2007, when  
5 VeriFone was forced to announce that it would need to restate its first through third fiscal quarter  
6 2007 financial results to correct certain inventory accounting. In a conference call on that same  
7 day, defendant Douglas G. Bergeron ("Bergeron"), VeriFone's Chief Executive Officer ("CEO"),  
8 blithely blamed the Company's problems on complexities associated with the November 1, 2006,  
9 acquisition of Lipman Electronic Engineering Ltd. ("Lipman"), an Israel-based manufacturer of  
10 wireless payment systems. However, Bergeron was forced to admit that the Company lacked  
11 accounting personnel who adequately understood the accounting flow and the result was a  
12 double-booking of reported inventories.

13           9.       On April 2, 2008, VeriFone revealed the real reason for the Company's  
14 improperly accounted for inventories. Incredibly, certain of the Individual Defendants had used  
15 non-standard journal entries to "cook the books" and VeriFone – which lacked adequate  
16 accounting personnel and internal controls over its accounting systems and financial controls –  
17 was powerless to prevent such actions. One such defendant, VeriFone's former Chief Financial  
18 Officer ("CFO"), Barry Zwarenstein ("Zwarenstein"), has already resigned in connection with  
19 the restatement.

20           10.      On August 19, 2008, VeriFone issued a restatement of the Company's previously  
21 reported financial statements for the following interim periods: the three months ended January  
22 31, 2007; the three and six months ended April 30, 2007; and the three and nine months ended  
23 July 31, 2007 ("Restatement Period"). During the Restatement Period, the Individual Defendants  
24 violated Generally Accepted Accounting Principles ("GAAP"), U.S. Securities and Exchange  
25 Commission ("SEC") disclosure rules, and misled VeriFone shareholders and the investing  
26 public. Defendants have acknowledged that, as a result of undisclosed and improper accounting,  
27 the Company *materially overstated the income it reported in its financial statements by*  
28 *approximately \$70 million.* Originally, VeriFone reported net income of approximately \$14

1 million and Earnings Per Share ("EPS") of \$0.16 for the nine months ended July 31, 2007.  
2 However, after correcting for the improper accounting, VeriFone now reports a net loss of  
3 approximately \$53 million and *negative EPS* of \$0.65 for the same period. This is a net  
4 decrease of 479% for net income/loss and 506% for EPS.

5 11. The majority of the improper accounting entries were made with respect to  
6 VeriFone's "cost of net revenues" account *which was VeriFone's most significant operating*  
7 *expense*. During the Restatement Period, in a scheme directed and approved by members of  
8 management, the Individual Defendants concealed the true extent of its "cost of net revenues."  
9 By improperly capitalizing expenses as inventory, the defendants falsely portrayed the Company  
10 as a profitable business when it was not and concealed the large losses VeriFone suffered. These  
11 improper accounting practices with respect to VeriFone's inventory account were designed to  
12 and did falsely inflate its income to correspond with estimates by Wall Street analysts and to  
13 support the price of VeriFone's common stock in the market.

14 12. Certain Individual Defendants, including the Company's CEO, were incentivized  
15 to report increased net income and raise the trading price of VeriFone stock because employment  
16 agreements with senior management approved by VeriFone's Board provided for the early  
17 vesting of personal stock options and increased stock awards when the Company achieved  
18 above-standard growth in the net income per share as adjusted and in its share price.

19 13. VeriFone's Relevant Period statements, which were based upon the false  
20 inventory accounting and non-standard journal entries, caused an artificial inflation of  
21 VeriFone's income and share price allowing certain of the Individual Defendants to reap the  
22 benefits of their employment agreements.

23 14. At the same time, and while in possession of material adverse information  
24 concerning the Company, certain defendants took advantage of VeriFone's inflated value to sell  
25 approximately 12 million of their personally held shares for proceeds of more than \$474 million.

26 15. As a result of the December 3, 2007 announcement, VeriFone's value declined  
27 dramatically from over \$45 per share to approximately \$15 per share, erasing over \$2.4 billion in  
28

1 market capitalization and devastating investor confidence in the Company. Currently, the  
2 Company's shares are hovering around \$10.

3 16. Furthermore, as of July 31, 2008, the Company had amassed at least \$33.5 million  
4 in costs associated with the Company's purported internal investigation and restatement.  
5 Moreover, since VeriFone has yet to file its financial statement for the quarter ending October  
6 31, 2008, it is likely the Company will incur additional costs associated with the restatement. To  
7 make matters worse, the Company has become the subject of investigations by the SEC, the  
8 Department of Justice, the New York Stock Exchange, and the Chicago Board Options  
9 Exchange. The SEC has also expressed an interest in interviewing several of the Company's  
10 current and former officers and employees, likely including many of the Individual Defendants.

11 17. Yet despite all of the foregoing, instead of laying blame for the restatement  
12 squarely on the shoulders of the Company's officers and directors who failed to ensure the  
13 sufficiency of VeriFone's internal controls and procedures over accounting and public  
14 disclosures, the Individual Defendants have blamed a single "manager" without further  
15 explanation.

#### 16 JURISDICTION AND VENUE

17 18. This Court has jurisdiction over all causes of action asserted herein pursuant to  
18 the California Constitution, Article VI, §10, because this case is a cause not given by statute to  
19 other trial courts, as this derivative action is brought pursuant to section 800 of the California  
20 Corporations Code to remedy defendants' violations of law.

21 19. This Court has jurisdiction over each defendant named herein because each  
22 defendant is either a corporation that conducts business in and maintains operations in this  
23 County, or is an individual who has sufficient minimum contacts with California so as to render  
24 the exercise of jurisdiction by the California courts permissible under traditional notions of fair  
25 play and substantial justice.

26 20. Venue is proper in this Court because one or more of defendants either resides in  
27 or maintains executive offices in this County, a substantial portion of the transactions and  
28 wrongs complained of herein, including defendants' primary participation in the wrongful acts

1 detailed herein and aiding and abetting and conspiracy in violation of fiduciary duties owed to  
2 VeriFone occurred in this County, and defendants have received substantial compensation in this  
3 County by doing business here and engaging in numerous activities that had an effect in this  
4 County.

5 **THE PARTIES**

6 21. Plaintiff Catholic Medical Mission Board was a beneficial or records shareholder  
7 of VeriFone common stock at the time of the transactions, actions and failures to act of which  
8 plaintiffs complain, and remains a shareholder of VeriFone.

9 22. Plaintiff Gilbert Carpel was a beneficial or record shareholder of VeriFone  
10 common stock at the time of the transactions, actions and failures to act of which plaintiffs  
11 complain, beginning in October 2006, and remains a shareholder of VeriFone.

12 23. Nominal defendant VeriFone is a corporation organized and existing under the  
13 laws of the state of Delaware with its headquarters located at 2099 Gateway Place, Suite 600,  
14 San Jose, California 95110. VeriFone is a self-described leader in secure electronic payment  
15 solutions, providing expertise, solutions and services that add value to the point of sale with  
16 merchant-operated, consumer-facing and self-service payment systems for the financial, retail,  
17 hospitality, petroleum, government and healthcare vertical markets. VeriFone's system solutions  
18 consist of point of sale electronic payment devices that run proprietary and third party operating  
19 systems, security and encryption software and certified payment software as well as third party  
20 value-added applications. The Company's system solutions are able to process a wide range of  
21 payment types including signature and PIN-based debit cards, credit cards, contactless radio  
22 frequency identification cards and tokens, smart cards, pre-paid gift and other stored-value cards,  
23 electronic bill payment, check authorization and conversion, signature capture and electronic  
24 benefits transfer. VeriFone's customers are primarily global financial institutions, payment  
25 processors, petroleum companies, large retailers, government organizations and healthcare  
26 companies, as well as independent sales organizations. On July 1, 2002, VeriFone was  
27 recapitalized whereby certain investment funds affiliated with GTCR became the majority  
28 shareholders in the Company and came to own over 68% of VeriFone's outstanding stock. In

1 April 2005, VeriFone conducted an initial public offering, after which GTCR Golder Rauner,  
2 LLC ("GTCR") continued to be the Company's largest single shareholder. GTCR retired over  
3 50% of VeriFone's outstanding stock and was able to appoint two members to VeriFone's Board.

4 24. Defendant Bergeron is VeriFone's CEO and has been since July 2001. Bergeron  
5 was also VeriFone's Chairman of the Board from July 2001 to March 2008. Via discussions with  
6 the Board's Audit Committee regarding the importance of procedures and oversight that must be  
7 applied to non-standard journal entries and his position on the Board during the Worldcom  
8 accounting scandal which involved non-standard journal entries, defendant Bergeron was aware  
9 of the importance of VeriFone's internal controls and procedures over its accounting practices  
10 and financial reporting. As a result of his employment agreement, which gave him an incentive  
11 to report increased net income and raise the trading price of VeriFone stock, the fact that he sold  
12 59.98% of his holdings during the Relevant Period, the fact that the Company lacked a General  
13 Counsel or Chief Compliance Officer, his resignation from the Company prior to the  
14 announcement of the restatement, and his certifications under the Sarbanes-Oxley Act of 2002  
15 ("SOX") in VeriFone's annual report for fiscal year 2006, ending October 31, 2006, on Form 10-  
16 K ("2006 10-K"), VeriFone's Form 10-Q filed with the SEC on March 9, 2007, VeriFone's Form  
17 10-Q filed with the SEC on May 31, 2007, and VeriFone's Form 10-Q filed with the SEC on  
18 September 7, 2007, whereby he attested that: (i) he was responsible for establishing and  
19 maintaining disclosure controls and procedures and internal control over financial reporting; (ii)  
20 he disclosed, based on recent evaluation of internal control over financial reporting, to the  
21 Company's auditors and the Audit Committee the effectiveness of the Company's disclosure  
22 controls and procedures; and (iii) to the best of his knowledge the reports did not contain any  
23 untrue statement of a material fact or omit material facts, defendant Bergeron either knew or was  
24 reckless in not knowing, that VeriFone's internal controls were too deficient to prevent non-  
25 standard journal entries that allowed double-booking of in-transit inventory, materially  
26 overstating both inventories and pre-tax income, as well as rendering VeriFone's increasing gross  
27 margins and earnings before interest, taxes, depreciation and amortization ("EBITDA") margins  
28 likewise false and misleading. Further, because of his position as the Company's CEO and

1 through conversations with management such as the CFO, defendant Bergeron knew or was  
 2 reckless in not knowing, that the Company lacked accounting personnel with the necessary  
 3 expertise to monitor non-standard journal entries and ensure that, among other things, the  
 4 Company made accurate accounting entries with respect to its "cost of net revenues" account –  
 5 VeriFone's most significant operating expense. During the Relevant Period, Bergeron breached  
 6 his fiduciary duties to VeriFone by allowing VeriFone's internal controls over its accounting  
 7 practices and financial reporting to be insufficient and causing the issuance of false and/or  
 8 misleading statements, including false and/or misleading press releases and filings with the SEC.  
 9 Defendant Bergeron received the following compensation:

<b>Fiscal Year</b>	<b>Salary</b>	<b>Bonus</b>	<b>Restricted Stock Awards</b>	<b>Option Awards</b>	<b>Securities Underlying Options</b>	<b>All Other Compensation</b>
2007	\$695,833	-	\$287,499	\$564,631	-	\$46,968
2006	\$597,313	\$1,500,000	\$1,154,400	-	225,000	\$45,824

12 During the Relevant Period, while in possession of undisclosed material adverse information,  
 13 Bergeron sold 2,269,837 shares of VeriFone stock for proceeds of \$83,994,754.54.

14 25. Defendant Barry Zwarenstein ("Zwarenstein") was VeriFone's CFO from June  
 15 2004 to August 19, 2008. Zwarenstein was also VeriFone's Executive Vice President from  
 16 November 2006 to August 19, 2008. Zwarenstein was VeriFone's Senior Vice President from  
 17 June 2004 to November 2006. Via discussions with the Board's Audit Committee and E&Y  
 18 regarding the importance of procedures and oversight that must be applied to non-standard  
 19 journal entries, defendant Zwarenstein was aware of the importance of VeriFone's internal  
 20 controls and procedures over its accounting practices and financial reporting. Because defendant  
 21 Zwarenstein sold 100% of his holdings during the Relevant Period, abruptly resigned from the  
 22 Company the day after VeriFone issued a press release detailing the results of its purported  
 23 independent investigation, and his certifications under the SOX in VeriFone's 2006 10-K,  
 24 VeriFone's Form 10-Q filed with the SEC on March 9, 2007, VeriFone's Form 10-Q filed with  
 25 the SEC on May 31, 2007, and VeriFone's Form 10-Q filed with the SEC on September 7, 2007,  
 26 whereby he attested that: (i) he was responsible for establishing and maintaining disclosure  
 27 controls and procedures and internal control over financial reporting; (ii) he disclosed, based on  
 28

1 recent evaluation of internal control over financial reporting, to the Company's auditors and the  
 2 Audit Committee the effectiveness of the Company's disclosure controls and procedures; and  
 3 (iii) to the best of his knowledge the reports did not contain any untrue statement of a material  
 4 fact or omit material facts, defendant Zwarenstein knew that VeriFone's internal controls were  
 5 too deficient to prevent non-standard journal entries that allowed double-booking of in-transit  
 6 inventory, materially overstating both inventories and pre-tax income, as well as rendering  
 7 VeriFone's increasing gross margins and EBITDA margins likewise false and misleading.  
 8 Further, as CFO, defendant Zwarenstein knew the Company lacked accounting personnel with  
 9 the necessary expertise to monitor non-standard journal entries and ensure that, among other  
 10 things, the Company made accurate accounting entries with respect to its "cost of net revenues"  
 11 account – VeriFone's most significant operating expense. During the Relevant Period,  
 12 Zwarenstein breached his fiduciary duties to VeriFone by allowing VeriFone's internal controls  
 13 over its accounting practices and financial reporting to be insufficient and causing the issuance of  
 14 false and/or misleading statements, including false and/or misleading press releases and filings  
 15 with the SEC. Zwarenstein received the following compensation:

<b>Fiscal Year</b>	<b>Salary</b>	<b>Bonus</b>	<b>Restricted Stock Awards</b>	<b>Option Awards</b>	<b>Non-Equity Incentive Plan Compensation</b>	<b>Securities Underlying Options</b>	<b>All Other Compensation</b>
2007	\$396,667	\$30,000	\$346,744	\$463,779	\$120,000	-	\$4,864
2006	\$319,167	\$250,000	\$1,388,600	-	-	80,000	\$5,087

18 During the Relevant Period, while in possession of undisclosed material adverse information,  
 19 Zwarenstein sold 190,814 shares of VeriFone stock for proceeds of \$7,166,837.18.

20  
 21 26. Defendant Jesse Adams ("Adams") is VeriFone's Vice Chairman and has been  
 22 since November 2006. Adams was also VeriFone's Executive Vice President, North American  
 23 Sales from July 2001 to October 2006. Via access to internal corporate documents,  
 24 conversations and connections with other corporate officers and employees, attendance at Board  
 25 and management meetings and committees thereof and via reports and other information  
 26 provided to him in connection therewith, defendant Adams was aware of material non-public  
 27 information concerning the Company. During the Relevant Period, while in possession of this  
 28 undisclosed material adverse information, Adams sold 209,726 shares of VeriFone stock for

1 proceeds of \$7,503,880.58. Specifically, Adams sold 98.86% of his holdings during the  
 2 Relevant Period (over \$7.5 million during the Relevant Period compared to approximately \$4.0  
 3 million in the prior year). Adams received the following compensation:

4 Fiscal Year	Salary	Bonus	Restricted Stock Awards	Securities Underlying Options	All Other Compensation
5 2006	\$299,167	\$125,000	\$288,600	40,000	\$11,687

6 27. Defendant William Atkinson ("Atkinson") was VeriFone's Executive Vice  
 7 President, Payment Systems from November 2006 to July 2007. Atkinson was also VeriFone's  
 8 Executive Vice President of Global Marketing and Business Development from August 2002 to  
 9 October 2006 and Vice President, North American Financial Channels from August 2001 to  
 10 April 2002. Via access to internal corporate documents, conversations and connections with  
 11 other corporate officers and employees, attendance at management meetings and committees  
 12 thereof and via reports and other information provided to him in connection therewith, defendant  
 13 Atkinson was aware of material non-public information concerning the Company. During the  
 14 Relevant Period, while in possession of this undisclosed material adverse information, Atkinson  
 15 sold 172,118 shares of VeriFone stock for proceeds of \$6,402,049.94. Specifically, defendant  
 16 Atkinson sold 97.03% of his holdings during the Relevant Period (over \$6.0 million during the  
 17 Relevant Period compared to approximately \$2.2 million in the prior year). Atkinson received  
 18 the following compensation:

19 Fiscal Year	Salary	Bonus	Restricted Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Securities Underlying Options	All Other Compensation
20 2007	\$348,120	\$70,000	\$834,899	\$1,740,447	\$74,490	-	\$9,971
21 2006	\$298,958	\$224,664	\$1,388,600	-		40,000	\$9,523

22 28. Defendant Isaac Angel ("Angel") is a VeriFone advisor and has been since  
 23 January 2008. Angel was also VeriFone's Executive Vice President, Global Operations from  
 24 November 2006 to January 1, 2008. Via access to internal corporate documents, conversations  
 25 and connections with other corporate officers and employees, attendance at management  
 26 meetings and committees thereof and via reports and other information provided to him in  
 27 connection therewith, defendant Angel was aware of material non-public information concerning  
 28 the Company. During the Relevant Period, while in possession of this undisclosed material

1 adverse information, Angel sold 150,000 shares of VeriFone stock for proceeds of  
 2 \$5,808,573.25. Specifically, defendant Angel sold 99.93% of his holdings during the Relevant  
 3 Period (over \$5.8 million during the Relevant Period compared to no sales in the prior year).

4 Angel received the following compensation:

<b>Fiscal Year</b>	<b>Salary</b>	<b>Option Awards</b>	<b>Non-Equity Incentive Plan Compensation</b>	<b>All Other Compensation</b>
2007	\$321,900	\$3,503,039	\$192,284	\$102,173

7 29. Defendant Elmore Waller ("Waller") is VeriFone's Executive Vice President,  
 8 Integrated Solution and has been since December 2004. From 1986 to November 2004, Waller  
 9 has served in a number of leadership positions including Senior Vice President and General  
 10 Manager of the Worldwide Petro Division. Via access to internal corporate documents,  
 11 conversations and connections with other corporate officers and employees, attendance at  
 12 management meetings and committees thereof and via reports and other information provided to  
 13 him in connection therewith, defendant Waller was aware of material non-public information  
 14 concerning the Company. During the Relevant Period, while in possession of this undisclosed  
 15 material adverse information Waller sold 130,000 shares of VeriFone stock for proceeds of  
 16 \$4,921,545.03. Specifically, defendant Waller sold 99.05% of his holdings during the Relevant  
 17 Period (over \$4.9 million during the Relevant Period compared to \$909,982 in the prior year).

18 Waller received the following compensation:

<b>Fiscal Year</b>	<b>Salary</b>	<b>Bonus</b>	<b>Restricted Stock Awards</b>	<b>Option Awards</b>	<b>Non-Equity Incentive Plan Compensation</b>	<b>All Other Compensation</b>
2007	\$314,375	\$50,000	\$71,875	\$336,705	\$70,613	\$1,907

21 30. Defendant James C. Castle ("Castle") was a VeriFone director and had been since  
 22 January 2005. Castle retired from the Board as of the Annual Meeting of Stockholders on  
 23 October 8, 2008. Castle was also a member of VeriFone's Audit Committee from April 2005 to  
 24 June 2008. Via discussions with E&Y regarding the importance of procedures and oversight that  
 25 must be applied to non-standard journal entries, warnings he received from the AICPA Audit  
 26 Committee Toolkit that audit committees must be aware of problems associated with non-  
 27 standard journal entries, via discussions with directors Bergeron and Collin E. Roche who were  
 28 on the Board during the Worldcom accounting scandal, and the fact that the Board approved

1 defendant Bergeron's employment agreement that gave him an increased incentive to report  
2 increased net income and raise the trading price of VeriFone stock, defendant Castle was aware  
3 of the importance of VeriFone's internal controls and procedures over its accounting practices  
4 and financial reporting. Because defendant Castle sold 17.27% of his holdings during the  
5 Relevant Period (compared with no sales the prior year), the fact that VeriFone insiders were  
6 dumping their personally held VeriFone stock in enormous amounts during the Relevant Period,  
7 the fact that the Company lacked a General Counsel or Chief Compliance Officer, and via  
8 meetings with VeriFone's management such as defendants Bergeron and Zwarenstein regarding  
9 the Company's significant financial reporting issues and judgments made in connection with the  
10 preparation of the financial statements and the reasonableness of those judgments, Castle knew  
11 or was reckless in not knowing the fact that VeriFone's internal controls were too deficient to  
12 prevent non-standard journal entries that allowed double-booking of in-transit inventory,  
13 materially overstating both inventories and pre-tax income, as well as rendering VeriFone's  
14 increasing gross margins and EBITDA margins likewise false and misleading. Further, via  
15 meetings with VeriFone's management such as defendants Bergeron and Zwarenstein regarding  
16 the Company's significant financial reporting issues, defendant Castle knew or was reckless in  
17 not knowing that the Company lacked accounting personnel with the necessary expertise to  
18 monitor non-standard journal entries and ensure that, among other things, the Company made  
19 accurate accounting entries with respect to its "cost of net revenues" account – VeriFone's most  
20 significant operating expense. During the Relevant Period, Castle breached his fiduciary duties  
21 to VeriFone by allowing VeriFone's internal controls over its accounting practices and financial  
22 reporting to be insufficient and causing the issuance of false and/or misleading statements,  
23 including false and/or misleading press releases and filings with the SEC. Specifically, pursuant  
24 to the requirements of the Securities Exchange Act of 1934, defendant Castle signed VeriFone's  
25 2006 10-K which falsely stated that the Company maintained adequate internal controls over its  
26 accounting systems and financial reporting. During the Relevant Period, while in possession of  
27 undisclosed material adverse information, Castle sold 4,500 shares of VeriFone stock for  
28 proceeds of \$176,404.

1           31. Defendant Leslie G. Denend ("Denend") is a VeriFone director and has been since  
2 January 2005. Denend is also Chairman of the Compensation Committee and a member of  
3 VeriFone's Audit Committee and has been since April 2005. Via discussions with E&Y  
4 regarding the importance of procedures and oversight that must be applied to non-standard  
5 journal entries, warnings he received from the AICPA Audit Committee Toolkit that audit  
6 committees must be aware of problems associated with non-standard journal entries, via  
7 discussions with directors Bergeron and Collin E. Roche who were on the Board during the  
8 Worldcom accounting scandal, and the fact that the Board approved defendant Bergeron's  
9 employment agreement that gave him an increased incentive to report increased net income and  
10 raise the trading price of VeriFone stock, defendant Denend was aware of the importance of  
11 VeriFone's internal controls and procedures over its accounting practices and financial reporting.  
12 Given the fact that VeriFone insiders were dumping their personally held VeriFone stock in  
13 enormous amounts during the Relevant Period, the fact that the Company lacked a General  
14 Counsel or Chief Compliance Officer, and via meetings with VeriFone's management such as  
15 defendants Bergeron and Zwarenstein regarding the Company's significant financial reporting  
16 issues and judgments made in connection with the preparation of the financial statements and the  
17 reasonableness of those judgments, Denend knew or was reckless in not knowing that VeriFone's  
18 internal controls were too deficient to prevent non-standard journal entries that allowed double-  
19 booking of in-transit inventory, materially overstating both inventories and pre-tax income, as  
20 well as rendering VeriFone's increasing gross margins and EBITDA margins likewise false and  
21 misleading. Further, via meetings with VeriFone's management such as defendants Bergeron  
22 and Zwarenstein regarding the Company's significant financial reporting issues defendant  
23 Denend knew or was reckless in not knowing the fact that the Company lacked accounting  
24 personnel with the necessary expertise to monitor non-standard journal entries and ensure that,  
25 among other things, the Company made accurate accounting entries with respect to its "cost of  
26 net revenues" account – VeriFone's most significant operating expense. During the Relevant  
27 Period, Denend breached his fiduciary duties to VeriFone by allowing VeriFone's internal  
28 controls over its accounting practices and financial reporting to be insufficient and causing the

1 issuance of false and/or misleading statements, including false and/or misleading press releases  
2 and filings with the SEC. Specifically, pursuant to the requirements of the Securities Exchange  
3 Act of 1934, defendant Denend signed VeriFone's 2006 10-K which falsely stated that the  
4 Company maintained adequate internal controls over its accounting systems and financial  
5 reporting.

6 32. Defendant Robert B. Henske ("Henske") is a VeriFone director and has been since  
7 January 2005. Henske is also Chairman of VeriFone's Audit Committee and a member of the  
8 Compensation Committee and has been since April 2005. Due to his specialized qualifications as  
9 the Audit Committee financial expert within the meaning of SEC regulations, via discussions  
10 with E&Y regarding the importance of procedures and oversight that must be applied to non-  
11 standard journal entries, warnings he received from the AICPA Audit Committee Toolkit that  
12 audit committees must be aware of problems associated with non-standard journal entries, via  
13 discussions with directors Bergeron and Collin E. Roche who were on the Board during the  
14 Worldcom accounting scandal, and the fact that the Board approved defendant Bergeron's  
15 employment agreement that gave him an increased incentive to report increased net income and  
16 raise the trading price of VeriFone stock, defendant Henske was aware of the importance of  
17 VeriFone's internal controls and procedures over its accounting practices and financial reporting.  
18 Given the fact that VeriFone insiders were dumping their personally held VeriFone stock in  
19 enormous amounts during the Relevant Period and the fact that the Company lacked a General  
20 Counsel or Chief Compliance Officer, and via meetings with VeriFone's management such as  
21 defendants Bergeron and Zwarenstein regarding the Company's significant financial reporting  
22 issues and judgments made in connection with the preparation of the financial statements and the  
23 reasonableness of those judgments, Henske knew or was reckless in not knowing that VeriFone's  
24 internal controls were too deficient to prevent non-standard journal entries that allowed double-  
25 booking of in-transit inventory, materially overstating both inventories and pre-tax income, as  
26 well as rendering VeriFone's increasing gross margins and EBITDA margins likewise false and  
27 misleading. Further, via meetings with VeriFone's management such as defendants Bergeron  
28 and Zwarenstein regarding the Company's significant financial reporting issues, defendant

1 Henske knew or was reckless in not knowing that the Company lacked accounting personnel  
2 with the necessary expertise to monitor non-standard journal entries and ensure that, among other  
3 things, the Company made accurate accounting entries with respect to its "cost of net revenues"  
4 account – VeriFone's most significant operating expense. During the Relevant Period, Henske  
5 breached his fiduciary duties to VeriFone by allowing VeriFone's internal controls over its  
6 accounting practices and financial reporting to be insufficient and causing the issuance of false  
7 and/or misleading statements, including false and/or misleading press releases and filings with  
8 the SEC. Specifically, pursuant to the requirements of the Securities Exchange Act of 1934,  
9 defendant Henske signed VeriFone's 2006 10-K which falsely stated that the Company  
10 maintained adequate internal controls over its accounting systems and financial reporting.

11 33. Defendant Charles R. Rinehart ("Rinehart") is VeriFone's Chairman of the Board  
12 and has been since March 2008 and a director and has been since May 2006. Rinehart is also a  
13 member of VeriFone's Audit Committee and has been since July 2006. Via discussions with  
14 E&Y regarding the importance of procedures and oversight that must be applied to non-standard  
15 journal entries, warnings he received from the AICPA Audit Committee Toolkit that audit  
16 committees must be aware of problems associated with non-standard journal entries, via  
17 discussions with directors Bergeron and Collin E. Roche who were on the Board during the  
18 Worldcom accounting scandal, and the fact that the Board approved defendant Bergeron's  
19 employment agreement that gave him an increased incentive to report increased net income and  
20 raise the trading price of VeriFone stock, defendant Rinehart was aware of the importance of  
21 VeriFone's internal controls and procedures over its accounting practices and financial reporting.  
22 Given the fact that VeriFone insiders were dumping their personally held VeriFone stock in  
23 enormous amounts during the Relevant Period, the fact that the Company lacked a General  
24 Counsel or Chief Compliance Officer, and via meetings with VeriFone's management such as  
25 defendants Bergeron and Zwarenstein regarding the Company's significant financial reporting  
26 issues and judgments made in connection with the preparation of the financial statements and the  
27 reasonableness of those judgments, Rinehart knew or was reckless in not knowing that  
28 VeriFone's internal controls were too deficient to prevent non-standard journal entries that

1 allowed double-booking of in-transit inventory, materially overstating both inventories and pre-  
2 tax income, as well as rendering VeriFone's increasing gross margins and EBITDA margins  
3 likewise false and misleading. Further, via meetings with VeriFone's management such as  
4 defendants Bergeron and Zwarenstein regarding the Company's significant financial reporting  
5 issues, defendant Rinehart knew or was reckless in not knowing that the Company lacked  
6 accounting personnel with the necessary expertise to monitor non-standard journal entries and  
7 ensure that, among other things, the Company made accurate accounting entries with respect to  
8 its "cost of net revenues" account – VeriFone's most significant operating expense. During the  
9 Relevant Period, Rinehart breached his fiduciary duties to VeriFone by allowing VeriFone's  
10 internal controls over its accounting practices and financial reporting to be insufficient and  
11 causing the issuance of false and/or misleading statements, including false and/or misleading  
12 press releases and filings with the SEC. Specifically, pursuant to the requirements of the  
13 Securities Exchange Act of 1934, defendant Rinehart signed VeriFone's 2006 10-K which falsely  
14 stated that the Company maintained adequate internal controls over its accounting systems and  
15 financial reporting.

16 34. Defendant Alex W. Hart ("Hart") is a VeriFone director and has been since July  
17 2006. Via discussions with members of the Board's Audit Committee regarding the importance  
18 of procedures and oversight that must be applied to non-standard journal entries, discussions  
19 with directors Bergeron and Collin E. Roche who were on the Board during the Worldcom  
20 accounting scandal, and the fact that the Board approved defendant Bergeron's employment  
21 agreement that gave him an increased incentive to report increased net income and raise the  
22 trading price of VeriFone stock, defendant Hart was aware of the importance of VeriFone's  
23 internal controls and procedures over its accounting practices and financial reporting. Given the  
24 fact that VeriFone insiders were dumping their personally held VeriFone stock in enormous  
25 amounts during the Relevant Period and the fact that the Company lacked a General Counsel or  
26 Chief Compliance Officer, and via discussions with members of the Board's Audit Committee,  
27 Hart knew or was reckless in not knowing that VeriFone's internal controls were too deficient to  
28 prevent non-standard journal entries that allowed double-booking of in-transit inventory,

1 materially overstating both inventories and pre-tax income, as well as rendering VeriFone's  
2 increasing gross margins and EBITDA margins likewise false and misleading. Further, via  
3 discussions with members of the Board's Audit Committee, defendant Hart knew or was reckless  
4 in not knowing that the Company lacked accounting personnel with the necessary expertise to  
5 monitor non-standard journal entries and ensure that, among other things, the Company made  
6 accurate accounting entries with respect to its "cost of net revenues" account – VeriFone's most  
7 significant operating expense. During the Relevant Period, Hart breached his fiduciary duties to  
8 VeriFone by allowing VeriFone's internal controls over its accounting practices and financial  
9 reporting to be insufficient and allowing the issuance of false and/or misleading statements,  
10 including false and/or misleading press releases and filings with the SEC. Specifically, pursuant  
11 to the requirements of the Securities Exchange Act of 1934, defendant Hart signed VeriFone's  
12 2006 10-K which falsely stated that the Company maintained adequate internal controls over its  
13 accounting systems and financial reporting.

14 35. Defendant Eitan Raff ("Raff") is a VeriFone director and has been since October  
15 2007. Via discussions with members of the Board's Audit Committee regarding the importance  
16 of procedures and oversight that must be applied to non-standard journal entries, discussions  
17 with directors Bergeron and Collin E. Roche who were on the Board during the Worldcom  
18 accounting scandal, and the fact that the Board approved defendant Bergeron's employment  
19 agreement that gave him an increased incentive to report increased net income and raise the  
20 trading price of VeriFone stock, defendant Raff was aware of the importance of VeriFone's  
21 internal controls and procedures over its accounting practices and financial reporting. Given the  
22 fact that VeriFone insiders were dumping their personally held VeriFone stock in enormous  
23 amounts during the Relevant Period, the fact that the Company lacked a General Counsel or  
24 Chief Compliance Officer, and via discussions with members of the Board's Audit Committee,  
25 Raff knew or was reckless in not knowing that VeriFone's internal controls were too deficient to  
26 prevent non-standard journal entries that allowed double-booking of in-transit inventory,  
27 materially overstating both inventories and pre-tax income, as well as rendering VeriFone's  
28 increasing gross margins and EBITDA margins likewise false and misleading. Further, via

1 discussions with members of the Board's Audit Committee, defendant Raff knew or was reckless  
2 in not knowing that the Company lacked accounting personnel with the necessary expertise to  
3 monitor non-standard journal entries and ensure that, among other things, the Company made  
4 accurate accounting entries with respect to its "cost of net revenues" account – VeriFone's most  
5 significant operating expense. During the Relevant Period, Raff breached his fiduciary duties to  
6 VeriFone by allowing VeriFone's internal controls over its accounting practices and financial  
7 reporting to be insufficient.

8         36. Defendant Collin E. Roche ("Roche") is a VeriFone director and has been since  
9 July 2002. Roche was also, at all relevant times, a member of VeriFone's Compensation  
10 Committee. At all relevant times, Roche was also a principal of GTCR, VeriFone's largest  
11 shareholder, and one of GTCR's designated directors on the VeriFone Board. Via discussions  
12 with members of the Board's Audit Committee regarding the importance of procedures and  
13 oversight that must be applied to non-standard journal entries, the fact that he was on the Board  
14 during the Worldcom accounting scandal, and the fact that the Board approved defendant  
15 Bergeron's employment agreement that gave him an increased incentive to report increased net  
16 income and raise the trading price of VeriFone stock, defendant Roche was aware of the  
17 importance of VeriFone's internal controls and procedures over its accounting practices and  
18 financial reporting. Given the fact that VeriFone insiders were dumping their personally held  
19 VeriFone stock in enormous amounts during the Relevant Period, the fact that GTCR, of which  
20 Roche was a principal, sold \$50.36%, or \$358 million, of its VeriFone holdings during the  
21 Relevant Period (compared to only \$285 million of its VeriFone holdings during the prior  
22 period), the fact that the Company lacked a General Counsel or Chief Compliance Officer, and  
23 via discussions with members of the Board's Audit Committee, Roche knew or was reckless in  
24 not knowing that VeriFone's internal controls were too deficient to prevent non-standard journal  
25 entries that allowed double-booking of in-transit inventory, materially overstating both  
26 inventories and pre-tax income, as well as rendering VeriFone's increasing gross margins and  
27 EBITDA margins likewise false and misleading. Further, via discussions with members of the  
28 Board's Audit Committee, defendant Roche knew or was reckless in not knowing that the

1 Company lacked accounting personnel with the necessary expertise to monitor non-standard  
2 journal entries and ensure that, among other things, the Company made accurate accounting  
3 entries with respect to its "cost of net revenues" account – VeriFone's most significant operating  
4 expense. During the Relevant Period, Roche breached his fiduciary duties to VeriFone by  
5 allowing VeriFone's internal controls over its accounting practices and financial reporting to be  
6 insufficient and allowing the issuance of false and/or misleading statements, including false  
7 and/or misleading press releases and filings with the SEC. Specifically, pursuant to the  
8 requirements of the Securities Exchange Act of 1934, defendant Roche signed VeriFone's 2006  
9 10-K which falsely stated that the Company maintained adequate internal controls over its  
10 accounting systems and financial reporting. During the Relevant Period, while in possession of  
11 undisclosed material adverse information, GTCR, of which Roche was a principal, sold  
12 9,800,000 shares of VeriFone stock for proceeds of \$358,550,284.83.

13 37. Defendant Craig A. Bondy ("Bondy") was a director of VeriFone from July 2002  
14 until his resignation on October 1, 2007. At all relevant times, Bondy was also a principal of  
15 GTCR, VeriFone's largest shareholder, and one of GTCR's designated directors on the VeriFone  
16 Board. Via discussions with members of the Board's Audit Committee regarding the importance  
17 of procedures and oversight that must be applied to non-standard journal entries, via discussions  
18 with directors Bergeron and Roche who were on the Board during the Worldcom accounting  
19 scandal, and the fact that the Board approved defendant Bergeron's employment agreement that  
20 gave him an increased incentive to report increased net income and raise the trading price of  
21 VeriFone stock, defendant Bondy was aware of the importance of VeriFone's internal controls  
22 and procedures over its accounting practices and financial reporting. Given the fact that  
23 VeriFone insiders were dumping their personally held VeriFone stock in enormous amounts  
24 during the Relevant Period, the fact that GTCR, of which Bondy was a principal sold \$50.36%,  
25 or \$358 million, of its VeriFone holdings during the Relevant Period (compared to only \$285  
26 million of its VeriFone holdings during the prior period), the fact that the Company lacked a  
27 General Counsel or Chief Compliance Officer, and via discussions with members of the Board's  
28 Audit Committee, Bondy knew or was reckless in not knowing that VeriFone's internal controls

1 were too deficient to prevent non-standard journal entries that allowed double-booking of in-  
2 transit inventory, materially overstating both inventories and pre-tax income, as well as rendering  
3 VeriFone's increasing gross margins and EBITDA margins likewise false and misleading.  
4 Further, via discussions with members of the Board's Audit Committee, defendant Bondy knew  
5 or was reckless in not knowing that the Company lacked accounting personnel with the  
6 necessary expertise to monitor non-standard journal entries and ensure that, among other things,  
7 the Company made accurate accounting entries with respect to its "cost of net revenues" account  
8 – VeriFone's most significant operating expense. During the Relevant Period, Bondy breached  
9 his fiduciary duties to VeriFone by allowing VeriFone's internal controls over its accounting  
10 practices and financial reporting to be insufficient and allowing the issuance of false and/or  
11 misleading statements, including false and/or misleading press releases and filings with the SEC.  
12 Specifically, pursuant to the requirements of the Securities Exchange Act of 1934, defendant  
13 Bondy signed VeriFone's 2006 10-K which falsely stated that the Company maintained adequate  
14 internal controls over its accounting systems and financial reporting. During the Relevant  
15 Period, while in possession of undisclosed material adverse information, GTCR, of which Bondy  
16 was a principal, sold 9,800,000 shares of VeriFone stock for proceeds of \$358,550,284.83.

17 38. Defendant GTCR is an Illinois limited liability company with its principal place  
18 of business at 6100 Sears Tower, Chicago, Illinois 60606. GTCR is a private equity firm with  
19 over \$8 billion in equity and mezzanine capital under management. GTCR has raised three  
20 substantial funds: Fund VI, \$870 million in size, was raised in 1998; Fund VII, \$2.0 billion in  
21 size, was raised in 2000; and Fund VIII, \$1.8 billion in size, was raised in 2003. Throughout the  
22 Relevant Period, GTCR was the single largest VeriFone shareholder and was able to elect its  
23 designees, defendants Bondy and Roche, to the VeriFone Board. By virtue of Bondy's and  
24 Roche's positions on the Board and via discussions with members of the Board's Audit  
25 Committee and their access to internal corporate documents, conversations and connections with  
26 corporate officers and employees, attendance at Board meetings and committees thereof and via  
27 reports and other information provided to them in connection therewith, GTCR was informed  
28 that VeriFone's financial and internal controls were inadequate and that the Company lacked

1 accounting personnel with the necessary expertise to monitor non-standard journal entries and  
2 ensure that, among other things, the Company made accurate accounting entries with respect to  
3 its "cost of net revenues" account – VeriFone's most significant operating expense. During the  
4 Relevant Period, while in possession of undisclosed material adverse information, GTCR, of  
5 which Bondy and Roche were principals, sold 9,800,000 shares of VeriFone stock for proceeds  
6 of \$358,550,284.83.

7 39. Defendants identified in ¶¶24, 26, 30-37 are referred to herein as the "Director  
8 Defendants." Defendants identified in ¶¶24-29 are referred to herein as the "Officer  
9 Defendants." Defendants identified in ¶¶24-30, 36-38 are referred to herein as the "Insider  
10 Selling Defendants." Collectively, the Director Defendants, the Officer Defendants and the  
11 Insider Selling Defendants, except for GTCR, are referred to herein as the "Individual  
12 Defendants" and with GTCR, as "Defendants."

13 40. The true names and capacities of defendants sued herein under California Code of  
14 Civil Procedure section 474 as Does 1 through 25, inclusive, are presently not known to  
15 plaintiffs, who therefore sue these defendants by such fictitious names. Plaintiffs will seek to  
16 amend this Complaint and include these Doe defendants' true names and capacities when they  
17 are ascertained. Each of the fictitiously-named defendants is responsible in some manner for the  
18 conduct alleged herein and for the injuries suffered by the Company as a result of Defendants'  
19 wrongful and illegal conduct.

#### 20 **DUTIES OF THE INDIVIDUAL DEFENDANTS**

21 41. By reason of their positions as officers, directors and fiduciaries of VeriFone and  
22 because of their ability to control the business and corporate affairs of VeriFone, the Individual  
23 Defendants owed VeriFone and its shareholders fiduciary obligations of trust, loyalty, good faith  
24 and due care, and were and are required to use their utmost ability to control and manage  
25 VeriFone in a fair, just, honest and equitable manner. The Individual Defendants were and are  
26 required to act in furtherance of the best interests of VeriFone and its shareholders so as to  
27 benefit all shareholders equally and not in furtherance of their personal interest or benefit.

28

1           42. Each director and officer of the Company owes to VeriFone and its shareholders  
2 the fiduciary duty to exercise good faith and diligence in the administration of the affairs of the  
3 Company and in the use and preservation of its property and assets, and the highest obligations  
4 of fair dealing. In addition, as officers and/or directors of a publicly-held company, the  
5 Individual Defendants had a duty to promptly disseminate accurate and truthful information with  
6 regard to the Company's revenue, margins, operations, performance, management, projections  
7 and forecasts so that the market price of the Company's stock would be based on truthful and  
8 accurate information.

9           43. The Individual Defendants, because of their positions of control and authority as  
10 directors and/or officers of VeriFone, were able to and did, directly and/or indirectly, exercise  
11 control over the wrongful acts complained of herein, as well as the contents of the various public  
12 statements issued by the Company. Because of their advisory, executive, managerial and  
13 directorial positions with VeriFone, each of the Individual Defendants had access to adverse non  
14 public information about the financial condition, operations, and improper representations of  
15 VeriFone.

16           44. At all times relevant hereto, each of the Individual Defendants was the agent of  
17 each of the other Individual Defendants and of VeriFone, and was at all times acting within the  
18 course and scope of such agency.

19           45. To discharge their duties, the officers and directors of VeriFone were required to  
20 exercise reasonable and prudent supervision over the management, policies, practices and  
21 controls of the financial affairs of the Company. By virtue of such duties, the officers and  
22 directors of VeriFone were required to, among other things:

23                   (a) refrain from acting upon material non-public corporate information to  
24 benefit themselves;

25                   (b) ensure that the Company complied with its legal obligations and  
26 requirements, including acting only within the scope of its legal authority and disseminating  
27 truthful and accurate statements to the SEC and the investing public;

28

1 (c) conduct the affairs of the Company in an efficient, business like manner so  
2 as to make it possible to provide the highest quality performance of its business, to avoid wasting  
3 the Company's assets, and to maximize the value of the Company's stock;

4 (d) properly and accurately guide investors and analysts as to the true  
5 financial condition of the Company at any given time, including making accurate statements  
6 about the Company's financial results and prospects, and ensuring that the Company maintained  
7 an adequate system of financial controls and procedures such that the Company's financial  
8 reporting would be true and accurate at all times;

9 (e) remain informed as to how VeriFone conducted its operations, and, upon  
10 receipt of notice or information of imprudent or unsound conditions or practices, to make  
11 reasonable inquiry in connection therewith, and to take steps to correct such conditions or  
12 practices and make such disclosures as necessary to comply with federal and state securities  
13 laws; and

14 (f) ensure that the Company was operated in a diligent, honest and prudent  
15 manner in compliance with all applicable federal, state and local laws, rules and regulations.

16 46. Defendants Henske, Castle, Denend and Rinehart, as members of the Board's  
17 Audit Committee, owed additional, more specific duties to VeriFone and its shareholders.  
18 Pursuant to the Audit Committee charter, the primary purpose of this Committee is to:

19 Provide assistance to the Board of Directors in fulfilling their oversight  
20 responsibility to the shareholders, potential shareholders, the investment  
21 community, and others relating to: (i) *the integrity of the Company's financial*  
22 *statements*; (ii) *the Company's compliance with legal and regulatory*  
23 *requirements*; (iii) the independent auditor's qualifications and independence; (iv)  
24 and *the performance of the Company's internal audit function and independent*  
25 *auditors*.

26 To fulfill this purpose, the Audit Committee has, *inter alia*, the following responsibilities:

27 The Committee shall meet to review and discuss the quarterly financial  
28 statements, including reviewing the Company's specific disclosures under  
"Management's Discussion and Analysis of Financial Condition and Results of  
Operations," with management and the independent auditors prior to the filing of  
the Company's Quarterly Report on Form 10-Q. Also, the Committee shall  
discuss the results of the quarterly review and any other matters required to be  
communicated to the Committee by the independent auditors under generally  
accepted auditing standards.

\* \* \*

1  
2 The Committee's review of the Company's financial statements and disclosures  
3 shall include: (i) major issues regarding accounting principles and financial  
4 statement presentations, including any significant changes in the company's  
5 selection or application of accounting principles, and major issues as to *the*  
6 *adequacy of the company's internal controls and any specific remedial actions*  
7 *adopted in light of material control deficiencies*; (ii) *discussions with*  
8 *management* and the independent auditors *regarding significant financial*  
9 *reporting issues and judgments made in connection with the preparation of the*  
10 *financial statements and the reasonableness of those judgments*, including  
11 analyses of the effects of alternative GAAP methods on the financial statements;  
12 (iii) consideration of the effect of regulatory accounting initiatives, as well as off-  
13 balance sheet structures on the financial statements; (iv) consideration of the  
14 judgment of both management and the independent auditors about the quality, not  
15 just the acceptability of accounting principles; and (v) *the clarity of the*  
16 *disclosures in the financial statements*. Also, the Committee shall discuss the  
17 results of the annual audit and any other matters required to be communicated to  
18 the Committee by the independent auditors under professional standards.<sup>1</sup>

19 Via discussions with E&Y regarding the importance of procedures and oversight that must be  
20 applied to non-standard journal entries, warnings from the AICPA Audit Committee Toolkit that  
21 audit committees must be aware of problems associated with non-standard journal entries, via  
22 discussions with directors Bergeron and Roche who were on the Board during the Worldcom  
23 accounting scandal, the fact that the Board approved defendant Bergeron's employment  
24 agreement that gave him an increased incentive to report increased net income and raise the  
25 trading price of VeriFone stock, and via meetings with VeriFone's management such as  
26 defendants Bergeron and Zwarenstein regarding the Company's significant financial reporting  
27 issues and judgments made in connection with the preparation of the financial statements and the  
28 reasonableness of those judgments, the Audit Committee was aware of the importance of  
VeriFone's internal controls and procedures over its accounting practices and financial reporting.  
Further, to comply with their fiduciary responsibilities, the Audit Committee had a duty to  
discuss with VeriFone's management the sufficiency of the Company's internal controls and  
determine whether those internal controls were sufficient to detect and verify non-standard  
journal entries. Nonetheless, the Audit Committee, in breach of the foregoing duties, and while

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<sup>1</sup> At all times, emphasis is added unless otherwise indicated.

1 VeriFone executives were selling their Company stock in droves, recklessly failed to ensure that  
2 VeriFone had implemented sufficient internal controls and procedures to detect and verify non-  
3 standard journal entries. The members of the Audit Committee also breached their fiduciary  
4 duties in causing or allowing VeriFone to issue the improper statements set forth herein, in the  
5 absence of such controls.

6 47. Further, to discharge their duties, the officers and directors of VeriFone were  
7 required to exercise reasonable and prudent supervision over the accounting policies, practices  
8 and controls of the Company. By virtue of such duties, the officers and directors of VeriFone,  
9 and specifically defendants Castle, Denend and Rinehart as members of the Audit Committee,  
10 defendant Henske (the qualified Audit Committee financial expert within the meaning of SEC  
11 regulations), and defendants Bergeron and Zwarenstein (the Company's CEO and CFO  
12 respectively) were required to, among other things, ensure VeriFone's strict adherence to the  
13 following accounting practices:

14 (a) Public companies, such as VeriFone, report the financial results of their  
15 operations in financial statements that include both an income statement and a balance sheet. A  
16 company's income statement reports, among other things, revenues, cost of revenues, and the net  
17 income earned during a fiscal quarter or year. Within the income statement the cost of revenues  
18 are generally subtracted from revenues to calculate net income. A company's balance sheet  
19 reports, among other things, the assets and liabilities of a company at a point in time, usually as  
20 of the end of the company's fiscal quarter or fiscal year.

21 (b) When companies spend money or incur costs, those expenditures can be  
22 accounted for in a variety of ways depending on the nature of the transaction. In keeping with  
23 the principle that accounting is primarily based on cost, there is a presumption that inventories  
24 should be stated at the lower of cost or market. The definition of cost as applied to inventories is  
25 understood to mean the sum of the expenditures incurred to bring inventories to their current  
26 condition and location. The objective of accounting for inventories is to properly determine a  
27 company's income through the matching of costs against revenues.

28

1           (c) If a company records a journal entry in its accounts that effectively  
2 reclassifies or transfers a given expenditure from a "cost of net revenues" to an "inventory asset,"  
3 that action will have the following effects on the company's financial statements: (i) the  
4 company's pre-tax net income consequently will increase by the amount reclassified or  
5 transferred; (ii) the value of the company's capital assets and total assets will increase by the  
6 amount reclassified or transferred; and, consequently (iii) the value of the company's net worth  
7 will increase. *Thus, it is imperative that public companies have sufficient internal controls in*  
8 *place to prevent inappropriate or unauthorized journal entries.*

9           48. Each of the Individual Defendants, by virtue of his position as a director and/or  
10 officer, owed to the Company and to its shareholders the fiduciary duties of loyalty, good faith  
11 and the exercise of due care and diligence in the management and administration of the affairs of  
12 the Company, as well as in the use and preservation of its property and assets. The conduct of  
13 the Individual Defendants complained of herein involves a knowing and culpable violation of  
14 their obligations as directors and officers of VeriFone, the absence of good faith on their part,  
15 and a reckless disregard for their duties to the Company and its shareholders that the Individual  
16 Defendants were aware or should have been aware posed a risk of serious injury to the  
17 Company. The conduct of the Individual Defendants, who were also officers and/or directors of  
18 the Company during the Relevant Period, has been ratified by the remaining Individual  
19 Defendants who collectively comprised all of VeriFone's Board during the Relevant Period.

20           49. Defendants Bergeron, Castle, Denend, Hart, Henske, Rinehart, Raff, Bondy and  
21 Roche, as members of the Board and defendant Zwarenstein, as the CFO, breached their duties  
22 of care, loyalty and good faith by allowing, or by themselves causing, the Company to fail to  
23 implement proper internal controls over its accounting systems and financial disclosure practices  
24 and allowing, or by themselves causing, the Company to misrepresent its financial results and  
25 prospects, as detailed herein, and by failing to prevent the Individual Defendants from taking  
26 such illegal actions. Further, defendants Adams, Angel, Atkinson, Bergeron, Castle, Waller,  
27 Zwarenstein, Roche (via GTCR) and Bondy (via GTCR), breached their fiduciary duties to the  
28 Company by selling their personally held VeriFone shares on the basis of material non-public

1 information. As a result, VeriFone has expended and will continue to expend significant sums of  
2 money on various investigations, issuing the necessary restatements, and defending itself in  
3 various litigations.

4 50. Moreover, these actions have irreparably damaged VeriFone's corporate image  
5 and goodwill. For at least the foreseeable future, VeriFone will suffer from what is known as the  
6 "liar's discount," a term applied to the stocks of companies who have been implicated in illegal  
7 behavior and have misled the investing public, such that VeriFone's ability to raise equity capital  
8 or debt on favorable terms in the future is now impaired.

9 **CONSPIRACY, AIDING AND ABETTING, AND CONCERTED ACTION**

10 51. In committing the wrongful acts alleged herein, the Individual Defendants and  
11 GTCR have pursued, or joined in the pursuit of, a common course of conduct, and have acted in  
12 concert with and conspired with one another in furtherance of their common plan or design. In  
13 addition to the wrongful conduct herein alleged as giving rise to primary liability, the Individual  
14 Defendants and GTCR further aided and abetted and/or assisted each other in breach of their  
15 respective duties.

16 52. During all times relevant hereto, the Individual Defendants and GTCR  
17 collectively and individually initiated a course of conduct that was designed to and did: (i)  
18 conceal the fact that the Company was improperly misrepresenting its financial results, in order  
19 to allow Defendants to artificially inflate the price of the Company's shares; (ii) maintain the  
20 Individual Defendants' executive and directorial positions at VeriFone and the profits, power and  
21 prestige that the Individual Defendants enjoyed as a result of these positions; (iii) facilitate the  
22 Insider Selling Defendants' sale of more than \$474 million of their personally-held shares while  
23 in possession of material non-public information concerning VeriFone's lacking internal controls  
24 and procedures over its accounting systems and financial reporting and false financials; and (iv)  
25 deceive the investing public, including shareholders of VeriFone, regarding the Individual  
26 Defendants' management of VeriFone's operations, the Company's financial health and stability,  
27 and future business prospects, specifically related to the Company's financials that had been  
28 misrepresented by Defendants throughout the Relevant Period. In furtherance of this plan,

1 conspiracy and course of conduct, the Individual Defendants collectively and individually took  
2 the actions set forth herein.

3 53. The Individual Defendants and GTCR engaged in a conspiracy, common  
4 enterprise and/or common course of conduct commencing by at least November 1, 2006 and  
5 continuing thereafter. During this time the Individual Defendants caused the Company to  
6 conceal the true fact that VeriFone engaged in improper accounting practices and was  
7 misrepresenting its financial results and prospects. In addition, the Individual Defendants also  
8 made other specific, false statements about VeriFone's financial performance and future business  
9 prospects, as alleged herein.

10 54. The purpose and effect of the Individual Defendants' and GTCR's conspiracy,  
11 common enterprise and/or common course of conduct was, among other things, to (a) disguise  
12 the Individual Defendants' and GTCR's violations of law, breaches of fiduciary duty, waste of  
13 corporate assets and/or unjust enrichment; (b) conceal adverse information concerning the  
14 Company's operations, financial condition and future business prospects; and (c) artificially  
15 inflate the price of VeriFone common stock so they could: (i) dispose of over \$474 million of  
16 their personally-held stock; and (ii) protect and enhance their executive and directorial positions  
17 and the substantial compensation and prestige they obtained as a result thereof.

18 55. The Individual Defendants and GTCR accomplished their conspiracy, common  
19 enterprise and/or common course of conduct by causing the Company to purposefully, recklessly  
20 or negligently misrepresent its financial results and prospects. Because the actions described  
21 herein occurred under the authority of the Board, each of the Individual Defendants was a direct,  
22 necessary and substantial participant in the conspiracy, common enterprise and/or common  
23 course of conduct complained of herein.

24 56. Each of the Individual Defendants and GTCR aided and abetted and rendered  
25 substantial assistance in the wrongs complained of herein. In taking such actions to substantially  
26 assist the commission of the wrongdoing complained of herein, each Individual Defendant and  
27 GTCR acted with knowledge of the primary wrongdoing, substantially assisted the  
28

1 accomplishment of that wrongdoing, and was aware of his overall contribution to and  
2 furtherance of the wrongdoing.

3 **RISKS POSED BY NON-STANDARD ACCOUNTING JOURNAL ENTRIES**

4 57. Public companies, such as VeriFone, report the financial results of their  
5 operations in financial statements that include both an income statement and a balance sheet. A  
6 company's income statement reports, among other things, revenue recognized, expenses incurred  
7 and income earned during a fiscal quarter or year. Within the income statement, expenses are  
8 generally subtracted from revenues to calculate income. A company's balance sheet reports,  
9 among other things, the assets and liabilities of a company at a point in time, usually as of the  
10 end of the company's fiscal quarter or fiscal year.

11 58. When companies spend money or incur costs, those expenditures can be  
12 accounted for in a variety of ways depending on the nature of the transaction. In keeping with  
13 the principle that accounting is primarily based on cost, there is a presumption that inventories  
14 should be stated at cost. The definition of cost as applied to inventories is understood to mean  
15 the sum of the expenditures incurred to bring inventories to their current condition and location.  
16 The objective of accounting for inventories is to properly determine a company's income through  
17 the matching of costs against revenues.

18 59. If a company records a journal entry in its accounts that effectively reclassifies or  
19 transfers a given expenditure from a "cost of net revenues" to an "inventory asset," that action  
20 will have the following effects on the company's financial statements: (a) the reclassification or  
21 transfer will reduce the company's operating expenses, and the company's pre-tax net income  
22 consequently will increase by the amount reclassified or transferred; (b) the value of the  
23 company's capital assets and total assets will increase by the amount reclassified or transferred;  
24 and (c) the value of the company's net worth will increase. Thus, it is imperative that public  
25 companies have sufficient internal controls in place to prevent unauthorized journal entries.

26 60. In fact, the risk represented by unauthorized journal entries is so critical that the  
27 Auditing Standards Board of the AICPA issued its Statement on Auditing Standards ("SAS") 99,  
28 which became effective during 2003. SAS 99, which was issued partly in response to the

1 Worldcom accounting scandal, requires auditors to obtain and understand a particular company's  
2 financial reporting process and controls over journal entries and other adjustments. Importantly,  
3 SAS 99 also requires auditors to perform certain procedures to address the risk of unauthorized  
4 journal entries.

5 61. SAS 99 states the following with respect to the risks imposed by unauthorized  
6 journal entries:

7 Material misstatements of financial statements due to fraud often involve the  
8 manipulation of the financial reporting by (a) recording inappropriate or  
9 unauthorized journal entries throughout the year or at period end, or (b) making  
10 adjustments to amounts reported in financial statements that are not reflected in  
11 formal journal entries, such as through consolidating adjustments, report  
12 combinations, and reclassifications.

13 62. SAS 99 further states the following with respect to the difference between  
14 standard and non-standard journal entries and the need to scrutinize those types of entries:

15 "Standard" journal entries used on a recurring basis to record transactions such as  
16 monthly sales, purchases, and cash disbursements, or to record periodic  
17 accounting estimates generally are subject to the entity's internal controls.  
18 *Nonstandard entries ... might not be subject to the same level of internal  
19 control.* In addition, other adjustments, report combinations, and reclassifications  
20 generally are not reflected in formal journal entries and might not be subject to the  
21 entity's internal controls.

22 63. Even before the issuance of SAS 99, auditors viewed non-standard journal entries  
23 with skepticism. Following Worldcom and other well known financial reporting failures, SAS  
24 99 required auditors to look much closer. This is because non-standard accounting journal  
25 entries can be abused by a company's executives to "cook the books" and artificially increase a  
26 company's revenues and decrease expenses. In the Worldcom accounting scandal for example,  
27 Worldcom executives used non-standard accounting journal entries to capitalize Worldcom's  
28 operating expenses on the balance sheet rather than properly expensing them. Worldcom  
executives also used non-standard accounting journal entries to inflate revenues. The eventual  
discovery of these fraudulent entries led to billions in investor losses and the largest corporate  
bankruptcy in United States history at that time.

64. Understandably, the use of non-standard journal entries is a hot topic in the  
accounting profession. In fact, the AICPA warns in its Audit Committee Toolkit that audit

1 committees must engage in discussions concerning non-standard journal entries with corporate  
2 executives, including the CFO. In particular, the Audit Committee Toolkit stresses that a  
3 company's audit committee must ask the CFO and other financial personnel: "What procedures  
4 or oversight do you apply to manual [or non-standard] journal entries that are proposed during  
5 the book-closing process?" The Audit Committee Toolkit also strongly recommends that audit  
6 committees must be prepared to pursue follow-up inquiries of suspicious non-standard journal  
7 entries.

8 65. Upon information and belief, E&Y, VeriFone's own auditors, echoed the AICPA's  
9 admonitions to VeriFone's Audit Committee. Typically, E&Y's auditors would meet with audit  
10 committees to provide advice on the appropriate roles and responsibilities of audit committees.  
11 E&Y also provided publications to highlight regulatory obligations, trends and best practices.  
12 One of those publications, entitled "Corporate Reform, Implications for Audit Committee,"  
13 reports the following:

14 In its discussions with management and the auditors, the audit committee should  
15 ask probing questions to obtain the necessary information to evaluate the quality  
16 of earnings and overall financial reporting of the company.... committee members  
should consider the following when evaluating the quality of earnings and overall  
financial reporting:

17 \* \* \*

18 \*Significant Adjustments and Unusual Transactions -

19 *What significant adjustments or unusual transactions were made, particularly*  
20 *at or near the end of the period? For those adjustments or transactions that*  
21 *were made outside of the "standard" journal entry process, does the company*  
*have a review process for these types of entries?*

22 66. Upon information and belief, E&Y's auditors recommended that VeriFone's Audit  
23 Committee implement the AICPA's recommendations as to the risks associated with the  
24 improper use of non-standard accounting journal entries.

25 67. Nevertheless, upon information and belief, VeriFone's Board, including in  
26 particular the Audit Committee and defendant Zwarenstein consciously disregarded the AICPA's  
27 warnings, and the Company's own auditor's warnings concerning non-standard journal entries.  
28 As alleged below, VeriFone has admitted that sufficient review processes and adequate financial

1 controls and procedures were not in place to detect and prevent improper non-standard journal  
2 entries. Defendants Bergeron, Castle, Denend, Hart, Henske, Rinehart, Raff, Roche, Bondy and  
3 Zwarenstein's failure to put in place sufficient internal controls and procedures was reckless and  
4 grossly negligent.

5 **IMPROPER STATEMENTS REGARDING VERIFONE'S FINANCIAL CONDITION**  
6 **AND BUSINESS PROSPECTS**

7 68. During the Relevant Period, due to defendants Bergeron, Castle, Denend, Hart,  
8 Henske, Rinehart, Raff, Roche, Bondy and Zwarenstein's failure to cause the Company to enact  
9 sufficient internal controls and procedures over the Company's financial reporting which allowed  
10 various accounting manipulations employed by management, defendants Bergeron, Castle,  
11 Denend, Hart, Henske, Rinehart, Roche, Bondy, and Zwarenstein caused the Company to issue  
12 misleading public statements with regard to the Company's financial condition and business  
13 prospects.

14 69. On August 31, 2006, defendants Bergeron, Castle, Denend, Hart, Henske,  
15 Rinehart, Roche, Bondy and Zwarenstein caused and allowed the Company to issue a press  
16 release and host an investor conference call announcing its 3Q:06 financial results in which the  
17 Company raised its FY:06 year end guidance to \$1.07 to \$1.08 of adjusted net income per share  
18 and also raised its FY:07 guidance to \$1.40 to \$1.42 of adjusted net income per share.

19 70. On November 1, 2006, defendants Bergeron, Castle, Denend, Hart, Henske,  
20 Rinehart, Roche, Bondy and Zwarenstein caused and allowed the Company to issue a press  
21 release reaffirming previous guidance, stating: "[r]evenue growth is expected to be between 10%  
22 and 15%.... Gross profit margin target, as adjusted for amortization of intangibles and stock-  
23 based compensation, is expected to be in the range of 42% to 47%"

24 71. On December 7, 2006, defendants Bergeron, Castle, Denend, Hart, Henske,  
25 Rinehart, Roche, Bondy and Zwarenstein caused and allowed the Company to issue a press  
26 release announcing VeriFone's 4Q:06 and FY:06 results, in which the Company increased its  
27 internal expectations for 1Q:07 net earnings per share, as adjusted, to be in the range of \$0.33 to  
28 \$0.34.



1 the opportunity and you can't have the opportunity unless you build the  
2 inventory."

3 75. In the Management's Discussion and Analysis ("MD&A") section of VeriFone's  
4 September 7, 2007 quarterly report on Form 10-Q, VeriFone reported: "[g]ross profit percentage  
5 increased in North America primarily due to a higher proportion of wireless sales, which  
6 typically carry a higher margin than landline sales, and reduced sales of a low margin check  
7 processing solution. Gross profit percentage also increased due to lower Corporate costs."

8 76. In response to VeriFone's continued record results, VeriFone's shares appreciated  
9 to artificially inflated levels. In fact, analysts, who were misled by defendants Bergeron, Castle,  
10 Denend, Hart, Henske, Rinehart, Roche, Bondy and Zwarenstein's false accounting practices,  
11 praised the Company's financial state and its future business prospects. For example, following  
12 the release of the third quarter financial results, Jason Raznick of RealMoney.com wrote:

13 VeriFone is a *fantastically appealing long-term holding* that takes advantage of  
14 the secular trend toward a credit-based society. VeriFone has dropped below its  
15 52-week high of \$42 a share, and if you do not own it yet, I would begin buying at  
current levels and dollar-cost average into it.

16 **REASONS THE STATEMENTS WERE IMPROPER**

17 77. The public statements regarding the Company's financial performance and future  
18 prospects during the Relevant Period failed to disclose and misrepresented the following material  
19 adverse facts, which defendants Bergeron, Castle, Denend, Hart, Henske, Rinehart, Roche,  
20 Bondy and Zwarenstein knew, consciously disregarded, were reckless and grossly negligent in  
21 not knowing or should have known:

22 (a) VeriFone's internal financial controls with respect to non-standard journal  
23 entries and other issues were materially deficient;

24 (b) VeriFone had not adequately integrated the accounting system following  
25 the Lipman acquisition;

26 (c) VeriFone had inadequate internal controls and procedures, particularly in  
27 the supply chain accounting organization;

28

1 (d) VeriFone had inadequately trained accounting personnel who conse-  
2 quently did not understand the accounting flow;

3 (e) VeriFone was not experiencing record growth, but rather, growth  
4 remained flat or eroded;

5 (f) VeriFone reduced its reported cost of revenues by improperly duplicating  
6 and allocating overhead costs and increasing reported inventory balances;

7 (g) VeriFone improperly reduced its reported cost of revenues by re-  
8 characterizing certain expenses as in-transit inventory;

9 (h) VeriFone ignored the necessary accounting entries that would have  
10 eliminated the profit it recorded when VeriFone simply sold product to itself via intercompany  
11 transactions;

12 (i) VeriFone's inventory buildup was attributed to improper accounting not an  
13 effort to take advantage of revenue opportunities; as represented by defendant Bergeron;

14 (j) VeriFone omitted any mention of the inappropriate manual journal entries  
15 which accounted for more than half of the reported profit increase of in its September 7, 2007  
16 quarterly report on Form 10-Q;

17 (k) VeriFone was failing to follow its publicly-announced accounting policies;  
18 and

19 (l) As a result of the foregoing, VeriFone's financial statements were not  
20 prepared in accordance with GAAP, and therefore were materially false and misleading.

21 **IMPROPER STATEMENTS REGARDING VERIFONE'S INTERNAL CONTROLS**  
22 **AND PROCEDURES**

23 78. In addition to the false and misleading statements concerning the Company's  
24 financial condition and business prospects, during the Relevant Period defendants Bergeron,  
25 Castle, Denend, Hart, Henske, Rinehart, Roche, Bondy and Zwarenstein also caused the  
26 Company to falsely represent that it maintained effective internal controls and procedures over  
27 its accounting systems and public disclosures.  
28

1           79.    On September 1, 2006, defendants Bergeron, Castle, Denend, Hart, Henske,  
2 Rinehart, Roche, Bondy and Zwarenstein caused and allowed VeriFone to file its quarterly report  
3 on Form 10-Q for 3Q:06 which represented the following with respect to the purported  
4 effectiveness and sufficiency of VeriFone's internal controls and procedures:

5           **ITEM 4.       CONTROLS AND PROCEDURES**

6                   (a) Evaluation of disclosure controls and procedures.

7                   With the participation of our Chief Executive Officer and Chief Financial  
8 Officer, management has carried out an evaluation of the effectiveness of our  
9 disclosure controls and procedures (as defined in Rule 13a-15(e) under the  
10 Securities Exchange Act of 1934). Based upon that evaluation, our Chief  
11 Executive Officer and Chief Financial Officer concluded that our disclosure  
12 controls and procedures were effective as of the end of the period covered by this  
13 report.

14                   (b) Changes in internal control over financial reporting.

15                   During the third quarter of our fiscal year ending October 31, 2006, we  
16 implemented the following changes to internal control over financial reporting (as  
17 defined in Rule 13a-15(f) under the Securities Exchange Act of 1934):

- 18                   •       enhanced the secondary review for certain sales orders to ensure proper  
19                   accounting;
- 20                   •       *issued additional formal accounting policies and enhanced processes*  
21                   *surrounding the recording of certain transactions for the purposes of*  
22                   *enhancing internal controls.*

23                   These actions represent management's continued emphasis to adopt  
24 internal control related to developing business needs and to *enhance the internal*  
25 *control environment* as management continues to prepare for reporting on our  
26 internal control over financial reporting, as required by Section 404 of the  
27 Sarbanes-Oxley Act of 2002.

28           80.    On December 18, 2006, defendants Bergeron, Castle, Denend, Hart, Henske,  
Rinehart, Roche, Bondy and Zwarenstein caused and allowed the Company to file its 2006 10-K  
with the SEC. The 2006 10-K was signed by defendants Bergeron, Castle, Denend, Hart,  
Henske, Rinehart, Roche, Bondy and Zwarenstein.

81.    The 2006 10-K represented that the Company had systems in place to accurately  
evaluate and value VeriFone's inventories on a quarterly basis, stating:

*We review the adequacy of our inventories valuation on a quarterly basis. For  
production inventory, our methodology involves matching our on-hand and on-  
order inventories with our sales estimate over the next twelve and eighteen*

1 months. We then evaluate the inventory found to be in excess of the twelve-  
2 month demand estimate and take appropriate write-downs to reflect the risk of  
3 obsolescence. For on-hand and on-order inventory in excess of eighteen month  
4 requirements we generally record a 100% reserve. This methodology is  
5 significantly affected by our sales estimate. If actual demand were to be  
6 substantially lower than estimated, additional inventories write-downs for excess  
7 or obsolete inventories may be required.

8 The 2006 10-K further represented that VeriFone had established adequate internal  
9 controls to assure accurate reporting of the Company's financial results. Specifically, the 2006  
10 10-K stated:

11 With the participation of our Chief Executive Officer and Chief Financial Officer,  
12 management has evaluated the effectiveness of our disclosure controls and  
13 procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities  
14 Exchange Act of 1934) as of the end of the period covered by this report. Based  
15 on such evaluation, our Chief Executive Officer and Chief Financial Officer have  
16 concluded that, as of the end of such period, our disclosure controls and  
17 procedures are effective.

18 \* \* \*

19 Based on our evaluation utilizing the criteria set forth in *Internal Control—*  
20 *Integrated Framework issued by COSO*, our management (including our chief  
21 executive officer and chief financial officer) concluded that our internal control  
22 over financial reporting was effective as of October 31, 2006.

23 82. Under the heading "Summary of Significant Accounting Policies," VeriFone's  
24 2006 10-K reassured investors that: "The accompanying consolidated financial statements  
25 include the accounts of the Company and its wholly owned subsidiaries. All significant  
26 intercompany accounts and transactions have been eliminated."

27 83. The 2006 10-K went on to represent the following with respect to the purported  
28 effectiveness and sufficiency of VeriFone's internal controls and procedures:

**ITEM 9A. CONTROLS AND PROCEDURES**

(a) Evaluation of disclosure controls and procedures.

29 With the participation of our Chief Executive Officer and Chief Financial  
30 Officer, management has evaluated the effectiveness of our disclosure controls  
31 and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities  
32 Exchange Act of 1934) as of the end of the period covered by this report. Based  
33 on such evaluation, our Chief Executive Officer and Chief Financial Officer have  
34 concluded that, as of the end of such period, our disclosure controls and  
35 procedures are effective.

1           84.    Additionally, defendants Bergeron and Zwarenstein made the following  
2 certification under SOX in the 2006 10-K:

3           I, [Douglas G. Bergeron/Barry Zwarenstein,] [Chief Executive Officer/Chief  
4 Financial Officer] of VeriFone Holdings, Inc. certify that:

- 5           1.    I have reviewed this Annual Report on Form 10-K of VeriFone Holdings,  
6           Inc.;
- 7           2.    Based on my knowledge, this report does not contain any untrue statement  
8           of a material fact or omit to state a material fact necessary to make the  
9           statements made, in light of the circumstances under which such  
10          statements were made, not misleading with respect to the period covered  
11          by this report;
- 12          3.    Based on my knowledge, the financial statements, and other financial  
13          information included in this report, fairly present in all material respects  
14          the financial condition, results of operations and cash flows of the  
15          registrant as of, and for, the periods presented in this report;
- 16          4.    The registrant's other certifying officer and I are responsible for  
17          establishing and maintaining disclosure controls and procedures (as  
18          defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal  
19          control over financial reporting (as defined in Exchange Act Rules 13a-  
20          15(f) and 15d-15(f)) for the registrant and have:
  - 21               (a)    designed such disclosure controls and procedures, or caused such  
22               disclosure controls and procedures to be designed under our  
23               supervision, to ensure that material information relating to the  
24               registrant, including its consolidated subsidiaries, is made known  
25               to us by others within those entities, particularly during the period  
26               in which this report is being prepared;
  - 27               (b)    designed such internal control over financial reporting, or caused  
28               such internal control over financial reporting to be designed under  
              our supervision, to provide reasonable assurance regarding the  
              reliability of financial reporting and the preparation of financial  
              statements for external purposes in accordance with generally  
              accepted accounting principles;
  - (c)    evaluated the effectiveness of the registrant's disclosure controls  
              and procedures and presented in this report our conclusions about  
              the effectiveness of the disclosure controls and procedures, as of  
              the end of the period covered by this report based on such  
              evaluation; and
  - (d)    disclosed in this report any change in the registrant's internal  
              control over financial reporting that occurred during the registrant's  
              most recent fiscal quarter (the registrant's fourth fiscal quarter in  
              the case of an annual report) that has materially affected, or is  
              reasonably likely to materially affect, the registrant's internal  
              control over financial reporting; and

1 5. The registrant's other certifying officer and I have disclosed, based on our  
2 most recent evaluation of internal control over financial reporting, to the  
3 registrant's auditors and the audit committee of the registrant's board of  
4 directors (or persons performing the equivalent functions):

- 5 (a) all significant deficiencies and material weaknesses in the design  
6 or operation of internal control over financial reporting which are  
7 reasonably likely to adversely affect the registrant's ability to  
8 record, process, summarize and report financial information; and  
9 (b) any fraud, whether or not material, that involves management or  
10 other employees who have a significant role in the registrant's  
11 internal control over financial reporting.

12 85. On March 9, 2007, defendants Bergeron, Castle, Denend, Hart, Henske, Rinehart,  
13 Roche, Bondy and Zwarenstein caused and allowed the Company to file its quarterly report on  
14 Form 10-Q for 1Q:07 with the SEC including the financial results first reported in a March 1,  
15 2007 press release. With respect to the Company's internal controls, this Form 10-Q reported:

16 **ITEM 4. CONTROLS AND PROCEDURES**

- 17 (a) Evaluation of disclosure controls and procedures.

18 With the participation of our Chief Executive Officer and Chief Financial  
19 Officer, management has carried out an evaluation of the effectiveness of our  
20 disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(f)  
21 under the Securities Exchange Act of 1934). Based upon that evaluation, our  
22 Chief Executive Officer and Chief Financial Officer concluded that our disclosure  
23 controls and procedures were effective as of the end of the period covered by this  
24 report.

- 25 (b) Changes in internal control over financial reporting.

26 During the first quarter of our fiscal year ending October 31, 2007, as a  
27 result of our acquisition of Lipman, we implemented the following changes to  
28 internal control over financial reporting (as defined in Rule 13a-15(f) under the  
29 Securities Exchange Act of 1934):

- 30 • Ensured the adoption of VeriFone's accounting policies and processes  
31 for Lipman's transactions.
- 32 • *Enhanced the review for certain sales orders to ensure proper  
33 accounting.*

34 There have been no other changes in our internal control over financial  
35 reporting that have materially affected, or are reasonably likely to materially  
36 affect, our internal control over financial reporting for the quarter ended January  
37 31, 2007.

1           86. Defendants Bergeron and Zwarenstein certified the Form 10-Q filed with the SEC  
2 on March 9, 2007 under SOX with a certification substantially identical to the certification  
3 alleged above in the 2006 10-K.

4           87. On May 31, 2007, defendants Bergeron, Castle, Denend, Hart, Henske, Rinehart,  
5 Roche, Bondy and Zwarenstein caused and allowed the Company to file its quarterly report on  
6 Form 10-Q for 2Q:07 with the SEC including the financial results first reported in a May 25,  
7 2007 press release. With respect to the Company's internal controls and procedures, the Form  
8 10-Q repeated the statements made in the Form 10-Q for 1Q:07, reassuring investors that the  
9 Company's "disclosure controls and procedures were effective as of the end of the period  
10 covered by [the] report."

11           88. This quarterly report reiterated prior representations regarding quarterly review of  
12 the stated value of inventories as follows:

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

17           89. Defendants Bergeron and Zwarenstein certified the Form 10-Q filed with the SEC  
18 on May 31, 2007 under SOX with a certification substantially identical to the certification  
19 alleged above in the 2006 10-K.

20           90. On September 7, 2007, defendants Bergeron, Castle, Denend, Hart, Henske,  
21 Rinehart, Roche, Bondy and Zwarenstein caused and allowed the Company to file its quarterly  
22 report on Form 10-Q for 3Q:07 with the SEC including the financial results first reported in a  
23 September 6, 2007 press release. With respect to the Company's internal controls and  
24 procedures, this Form 10-Q repeated the statements made in the Forms 10-Q for 1Q:07 and  
25 2Q:07, reassuring investors that the Company's "disclosure controls and procedures were  
26 effective as of the end of the period covered by [the] report."  
27  
28



1 **THE RESTATEMENT**

2 93. On December 3, 2007, VeriFone was forced to announce that it would be  
3 restating its financial results for the first three quarters of 2007. According to the Company, this  
4 restatement was to effectively eliminate 80% of the Company's profit before taxes for that  
5 period. The press release stated:

6 VeriFone Holdings, Inc. today announced that following a review by and on the  
7 recommendation of management, it has concluded that its unaudited interim  
8 consolidated financial statements for *the three months ended January 31, 2007,*  
9 *the three and six months ended April 30, 2007 and the three and nine months*  
10 *ended July 31, 2007 should no longer be relied upon, principally due to errors*  
11 *in accounting related to the valuation of in-transit inventory and allocation of*  
12 *manufacturing and distribution overhead to inventory, each of which affects*  
13 *VeriFone's reported costs of net revenues.* The restatements are anticipated to  
14 correct errors that *overstated previously reported inventories in material*  
15 *amounts* as of January 31, 2007, April 30, 2007 and July 31, 2007, and  
16 *understated cost of net revenues in material amounts* for the three month periods  
17 ended January 31, 2007, April 30, 2007, and July 31, 2007. Accordingly,  
18 *investors are cautioned not to rely on VeriFone's historical financial statements*  
19 *and earnings press releases and similar communications for the periods ended*  
20 *January 31, 2007, April 30, 2007, and July 31, 2007.*

21 Based on its review to date, management currently anticipates that *the*  
22 *restatement will result in reductions to previously reported inventories of*  
23 *approximately \$7.7 million, \$16.5 million and \$30.2 million as of January 31,*  
24 *2007, April 30, 2007 and July 31, 2007, respectively, and reductions to*  
25 *previously reported pre-tax income of approximately \$8.9 million, \$7.0 million*  
26 *and \$13.8 million for the three month periods ended January 31, 2007, April*  
27 *30, 2007 and July 31, 2007, respectively.* VeriFone is currently evaluating the  
28 anticipated effect of the restatement on after-tax income for those periods.

These estimates include corrections of other unrelated errors detected in  
the course of VeriFone's review to date, are based on currently available  
information and are subject to change during the course of the company's  
restatement process. While VeriFone is not currently aware of other accounting  
errors requiring adjustment to any prior period financial statements, *there can be*  
*no assurances that VeriFone or its independent registered public accounting*  
*firm will not find additional accounting errors requiring further adjustments in*  
*those or earlier periods.*

94. In a conference call on that same day, defendant Bergeron blithely blamed the  
Company's problems on complexities associated with the November 1, 2006, acquisition of  
Lipman. However, Bergeron did admit that the Company lacked accounting personnel who  
adequately understood the accounting flow and the result was a double-booking of reported  
inventories.

1           95.     The resulting decline in VeriFone's value was dramatic. Between November 20,  
2 2007 and December 3, 2007, VeriFone's stock price plummeted from \$48.03 to \$24.31 per share  
3 – a 49% decline in value. This 45% drop in price erased more than \$1.8 billion in market  
4 capitalization.

5           96.     The devastating impact of this news was best summarized by Carl Gutierrez of  
6 *Forbes*, who stated in pertinent part:

7                     *VeriFone Holdings saw more than a year's worth of stock-price gains go*  
8                     *up in smoke Monday, as the company said it would restate its earnings for the*  
9                     *past three quarters, with the added warning that revelations of deeper problems*  
                      *may follow.*

10                    VeriFone Holdings shares slumped 45.8%, or \$22.00, to \$26.03.

11                    The San Jose, Calif.-based company said it did not properly value the  
12 products in its inventory, leading the costs the company recorded to be too low.

13                    Calling the announcement "pretty severe" Wedbush Morgan analyst Gil  
14 Luria also pointed out that *the company provided investors with additional*  
15 *uncertainty as it added that there could be no assurances that it, or its outside*  
16 *accountants, would not find more mistakes.*

17           97.     On the heels of this announcement, Credit Suisse downgraded VeriFone from  
18 "Out Perform" to "Neutral," and Morgan Wedbush likewise downgraded the Company from  
19 "Strong" to "Hold." Tien-tsin Huang, an analyst at JPMorgan Securities also commented, "*the*  
20 *restatement calls into question VeriFone's gross margins, which up until now have been*  
21 *positive fuels for the stock.*"

22           98.     On December 31, 2007, VeriFone filed a Notification of Late Filing with the SEC  
23 and as a result, the Company was forced to enter into an Amendment of the Credit Agreement to  
24 secure the waiver of this default. Under the terms of the Amendment of the Credit Agreement,  
25 VeriFone was required to pay the lender's costs and expenses and an amendment fee equal to  
26 0.25% of both the aggregate amount of the revolving commitment and the outstanding principal  
27 amount of its Term B Loans.

28           99.     On April 2, 2008, VeriFone issued a press release entitled "VeriFone Completes  
Independent Investigation – Updates Restatement Process and Announces Remedial Action to  
Correct Control Deficiencies." In the press release, VeriFone admitted that it lacked sufficient

1 internal controls and review processes to detect and prevent non-standard journal entries, which  
2 had been the root of the notorious Worldcom accounting scandal in 2002. As a result of these  
3 deficient internal controls, corporate executives were able to manipulate VeriFone's reported  
4 inventories and thus inflate the Company's reported earnings. Also, the press release disclosed  
5 that defendant Zwarenstein had tendered his resignation the previous day. The press release  
6 disclosed, *inter alia*, as follows:

7 Subject to completion of the restatements and review by VeriFone's auditors, the  
8 restatements are expected to have the following effects:

- 9 • Previously reported inventories will be reduced by approximately \$13.3  
10 million, \$23.9 million and \$40.6 million as compared to originally  
11 reported amounts at January 31, 2007, April 30, 2007, and July 31, 2007;  
12 and
- 13 • Previously reported operating income will be decreased by approximately  
14 \$12.5 million, \$9.8 million and \$14.7 million as compared to originally  
15 reported amounts for the three months periods ended January 31, 2007,  
16 April 30, 2007, and July 31, 2007, principally due to higher cost of net  
17 revenues as compared to originally reported amounts.
- 18 • The aggregate decrease in operating income for the nine months ended  
19 July 31, 2007, of ***approximately \$36.9 million***, as determined through the  
20 Audit Committee investigation, represents an increase of approximately  
21 \$7.2 million compared to the original estimate of approximately \$29.7  
22 million reported on December 3, 2007.

23 These amounts remain preliminary and are subject to review by  
24 VeriFone's independent registered public accounting firm in connection with the  
25 preparation and review of the amended quarterly reports and the audit of the  
26 annual financial statements to be included in the annual report on Form 10-K for  
27 the year ended October 31, 2007.

28 The Audit Committee's independent investigation, which began on  
December 3, 2007, involved approximately 70 professionals retained by the audit  
committee's independent counsel, Simpson Thatcher & Bartlett LLP, and forensic  
accountants, Navigant LLC, who in aggregate evaluated more than 5 million  
documents and conducted more than 25 interviews of current and former  
VeriFone personnel. The investigation confirmed that ***incorrect manual journal  
and elimination entries were made*** with respect to certain inventory-related  
matters, that existing policies with respect to manual journal entries were not  
followed, and that ***insufficient review processes and controls were in place to  
identify and correct the erroneous manual journal and elimination entries*** in a  
timely manner.

1 As a result of the issues identified by management and the Audit  
2 Committee independent investigation, management has concluded that *VeriFone*  
3 *did not maintain effective internal control over financial reporting.*

4 100. The April 2, 2008 press release also announced a number of so-called "remedial  
5 measures." These remedial measures, however, merely amount to corporate governance  
6 practices that could and should have been in place well before the occurrence of the wrongdoing  
7 alleged herein. In effect, these remedial measures constitute specific admissions of critical  
8 deficiencies in VeriFone's internal controls and are part and parcel of the pending restatement,  
9 which is also an admission that VeriFone's internal controls were deficient. These deficiencies  
10 include, but are not limited to, the following:

- 11 ▪ VeriFone's voucher approval process implementation was either non-  
12 existent or insufficient so as to detect and prevent fraudulent non-  
13 standard journal entries;
- 14 ▪ VeriFone's information technology and enterprise resource planning  
15 systems were unable to handle the size and complexity of the  
16 Company's business;
- 17 ▪ VeriFone lacked sufficient accounting staff with knowledge and  
18 experience in GAAP; and
- 19 ▪ VeriFone's financial planning and accounting and control functions  
20 were not properly segregated.

21 101. Finally, the April 2, 2008 press release announced that VeriFone had shared the  
22 preliminary results of the investigation with the SEC, and that "*[t]he staff of the SEC has since*  
23 *provided VeriFone with an informal request seeking voluntary production by VeriFone of*  
24 *documents and had indicated an interest in interviewing several current and former VeriFone*  
25 *officers and employees.*"

26 102. On August 19, 2008, VeriFone issued a restatement of the Company's previously  
27 reported financial statements for the following interim periods: the three months ended January  
28 31, 2007; the three and six months ended April 30, 2007; and the three and nine months ended  
July 31, 2007. The August 19, 2008, restatement provided in relevant part:

[W]e have identified *material weaknesses in our internal control over financial reporting and have determined that our disclosure controls and procedures were not effective.* These weaknesses contributed to our need to restate previously reported interim financial information for each of the first three



1 assurance that other regulatory inquiries will not be commenced by other U.S.  
2 federal, state or foreign regulatory agencies.

3 103. During a conference call that same day, defendant Bergeron attempted to place  
4 blame for the restatement on a single "manager" while admitting that the Company did not have  
5 a General Counsel or a Chief Compliance Officer who may have helped prevent the improper  
6 accounting practices that plagued the Company during the Relevant Period. Defendant Bergeron  
7 remarked:

8 Now, let me discuss the events leading up to the restatement. In early December  
9 we reported that Management had discovered two categories of errors that were  
10 made in the accounting consolidation of our Supply Chain operation. The audit  
11 committee conducted an independent investigation led by the law firm of  
12 Simpson Thatcher, and Navigant's forensic accounting practice. The details and  
13 scope of this four month investigation were described in our April press release  
14 and in the reports we filed today, but fundamentally, the investigation was looking  
15 into three things. First, what were the circumstances of the errors we identified  
16 and described in December? Second, whether there were additional errors that  
17 required further restatement. And third, whether any evidence indicated that prior  
18 results also required restatement.

19 The investigation confirmed that *incorrect entries had been made*  
20 primarily by our Sacramento Supply Chain Accounting Team with respect to  
21 several inventory related matters. *These errors resulted in further adjustments*  
22 *to our compensation and tax expense*, and the restatement itself required that we  
23 record other individually immaterial adjustments. The investigation found no  
24 evidence that any period prior to fiscal year 2007 required restatement. The  
25 *manager responsible was terminated* and we have a comprehensive list of new  
26 control procedures.

27 In April, we appointed a new Director of Supply Chain Accounting who  
28 we successfully recruited from one of the world's leading contract manufacturing  
firms. We are near the end of our *search for a General Counsel who will also*  
*serve as the Company's Chief Compliance Officer*. In June, we brought on  
board Clinton Knowles, a well respected finance professional from Tatum  
Partners, and effective tomorrow he will act as interim CFO of VeriFone. The  
highlights of Clinton's background are described in the press release and they are  
indeed impressive. And finally, we are in the final stages of our permanent CFO  
search and we hope to make that announcement shortly.

\* \* \*

23 *Our GAAP results were negatively impacted by the charge for the restructuring*  
24 *that I described earlier, but more significantly, by the cost of the investigation*  
25 *and the cost associated with the restatement activity. The restatement and*  
26 *associated tax consultancy costs amounted to \$18.1 million in the first half,*  
27 *EBITDA as adjusted, which does not add back these costs, was \$15.1 million.*  
28 *Non-GAAP net income was \$18.5 million in the first half of 2008, compared to*  
*\$51.5 million in the first half of 2007.*

\* \* \*

I believe VeriFone is a better and stronger Company today as a result of this very  
difficult and trying experience. We have used the last months to focus on our

1 strengths and work on our weaknesses. We have not been slow to restructure  
 2 when needed and to make changes in areas where we knew we can do better. We  
 3 have redoubled our efforts on reducing product related costs, streamlining our  
 4 supply chain, and making all aspects of our Business more efficient. We are  
 5 relieved to be through with this very difficult chapter and are anxious to move on  
 6 to growing our Business, improving profitability, and growing shareholder value.

7 104. The following table compares the originally reported Net Income and EPS figures  
 8 to the analyst consensus estimates and the adjusted Net Income and EPS figures as adjusted in  
 9 VeriFone's restatement:  
 10

### 11 VeriFone Pre and Post Restatement Estimates and Results

#### 12 GAAP

	Net Income Consensus Estimate (In Millions)	EPS Consensus Estimate	Actual Net Income Reported - Initial (In Millions)	Actual EPS Reported - Initial	Actual Net Income Reported - Restatement (In Millions)	Actual EPS Reported - Restatement
13 Q1 2007	\$7.633	\$0.098	(\$0.984)	(\$0.010)	(\$5.679)	(\$0.070)
14 Q2 2007	\$10.140	\$0.122	\$4.859	\$0.060	(\$4.818)	(\$0.060)
15 Q3 2007	\$12.460	\$0.150	\$13.439	\$0.160	(\$42.386)	(\$0.510)

#### 16 Non-GAAP

	Net Income Consensus Estimate (In Millions)	EPS Consensus Estimate	Actual Net Income Reported - Initial (In Millions)	Actual EPS Reported - Initial	Actual Net Income Reported - Restatement (In Millions)	Actual EPS Reported - Restatement
17 Q1 2007	\$24.933	\$0.342	\$31.151	\$0.370	\$26.631	(\$0.260)
18 Q2 2007	\$30.740	\$0.373	\$32.636	\$0.390	\$20.422	\$0.240
19 Q3 2007	\$33.420	\$0.397	\$35.585	\$0.420	(\$21.697)	\$0.320

20 105. The fact that VeriFone has announced a restatement of its financial statements is  
 21 an admission that the financial statements originally issued were false and that the overstatement  
 22 of income was material. Pursuant to GAAP, as set forth in Accounting Principles Board Opinion  
 23 ("APB") No. 20, the type of restatement announced by VeriFone is to correct for material errors  
 24 in its previously issued financial statements. See APB No. 20, ¶¶7-13. The restatement of past  
 25 financial statements is a disfavored method of recognizing an accounting change as it dilutes  
 26 investor confidence in the financial statements, makes it difficult to compare financial statements  
 27 and it is often difficult, if not impossible, to generate the numbers when restatement occurs. See  
 28 APB No. 20, ¶14. Thus, GAAP provides that financial statements should only be restated in

1 limited circumstances, *i.e.*, when there is a change in the reporting entity, there is a change in  
2 accounting principles used or to correct an error in previously-issued financial statements.

3 106. Thus, VeriFone's restatement is akin to an admission by defendants Bergeron,  
4 Castle, Denend, Hart, Henske, Rinehart, Raff, Roche, Bondy and Zwarenstein that its previously  
5 issued financial statements were false and that the overstatement of income was material.

6 107. On September 9, 2008, VeriFone announced a third-quarter 2008 loss on costs to  
7 restate its financial results. The press release stated in relevant part: "GAAP Net loss per share  
8 for the three months ended July 31, 2008, was \$(0.09) per diluted share, compared to \$(0.51) per  
9 diluted share, for the comparable period of fiscal 2007." As of July 31, 2008, the Company had  
10 accumulated at least *\$33.5 million in costs associated with the Company's internal*  
11 *investigation and restatement*. Further, while VeriFone has yet to file its financial statement for  
12 the quarter ending October 31, 2008, it is likely the Company will incur additional costs  
13 associated with the restatement and related investigations.

14 108. On the heels of this announcement, on September 10, 2008, Clal Finance  
15 Brokerage Ltd. lowered VeriFone's outlook from "buy" to "underperform."

16 109. As a result of defendants Bergeron, Castle, Denend, Hart, Henske, Rinehart, Raff,  
17 Roche, Bondy and Zwarenstein's misconduct alleged herein, VeriFone's market capitalization  
18 has been damaged by more than \$2.4 billion. At the same time that Defendants were causing  
19 VeriFone to suffer such devastation of its market capitalization, the Insider Selling Defendants  
20 fared much better by selling over \$474 million of their personally-held stock.

21 **DEFENDANT BERGERON'S EMPLOYMENT AGREEMENT**

22 110. On January 4, 2007, VeriFone announced a new employment agreement with  
23 defendant Bergeron, which gave him an increased incentive to report increased net income and  
24 raise the trading price of VeriFone stock. Specifically, the Company announced:

1 The terms of the employment agreement include *a grant of innovative*  
2 *performance-based equity incentives* designed to replace annual equity grants  
3 over the life of the agreement. Under the agreement, Mr. Bergeron may earn up  
4 to 900,000 restricted stock units over a three year period *based upon consistent*  
5 *and continuous above-standard growth in the company's net income per share*  
6 *as adjusted and its share price.*

7 Specifically, 200,000 restricted stock units may be earned each year *based*  
8 *on VeriFone achieving significant annual improvements in net income per*  
9 *share as adjusted. For fiscal year 2007, vesting will require improvements that*  
10 *exceed management's guidance*, and for fiscal years 2008 and 2009 vesting will  
11 require 20% annual increases in net income per share, as adjusted. Net income as  
12 adjusted will be defined on a basis consistent with that reported by the Company  
13 for the fiscal year ended October 31, 2006.

14 In addition, in each year Mr. Bergeron may earn a further 100,000  
15 restricted stock units, but only if VeriFone achieves both the targeted annual  
16 improvements in net income per share, as adjusted, and there is a corresponding  
17 20% improvement in VeriFone's share price.

18 111. Importantly, while the Company's stock was trading at artificially inflated prices  
19 due to the improper accounting practices and misleading public statements detailed herein,  
20 defendant Bergeron reaped the performance-based equity incentives of his employment  
21 agreement and sold 59.98% of his VeriFone holdings while in possession of undisclosed material  
22 adverse information. Bergeron's employment agreement should have put defendants Bergeron,  
23 Castle, Denend, Hart, Henske, Rinehart, Raff, Roche, Bondy and Zwarenstein on notice as to the  
24 importance of maintaining effective internal controls over the Company's accounting systems  
25 and financial reporting. Further, Bergeron's stock sales should have alerted defendants Castle,  
26 Denend, Hart, Henske, Rinehart, Raff and Roche, as members of the Board, and defendant  
27 Zwarenstein as the Company's CFO, that VeriFone's internal controls may have been too  
28 deficient to prevent non-standard journal entries that allowed double-booking of in-transit  
inventory, materially overstating both inventories and pre-tax income, as well as rendering  
VeriFone's increasing gross margins and EBITDA margins likewise false and misleading.  
Nonetheless, defendants Bergeron, Castle, Denend, Hart, Henske, Rinehart, Raff, Roche, Bondy  
and Zwarenstein failed to maintain adequate internal controls.

#### OVERVIEW OF VERIFONE'S ACCOUNTING SCHEME

112. During the Relevant Period, VeriFone's senior management caused the Company  
to manipulate, and defendants Bergeron, Castle, Denend, Hart, Henske, Rinehart, Raff, Roche,

1 Bondy and Zwarenstein allowed VeriFone to manipulate, the Company's financial results in  
2 three ways. First, VeriFone reduced its reported cost of revenues by improperly duplicating  
3 overhead costs and increasing reported inventory balances. Second, VeriFone improperly  
4 reduced its reported cost of revenues by re-characterizing certain expenses as in-transit  
5 inventory. Third, VeriFone ignored the necessary accounting entries that would have eliminated  
6 the profit it recorded when VeriFone simply sold product to itself via intercompany transactions.  
7 None of these practices were in conformity with GAAP. None of these practices were disclosed,  
8 despite the fact that both practices constituted changes from VeriFone's previous accounting  
9 practices. All of these practices falsely reduced VeriFone's cost of revenues and, accordingly,  
10 had the effect of artificially inflating the net income VeriFone reported to the public on its  
11 financial statements. The chronic and pervasive failure to follow GAAP standards can be  
12 attributed to defendants Bergeron, Castle, Denend, Hart, Henske, Rinehart, Raff, Roche, Bondy  
13 and Zwarenstein's failure to establish necessary internal and financial controls over the  
14 Company's accounting systems which led to the abuse of manual, non-standard journal entries  
15 made during the period-end financial reporting process.

16 113. As highlighted in the AICPA's publication: *Management Override of Internal*  
17 *Controls - The Achilles' Heal of Fraud Prevention* (a document that offers guidance to audit  
18 committees in addressing the risk of fraud through management override of internal control over  
19 financial reporting) many financial statement frauds have been perpetrated by intentional  
20 override by senior management of what might otherwise appear to be effective internal controls.  
21 Because management is primarily responsible for the design, implementation and maintenance of  
22 the company's internal controls, a company is always exposed to the danger of management  
23 override of controls. When the opportunity to override internal controls is combined with  
24 powerful incentives to meet accounting objectives (like the incentives present in defendant  
25 Bergeron's employment agreement), senior management may engage in fraudulent financial  
26 reporting. Thus, it was critically important that the Company have proper internal controls to  
27 detect and deter improper financial reporting perpetrated by senior management. The Board and  
28 specifically the Audit Committee are also responsible for overseeing the actions of management

1 and according to the AICPA, the Audit Committee *must* evaluate whether oversight mechanisms  
2 are in place and functioning that will prevent, deter or detect management override of internal  
3 controls.

4 114. However, at VeriFone, defendants Bergeron, Castle, Denend, Hart, Henske,  
5 Rinehart, Raff, Roche, Bondy and Zwarenstein failed to cause the Company to enact sufficient  
6 internal controls and thus allowed management to ignore existing policies, historical practices,  
7 GAAP, and SEC disclosure rules to inflate VeriFone's reported net income. At VeriFone,  
8 oversight mechanisms were not in place and functioning to prevent, deter or detect VeriFone's  
9 management override of internal controls. In connection with its restatement, VeriFone has now  
10 admitted that it had the following material weaknesses: (1) transaction-level material weakness  
11 in the design and operation of control activities relating to the preparation, review and approval,  
12 and entry of manual, non-standard journal entries; (2) entity-level material weakness related to  
13 the Company's period-end financial reporting process due to insufficient number of qualified  
14 personnel with the required proficiency to apply the company's accounting policies in accordance  
15 with GAAP; and (3) entity-level material weakness in control activities related to the design and  
16 operation of the Company's supervision, monitoring and monthly financial statement review  
17 processes. A material weakness is a control deficiency, or combination of control deficiencies,  
18 in internal control over financial reporting such that there is a reasonable possibility that a  
19 material misstatement of the annual or interim financial statements will not be prevented or  
20 detected on a timely basis.

21 115. According to VeriFone's August 19, 2008 press release, the most significant  
22 errors giving rise to VeriFone's restatement were attributed to "manual journal entries" that: (1)  
23 "erroneously added manufacturing and distribution overhead to inventory" when "overhead had  
24 already been allocated to that inventory;" and (2) "erroneously recorded in-transit inventory ...  
25 based on erroneous methodology and application of source documents." Further, VeriFone  
26 admitted that the Board and specifically members of the Audit Committee and defendant  
27 Zwarenstein, allowed management to ignore and override VeriFone's existing policies when it  
28 made these manual journal entries. In addition to overriding VeriFone's internal controls through

1 the abuse of manual journal entries, due to the lack of appropriate internal controls, management  
2 was allowed to ignore VeriFone's policies and historical practices to avoid making the necessary  
3 entries to eliminate the profit it recorded on intercompany transactions.

4 **Relevant Accounting Principle Violations**

5 116. As a public company, VeriFone was required to comply with, among other things,  
6 the Securities Act, the Exchange Act, and the regulations of the SEC. These laws and  
7 regulations are intended to protect the investing public by ensuring that public companies like  
8 VeriFone fairly, accurately, and timely report their financial results and condition. To ensure fair  
9 and accurate reports to the investing public, the federal securities laws and the SEC regulations  
10 promulgated thereunder require public companies such as VeriFone to prepare and present its  
11 reports and financial statements in conformity with GAAP. Financial statements filed with the  
12 Commission that are not prepared in accordance with GAAP are presumed to be misleading and  
13 inaccurate. Regulation S-X § 210.4-01 [17 C.F.R. § 210.4-01].

14 **Inventory Costs**

15 117. Financial Accounting Standards Board No. 151: *Inventory Costs*, an amendment  
16 of Accounting Research Bulletin ("ARB") No. 43, Chapter 4 ("FAS 151"). In accordance with  
17 FAS 151, "[i]nventories are presumed to be stated at cost. The definition of cost as applied to  
18 inventory is understood to mean the acquisition and production cost [footnote omitted]...."

19 118. Consistent with the requirements of FAS 151, VeriFone's public disclosures as  
20 reflected in its 2006 10-K under the heading of "Summary of Significant Accounting Policies,"  
21 VeriFone claimed that: "*Inventories are stated at the lower of standard cost or market.*  
22 *Standard costs approximate the first-in, first-out ("FIFO") method.*"

23 119. However, defendants Bergeron, Castle, Denend, Hart, Henske, Rinehart, Raff,  
24 Roche, Bondy and Zwarenstein failed to ensure the Company had sufficient internal controls and  
25 thus allowed inventories to be stated above cost as a result of management's duplication of  
26 overhead cost allocations, the classification of operating expenses as "in-transit inventory," and  
27 the failure to eliminate the intercompany profit in inventory. In total, VeriFone's July 31, 2007  
28 inventory balance was overstated by approximately \$41 million or 28%. According to

1 VeriFone's restatement, the \$41 million overstatement was attributed to: (1) \$20 million which  
2 represented intercompany in-transit inventory that did not exist; (2) \$11 million due to the  
3 duplicate recording of manufacturing and distribution overhead; (3) \$6.3 million in intercompany  
4 profit that should have been eliminated; and (4) \$5 million attributed to a host of accounting  
5 errors ranging from the improper capitalization of overhead to the failure to eliminate  
6 intercompany transactions.

7 **Principles of Consolidation**

8 120. ARB No. 51, ¶ 1 (1959) (ARB 51), reprinted in Financial Accounting Standards  
9 Board, Original Pronouncements Issued Through June 1973, at 75 (1989). In accordance with  
10 ARB 51, "[t]he purpose of consolidated statements is to present, primarily for the benefit of the  
11 shareholders and creditors of the parent company, the results of operations and the financial  
12 position of a parent company and its subsidiaries [as of a specific period] essentially as if the  
13 group were a single company with one or more branches or divisions." Building upon the  
14 premise that consolidation accounting treats a group of affiliated companies as if it were a  
15 "single business enterprise," ARB 51 goes on to declare that *intercompany profit or loss arising*  
16 *from transactions among the companies included within the consolidated group "should be*  
17 *eliminated."*

18 121. Consistent with the requirements of ARB 51, VeriFone's public disclosures as  
19 reflected in its 2006 10-K under the heading of "Significant Accounting Policies," defendants  
20 Bergeron, Castle, Denend, Hart, Henske, Rinehart, Roche, Bondy and Zwarenstein allowed  
21 VeriFone to claim that: "The accompanying consolidated financial statements include the  
22 accounts of the Company and its wholly owned subsidiaries. *All significant intercompany*  
23 *accounts and transactions have been eliminated."*

24 122. However, defendants Bergeron, Castle, Denend, Hart, Henske, Rinehart, Roche,  
25 Bondy, Raff and Zwarenstein did not cause the Company to eliminate intercompany accounts  
26 and transactions. According to VeriFone's restatement, for the nine months ended July 31, 2007,  
27 VeriFone failed to: (1) eliminate \$20.1 million related to intercompany in-transit inventory that  
28

1 did not exist; (2) eliminate \$6.3 million related to intercompany profit in inventory; and (3)  
2 reflect \$1.1 million related to other errors in the recording of intercompany transactions.

3 **SEC Disclosure Rules**

4 123. Financial Reporting Release No. 60 ("FR-60") alerts public companies like  
5 VeriFone to the need for improved disclosures about "critical accounting policies" defined as  
6 those most important to the financial statement presentation and that require the most difficult,  
7 subjective, and complex judgments. The SEC expects public companies to provide disclosures  
8 responsive to FR-60 in the MD&A. The SEC believes that MD&A should make investors aware  
9 of the sensitivity of financial statements to the methods, assumptions and estimates underlying  
10 the financial statements. Specifically, FR-60 states, "We encourage public companies to include  
11 in their MD&A full explanations, in plain English, of their 'critical accounting policies,' the  
12 judgments and uncertainties *affecting the application of those policies, and the likelihood that*  
13 *materially different amounts would be reported under different conditions* or using different  
14 assumptions."

15 124. During the Relevant Period, defendants Bergeron, Castle, Denend, Hart, Henske,  
16 Rinehart, Roche, Bondy and Zwarenstein caused VeriFone to file periodic reports with the SEC  
17 that not only contained materially false financial statements, but they also failed to include  
18 accurate disclosures concerning VeriFone's business practices and results of operations in  
19 sections for MD&A, and elsewhere. For example, in its quarterly report for the three months  
20 ended July 31, 2007, VeriFone stated in the MD&A section that: "Gross profit percentage  
21 increased in North America primarily due to a higher proportion of wireless sales, which  
22 typically carry a higher margin than landline sales, and reduced sales of a low margin check  
23 processing solution. Gross profit percentage also increased due to lower Corporate costs."  
24 Notably, the Board allowed management to omit any mention of the inappropriate manual  
25 journal entries which accounted for more than half of the reported increase of \$30.3 million in  
26 gross profit reported. However, as discussed, VeriFone failed to disclose its actual business  
27 practices, which did not conform to its stated accounting policies, whereby inappropriate manual  
28 journal entries were made to overstate reported gross profit.



1 the Company's internal investigation and restate VeriFone's financial results; (b) investigate and  
 2 defend VeriFone and certain of its officers in federal class action lawsuits alleging violations of  
 3 the federal securities laws, plus potentially tens of millions of dollars in settlement or to satisfy  
 4 an adverse judgment; (c) pay the costs and fees incurred in connection with defaults of  
 5 VeriFone's credit agreements; (d) pay the costs incurred in connection with investigations  
 6 conducted by the SEC, Department of Justice, the New York Stock Exchange and the Chicago  
 7 Board of Trade; (e) satisfy any costs incurred in connection with the amendment of VeriFone's  
 8 credit agreement; and (f) continue compensating the very Individual Defendants who breached  
 9 their duties to the Company.

10 128. Moreover, these actions have irreparably damaged VeriFone's corporate image  
 11 and goodwill. For at least the foreseeable future, VeriFone will suffer from what is known as the  
 12 "liar's discount," a term applied to the stocks of companies who have been implicated in illegal  
 13 behavior and have misled the investing public, such that the Company's ability to raise capital or  
 14 debt on favorable terms in the future is now impaired.

### 15 ILLEGAL INSIDER SELLING

16 129. While in possession of the undisclosed material adverse information concerning  
 17 the Company's financial statements and internal controls and procedures, the Insider Selling  
 18 Defendants sold the following shares of VeriFone stock:

19 Insider Last Name	Transaction Date	Shares	Price	Proceeds
20 ADAMS	9/1/2006	8,000	\$27.69	\$221,548.15
	10/2/2006	7,973	\$28.03	\$223,470.88
	11/1/2006	7,973	\$29.81	\$237,670.44
	12/1/2006	4,945	\$33.30	\$164,657.44
	1/3/2007	15,524	\$35.65	\$553,505.38
	2/1/2007	21,166	\$40.19	\$850,707.44
	3/1/2007	13,327	\$38.37	\$511,300.90
	3/22/2007	894	\$37.60	\$33,614.40
	4/2/2007	14,604	\$36.32	\$530,450.67
	5/1/2007	21,167	\$35.80	\$757,847.40
	6/1/2007	11,354	\$34.63	\$393,175.99
	6/22/2007	224	\$36.36	\$8,144.64
	7/2/2007	1,250	\$35.29	\$44,112.50
	8/1/2007	61,103	\$35.81	\$2,188,235.27
	8/10/2007	20,000	\$38.84	\$776,861.00

	9/24/2007	222	\$38.64	\$8,578.08	
		<b>209,726</b>		<b>\$7,503,880.58</b>	
1					
2	ANGEL	2/8/2007	15,000	\$40.66	\$609,852.00
3		3/13/2007	15,000	\$36.03	\$540,395.00
4		4/10/2007	15,000	\$37.85	\$567,821.00
5		5/8/2007	15,000	\$37.57	\$563,525.00
6		6/13/2007	15,000	\$34.36	\$515,400.00
7		7/10/2007	15,000	\$36.41	\$546,076.00
8		8/14/2007	15,000	\$36.75	\$551,284.00
9		9/11/2007	15,000	\$39.68	\$595,146.00
10		10/9/2007	15,000	\$44.04	\$660,530.74
11		11/13/2007	15,000	\$43.90	\$658,543.51
12			<b>150,000</b>		<b>\$5,808,573.25</b>
13	ATKINSON	9/1/2006	5,000	\$27.69	\$138,467.54
14		10/2/2006	5,000	\$28.03	\$140,142.31
15		11/1/2006	5,000	\$29.81	\$149,046.98
16		12/1/2006	5,000	\$33.30	\$166,488.74
17		1/22/2007	18,000	\$37.79	\$680,221.17
18		2/1/2007	8,000	\$40.19	\$321,537.32
19		3/1/2007	8,000	\$38.37	\$306,930.24
20		3/12/2007	10,000	\$36.59	\$365,894.00
21		3/22/2007	894	\$37.60	\$33,614.40
22		4/2/2007	8,000	\$36.33	\$290,621.05
23		4/10/2007	10,000	\$37.88	\$378,797.80
24		5/1/2007	8,000	\$35.80	\$286,425.96
25		5/10/2007	10,000	\$37.82	\$378,182.00
26		6/1/2007	8,000	\$34.63	\$277,030.71
27		6/11/2007	10,000	\$32.60	\$325,976.00
28		6/22/2007	224	\$36.36	\$8,144.64
		7/2/2007	8,000	\$35.38	\$283,024.08
		7/10/2007	10,000	\$36.37	\$363,743.00
		9/26/2007	35,000	\$43.08	\$1,507,762.00
			<b>172,118</b>		<b>\$6,402,049.94</b>
21	BERGERON	9/5/2006	119,800	\$28.00	\$3,354,872.00
22		10/2/2006	28,300	\$28.17	\$797,247.00
23		11/1/2006	125,000	\$29.84	\$3,730,050.00
24		12/1/2006	68,000	\$33.35	\$2,267,913.05
25		12/4/2006	82,000	\$34.26	\$2,809,123.68
26		12/11/2006	99,900	\$35.91	\$3,586,980.10
27		12/13/2006	100,040	\$36.62	\$3,663,861.00
28		1/10/2007	200,000	\$35.37	\$7,073,385.00
		3/15/2007	200,000	\$35.94	\$7,187,154.15
		3/22/2007	3,575	\$37.60	\$134,420.00
		4/11/2007	24,000	\$37.64	\$903,396.30
		5/10/2007	97,435	\$37.95	\$3,697,980.04
		5/14/2007	88,100	\$37.84	\$3,334,083.00
		6/12/2007	150,000	\$32.78	\$4,917,715.93

1		6/22/2007	894	\$36.36	\$32,505.84
		7/12/2007	200,000	\$36.62	\$7,323,485.50
2		8/10/2007	83,700	\$39.06	\$3,269,006.00
		9/10/2007	200,000	\$38.96	\$7,792,017.97
3		9/24/2007	893	\$38.64	\$34,505.52
		10/10/2007	200,000	\$45.69	\$9,138,970.40
4		11/14/2007	140,495	\$45.13	\$6,340,828.32
		11/19/2007	14,405	\$44.75	\$644,682.56
5		11/26/2007	43,300	\$45.28	\$1,960,571.18
6			<b>2,269,837</b>		<b>\$83,994,754.54</b>
7	GTCR Fund VII, L.P.	12/19/2006	3,000,000	\$35.78	\$107,342,284.83
	(Controlled by	6/25/2007	3,500,000	\$35.37	\$123,795,000.00
8	Defendants Roche and	9/13/2007	3,300,000	\$38.61	\$127,413,000.00
	Bondy)		<b>9,800,000</b>		<b>\$358,550,284.83</b>
9					
10	CASTLE	9/14/2007	4,500	\$39.20	\$176,404.00
			<b>4,500</b>	<b>\$39.20</b>	<b>\$176,404.00</b>
11					
12	WALLER	11/1/2006	10,000	\$29.81	\$298,094.05
		12/1/2006	10,000	\$33.30	\$332,977.67
13		1/3/2007	10,000	\$35.79	\$357,949.00
		2/1/2007	10,000	\$40.19	\$401,921.62
14		6/13/2007	20,000	\$35.00	\$700,000.00
		7/9/2007	20,000	\$36.54	\$730,875.00
15		8/10/2007	20,000	\$38.84	\$776,830.00
		9/25/2007	10,000	\$40.00	\$400,000.00
16		10/26/2007	10,000	\$46.93	\$469,324.00
		11/26/2007	10,000	\$45.36	\$453,573.69
17			<b>130,000</b>		<b>\$4,921,545.03</b>
18	ZWARENSTEIN	8/31/2006	4,000	\$22.93	\$91,719.00
		9/29/2006	4,000	\$28.70	\$114,810.00
19		10/31/2006	4,000	\$29.11	\$116,435.00
		11/30/2006	4,000	\$33.21	\$132,838.23
20		12/12/2006	4,000	\$37.11	\$148,457.00
		1/9/2007	4,000	\$35.38	\$141,508.81
21		3/15/2007	18,000	\$35.93	\$646,732.59
		3/22/2007	894	\$37.60	\$33,614.40
22		4/10/2007	18,000	\$37.88	\$681,836.87
		5/8/2007	17,900	\$37.58	\$672,612.00
23		6/12/2007	18,000	\$32.81	\$590,629.00
		6/22/2007	224	\$36.36	\$8,144.64
24		7/10/2007	18,000	\$36.37	\$654,733.00
		8/14/2007	18,000	\$36.80	\$662,489.57
25		9/11/2007	18,000	\$39.71	\$714,775.00
		9/12/2007	3,574	\$39.85	\$142,423.90
26		9/24/2007	222	\$38.64	\$8,578.08
		10/9/2007	18,000	\$44.54	\$801,686.57
27		11/13/2007	18,000	\$44.60	\$802,813.52
28					

		190,814	\$7,166,837.18
<b>TOTAL:</b>		<b>12,926,995</b>	<b>\$474,524,329.35</b>

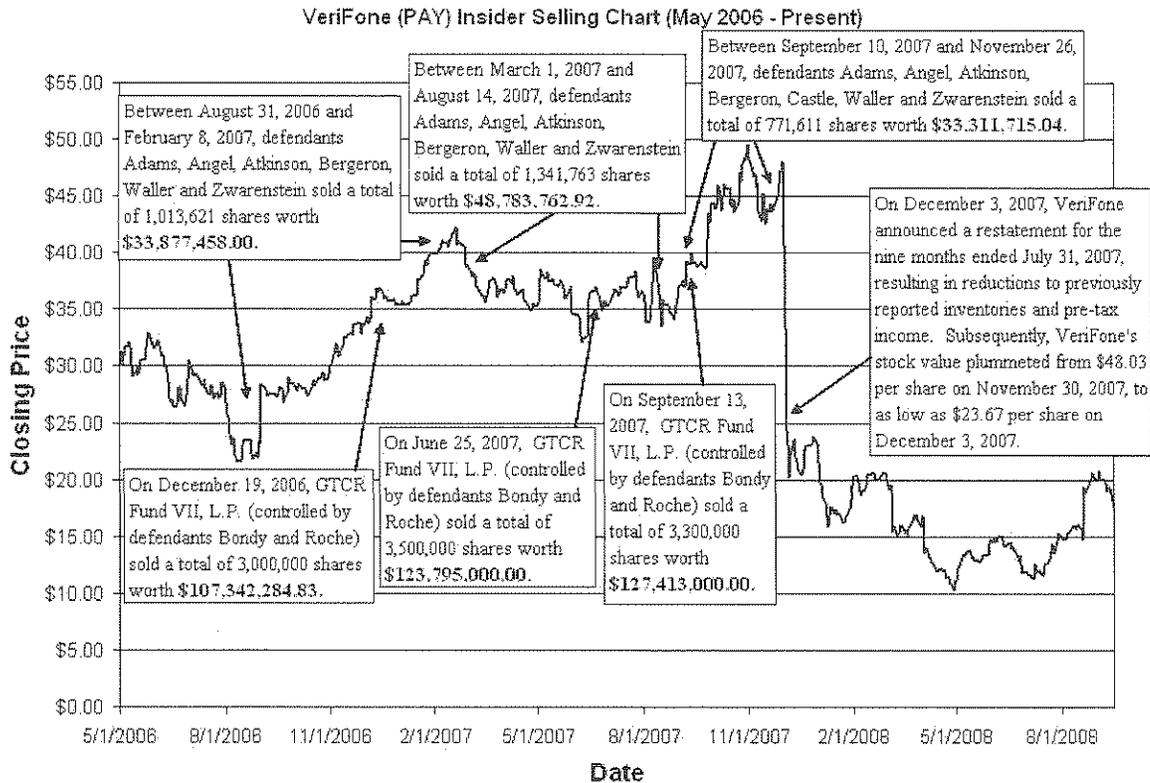
130. The timing and volume of the Insider Selling Defendants' sales of their personally held VeriFone stock support a reasonable inference that they sold on the basis of non-public material information. For example, at least half of the Insider Selling Defendants sold more than 97% of their personal holdings during the Relevant Period. In particular, defendant Adams sold 98.86% of his holdings; defendant Angel sold 99.93% of his holdings; defendant Atkinson sold 97.03% of his holdings; defendant Waller sold 99.05% of his holdings; and defendant Zwarenstein sold 100% of his holdings. Further, director defendant Bergeron sold 59.98% of his holdings and director defendant Castle sold 17.27% of his holdings.

131. Insider selling activity by GTCR during the Relevant Period also bears unmistakable hallmarks of sales that derived from the improper use of non-public material information concerning VeriFone. Specifically, as principals of defendant GTCR, defendants Bondy and Roche sit on a six-person committee at GTCR that has authority over the VeriFone shares acquired and sold by GTCR. On information and belief, Bondy and Roche shared material non-public information concerning VeriFone's grossly inadequate internal controls and misleading public statements, as alleged herein, with GTCR's other principals, including the four other persons on this six-person committee. On the basis of such information disclosed to this committee by Bondy and Roche, the GTCR six-person committee then used that information to direct GTCR to sell over 50.36%, or \$358 million, of its VeriFone holdings during the Relevant Period. In stark comparison, GTCR sold only \$285 million of its VeriFone holdings during the prior period. Taking into account GTCR's uncharacteristically large sales during the Relevant Period, GTCR reduced its holdings in VeriFone from over \$700 million to approximately \$350 million.

132. Similarly, the other Insider Selling Defendants' sales are also highly suspicious as evidenced by the fact that they sold more of their personal holdings during the Relevant Period compared to the year prior (May 2005 to August 2006). In particular, defendant Adams sold

1 more than \$7.5 million during the Relevant Period compared to approximately \$4.0 million in  
 2 the prior year; defendant Angel sold approximately \$5.8 million during the Relevant Period  
 3 compared to no sales in the prior year; defendant Atkinson sold approximately \$6 million during  
 4 the Relevant Period compared to approximately \$2.2 million in the prior year; defendant  
 5 Bergeron sold more than \$83 million during the Relevant Period compared to approximately \$61  
 6 million in the prior year; defendant Castle sold \$176,404 during the Relevant Period compared to  
 7 no sales in the prior year; defendant Waller sold approximately \$4.9 million during the Relevant  
 8 Period compared to \$909,982 in the prior year; and defendant Zwarenstein sold \$7.1 million  
 9 during the Relevant Period compared to \$912,671 million in the prior year.

10 133. The following chart details how the Insider Selling Defendants took advantage of  
 11 the undisclosed information to sell their personally held stock for considerably more than it was  
 12 worth before the December 3, 2007 press release drastically decreased VeriFone's stock value:



**DERIVATIVE AND DEMAND FUTILITY ALLEGATIONS**

134. Plaintiffs bring this action derivatively in the right and for the benefit of VeriFone  
 to redress injuries suffered, and to be suffered, by the Company as a direct result of the breaches

1 of fiduciary duty, waste of corporate assets, illegal insider selling and unjust enrichment, as well  
2 as the aiding and abetting thereof, by the Individual Defendants. VeriFone is named as a  
3 nominal defendant solely in a derivative capacity. This is not a collusive action to confer  
4 jurisdiction on this Court that it would not otherwise have.

5 135. Plaintiffs will adequately and fairly represent the interests of VeriFone in  
6 enforcing and prosecuting its rights.

7 136. Plaintiffs are, and continuously were at all times relevant hereto, beneficial or  
8 record shareholders of VeriFone common stock.

9 137. At the time of the filing of the original complaint, the Board included the  
10 following eight individuals: defendants Bergeron, Castle, Denend, Hart, Henske, Rinehart, Raff,  
11 and Roche. Plaintiffs did not make a demand on the Board of VeriFone to institute this action  
12 because such a demand would have been a futile, wasteful and useless act, particularly for the  
13 following reasons.

14 138. The Board either had direct knowledge of the inadequacy of the Company's  
15 internal and financial controls or recklessly ignored various red flags that should have led it to  
16 question and proactively ascertain the effectiveness of VeriFone's internal controls with respect  
17 to non-standard journal entries. These red flags included the following:

18 (a) The Board utterly failed to cause VeriFone to implement good corporate  
19 governance practices by failing to ensure the Company had a General Counsel or Chief  
20 Compliance Officer, which would likely have prevented or timely detected the misconduct  
21 alleged herein.

22 (b) **The AICPA's Admonitions Regarding Non-Standard Journal Entries:**  
23 The AICPA warns in its Audit Committee Toolkit that audit committees must engage in  
24 discussions concerning non-standard journal entries with corporate executives, including the  
25 CFO. In particular, the Audit Committee Toolkit stresses that directors must ask the CFO and  
26 other financial personnel: "What procedures or oversight do you apply to manual [or non-  
27 standard] journal entries that are proposed during the book-closing process?" Defendants  
28 Henske, Castle, Denend and Rinehart, as members of the Audit Committee, failed to implement

1 these basic principles of corporate governance. Further, the members of the Audit Committee,  
2 via the charter-mandated *discussions with management regarding significant financial*  
3 *reporting issues and judgments made in connection with the preparation of the financial*  
4 *statements and the reasonableness of those judgments*, should have determined the extent to  
5 which VeriFone's internal controls eliminated and deterred non-standard journal entries. Not  
6 only did the members of the Audit Committee fail to follow AICPA's guidelines in this regard,  
7 they utterly failed to ensure that VeriFone had accounting personnel with the necessary expertise  
8 to ensure proper accounting for non-standard journal entries.

9           (c)     **Upon information and belief, VeriFone's Auditor Warned the Board**  
10 **to Question Non-Standard Journal Entries:** E&Y distributed publications to the audit  
11 committees of public companies that address the urgent need to question non-standard journal  
12 entries and the Company's procedures in place to detect and prevent fraudulent non-standard  
13 journal entries. Upon information and belief, E&Y distributed these publications to VeriFone's  
14 Audit Committee and defendant Bergeron. Thus, the Audit Committee and defendant Bergeron  
15 should have exercised the utmost care to ensure VeriFone refrained from utilizing non-standard  
16 accounting journal entries. Despite E&Y's warnings, the Audit Committee and defendant  
17 Bergeron failed to confirm that VeriFone had accounting personnel with the necessary expertise  
18 to ensure proper accounting for non-standard journal entries. Further, given the Audit  
19 Committee's and defendant Bergeron's access to and discussions with senior management and  
20 accounting personnel with intimate knowledge of the Company's accounting systems and  
21 financial reporting processes, they were in a unique position to understand the ineffectiveness of  
22 the Company's internal controls.

23           (d)     **The Insider Selling Defendants' Massive Insider Selling:** The timing  
24 and trading patterns relative to the Insider Selling Defendants' sales of their personally held  
25 VeriFone stock support a reasonable inference that they sold on the basis of material non-public  
26 information concerning VeriFone's improper accounting practices and the Company's lack of  
27 sufficient internal controls and procedures relating to financial reporting. Indeed, over half of the  
28 Insider Selling Defendants sold over 97% of their personal holdings during the Relevant Period.

1 In particular, defendant Zwarenstein sold 100% of his holdings, defendant Bergeron sold 59.98%  
2 of his holdings and defendant Castle sold 17.27% of his holdings. The massive amount of stock  
3 sales by VeriFone insiders (many of them Board members and top executives at VeriFone)  
4 should have put the Board on notice that the Company's internal controls were inadequate and  
5 VeriFone's public statements regarding its financial performance and prospects may have been  
6 false and/or misleading.

7 (e) **The Financial Incentive of Bergeron:** Defendant Bergeron's  
8 employment argument gave him an increased incentive to report increased net income and raise  
9 the trading price of VeriFone stock. When the Board approved defendant Bergeron's  
10 employment agreement, it should have been aware of the added risks associated with that  
11 agreement and the fact that defendant Bergeron had an incentive to manipulate VeriFone's net  
12 income in order to raise the price of VeriFone stock. Thus, the Board should have taken steps to  
13 ensure VeriFone's internal controls were sufficient to prevent manipulation. Further, while the  
14 Company's stock was trading at artificially inflated prices due to the improper accounting  
15 practices and misleading public statements detailed herein, defendant Bergeron sold 59.98% of  
16 his VeriFone holdings. Based on defendant Bergeron's massive insider selling during the  
17 Relevant Period, the Board should have again questioned the sufficiency of the Company's  
18 internal controls and accuracy of its publicly disseminated financial statements.

19 As a result of the Board's direct knowledge of the inadequacy of the Company's internal controls  
20 over the Company's accounting systems and financial reporting or reckless ignorance of various  
21 red flags which should have led it to question and proactively ascertain the effectiveness of  
22 VeriFone's internal controls over the Company's accounting systems and financial reporting,  
23 each of the Director Defendants face a sufficiently substantial likelihood of non-exculpated  
24 liability. Accordingly, pre-suit demand on the Board is excused as futile.

25 139. Moreover, despite the red flags described above, defendants Bergeron, Castle,  
26 Denend, Hart, Henske, Rinehart, and Roche signed and certified VeriFone's 2006 10-K that  
27 falsely stated the Company had established and maintained disclosure controls and procedures  
28 and internal control over financial reporting, and that, based on recent evaluation of internal

1 control over financial reporting, the Company's disclosure controls and procedures were  
2 effective. As discussed, these statements were not accurate because defendants Bergeron, Castle,  
3 Denend, Hart, Henske, Rinehart and Roche did not cause the Company to maintain effective  
4 internal controls over its accounting and financial reporting. Therefore, defendants Bergeron,  
5 Castle, Denend, Hart, Henske, Rinehart and Roche face a sufficiently substantial likelihood of  
6 non-exculpated liability. Accordingly, pre-suit demand on defendants Bergeron, Castle, Denend,  
7 Hart, Henske, Rinehart and Roche was excused as futile.

8 140. Further, defendant Bergeron signed and certified VeriFone's fiscal first through  
9 third quarter 2007 financial statements. VeriFone has restated these financial statements to  
10 correct for the Company's non-standard journal entries and inadequate financial controls.  
11 Bergeron, as the Company's CEO, met with the Audit Committee and members of VeriFone's  
12 senior management to determine the effectiveness of the Company's internal controls and  
13 accuracy of its financial statements. Nevertheless, defendant Bergeron's signed and certified  
14 VeriFone's fiscal first through third quarter 2007 financial statements and certification of these  
15 financials that were restated to correct for the Company's non-standard journal entries and  
16 inadequate financial controls. This was a breach of his fiduciary duties for which Bergeron faces  
17 a sufficiently substantial threat of liability. Accordingly, demand was futile as to defendant  
18 Bergeron.

19 141. According to VeriFone's Proxy Statement filed with the SEC on or about  
20 February 27, 2007, defendants Henske (Chair), Castle, Denend and Rinehart – one half of the  
21 Board – were, during the Relevant Period, members of the Audit Committee. Under its Charter,  
22 the Audit Committee is responsible for reviewing and discussing with VeriFone's financial  
23 personnel: (i) VeriFone's internal quality control procedures; (ii) VeriFone's quarterly and annual  
24 financial statements and earnings press releases; (iii) major issues regarding accounting  
25 principles and financial statement presentations; (iv) the quality and acceptability of accounting  
26 principles applied by VeriFone; (v) the clarity of VeriFone's financial disclosures; and (vi) the  
27 effectiveness of VeriFone's internal control over financial reporting. On information and belief,  
28 the Audit Committee received publications from E&Y that specifically urged the committee to

1 question management regarding the use of non-standard journal entries and VeriFone's internal  
2 controls with respect to detecting and preventing fraudulent non-standard journal entries. Via  
3 discussions with E&Y regarding the importance of procedures and oversight that must be applied  
4 to non-standard journal entries, warnings they received from the AICPA Audit Committee  
5 Toolkit that audit committees must be aware of problems associated with non-standard journal  
6 entries, via discussions with directors Bergeron and Roche who were on the Board during the  
7 Worldcom accounting scandal, and the fact that the Board approved defendant Bergeron's  
8 employment agreement that gave him an increased incentive to report increased net income and  
9 raise the trading price of VeriFone stock, defendants Henske, Castle, Denend and Rinehart were  
10 aware of the importance of VeriFone's internal controls and procedures over its accounting  
11 practices and financial reporting. Further, the fact that VeriFone insiders were dumping their  
12 personally held VeriFone stock in enormous amounts during the Relevant Period, the fact that  
13 the Company lacked a General Counsel or Chief Compliance Officer, and via meetings with  
14 VeriFone's management such as defendants Bergeron and Zwarenstein regarding the Company's  
15 significant financial reporting issues and judgments made in connection with the preparation of  
16 the financial statements and the reasonableness of those judgments, defendants Henske, Castle,  
17 Denend and Rinehart knew or were reckless in not knowing that VeriFone's internal controls  
18 were too deficient to prevent non-standard journal entries that allowed double-booking of in-  
19 transit inventory, materially overstating both inventories and pre-tax income, as well as rendering  
20 VeriFone's increasing gross margins and EBITDA margins likewise false and misleading.  
21 Further, via meetings with VeriFone's management such as defendants Bergeron and  
22 Zwarenstein regarding the Company's significant financial reporting issues, defendants Henske,  
23 Castle, Denend and Rinehart knew or were reckless in not knowing that the Company lacked  
24 accounting personnel with the necessary expertise to monitor non-standard journal entries and  
25 ensure that, among other things, the Company made accurate accounting entries with respect to  
26 its "cost of net revenues" account – VeriFone's most significant operating expense. The Audit  
27 Committee met eight times during FY:06 and seven times during FY:07 respectively, giving  
28 them ample opportunity to discuss the adequacy of VeriFone's internal controls. Nonetheless,

1 the Audit Committee, in reckless, grossly negligent or conscious disregard of its fiduciary duties,  
2 failed to ensure that VeriFone's internal controls were adequate. The Audit Committee also  
3 breached its fiduciary duties by recommending that VeriFone issue the improper statements  
4 alleged above while the Company's internal controls were deficient. Further, the Audit  
5 Committee failed to cause the Company to correct the Company's improper public statements.  
6 Pursuant to its Charter, the Audit Committee is also required to, among other things, "take  
7 appropriate actions to set the overall corporate 'tone' for quality financial reporting, sound  
8 business risk practices, and ethical behavior." Yet despite its duties, the Audit Committee caused  
9 or allowed the Company to staff the accounting department with personnel that lacked the  
10 necessary expertise to monitor non-standard journal entries. Accordingly, demand was futile as  
11 to defendants Henske, Castle, Denend and Rinehart because these defendants face a sufficiently  
12 substantial threat of liability.

13 142. According to the Company's Form DEF 14A Proxy Statements filed with the SEC  
14 on or about February 27, 2007 and September 10, 2008, defendant Henske is qualified as an  
15 Audit Committee financial expert within the meaning of SEC regulations. Thus, according to the  
16 Company, defendant Henske has the following specialized qualifications: (a) understanding of  
17 GAAP; (b) ability to apply GAAP to accounting for estimates, accruals, and reserves; (c)  
18 experience preparing, auditing, analyzing or evaluating financial statements that present a  
19 breadth and level of complexity of accounting issues that are generally comparable to the issues  
20 likely to be raised by financial statements, or experience actively supervising persons engaged in  
21 these activities; (d) understanding of internal control over financial reporting; and (e)  
22 understanding of Audit Committee functions. Despite these special qualifications and his  
23 heightened duty as the Audit Committee's designated financial expert, defendant Henske, in  
24 reckless, grossly negligent or conscious disregard of his fiduciary duties, failed to ensure that  
25 VeriFone's internal controls were adequate. Defendant Henske also breached his fiduciary duties  
26 by recommending that VeriFone issue the improper statements alleged above while the  
27 Company's internal controls were deficient. Further, defendant Henske failed to cause the  
28

1 Company to correct its misleading public statements. Accordingly, demand was futile as to  
2 defendant Henske because he faces a sufficiently substantial threat of liability.

3 143. As a result of their access to and review of internal corporate documents,  
4 conversations and connections with other corporate officers, employees and directors, and  
5 attendance at management and Board meetings, each of these defendants knew the adverse non-  
6 public information regarding the improper accounting and lack of internal controls and  
7 procedures as alleged herein. While in possession of this material adverse non-public  
8 information regarding the Company, the following defendants, each of which were members of  
9 the Board during the Relevant Period, participated in illegal insider selling:

10 (a) During the Relevant Period, Bergeron sold 2,269,837 shares of VeriFone  
11 stock for proceeds of \$83,994,754.54. Bergeron sold 58.35% of his holdings during the Relevant  
12 Period. Bergeron's sales are also suspicious in comparison to his prior year (September 2005  
13 through October 2006) sales of approximately \$26 million;

14 (b) During the Relevant Period, Castle sold 4,500 shares of VeriFone stock  
15 for proceeds of \$176,404. Castle sold 17.27% of his holding during the Relevant Period. Castle  
16 sales are also suspicious given that he made no sales in the prior year; and

17 (c) On information and belief, defendants Bondy and Roche shared material  
18 non-public information concerning VeriFone's grossly inadequate internal controls and  
19 misleading public statements, as alleged herein, with GTCR's other principals, including the four  
20 other persons on this six-person committee. On the basis of such information disclosed to this  
21 committee by Bondy and Roche, the GTCR six-person committee then used that information to  
22 direct GTCR to sell over 50.36%, or \$358 million, of its VeriFone holdings during the Relevant  
23 Period. GTCR sold 50.36% of their holdings during the Relevant Period. GTCR's sales are also  
24 suspicious in comparison to its prior year sales of approximately \$141 million.

25 Based on the insider selling by defendants Bergeron, Castle and GTCR (of which defendant  
26 Roche is a principle), these defendants face a sufficiently substantial likelihood of liability and  
27 received a personal financial benefit from the challenged insider trading transactions. As such,  
28 these defendants are interested and any demand upon them would have been futile.

1           144. The principal professional occupation of defendant Bergeron was his employment  
2 with VeriFone, pursuant to which he received and continues to receive substantial monetary  
3 compensations and other benefits. Specifically, for FY:06, VeriFone paid defendant Bergeron  
4 \$597,313 in salary, \$1,500,000 in bonus and \$45,824 in other compensation, for a total of  
5 \$2,143,137 in cash compensation and granted him restricted stock awards valued at \$1,154,400  
6 and 225,000 options to purchase VeriFone stock. Further, pursuant to his employment  
7 agreement (which was approved by the Board), defendant Bergeron stood to personally gain  
8 from the artificial inflation of VeriFone stock caused by the improper public statements and lack  
9 of internal controls as alleged herein. Accordingly, defendant Bergeron lacks independence  
10 which renders him incapable of impartially considering a demand to commence and vigorously  
11 prosecute this action.

12           145. Defendants Roche, Raff and Denend, because of their inter-related business,  
13 professional and personal relationships, have developed debilitating conflicts of interest that  
14 prevent them from taking the necessary and proper action on behalf of the Company as requested  
15 herein. In addition to the conflicts that exist as a result of their participation in the improper  
16 accounting and insider selling, as detailed herein, these defendants are hopelessly conflicted as a  
17 result of prejudicial entanglements stemming from longstanding personal relationships with other  
18 directors and business relationships with the Company from which they derive a material  
19 financial benefit:

20           (a) Director defendant Roche is a principal of the investment banking firm of  
21 GTCR, an affiliate of GTCR Fund VII, L.P., the Company's largest shareholder. During the  
22 Relevant Period, various GTCR entities sold 9,800,000 shares of VeriFone stock for proceeds of  
23 \$358,550,284.83. Moreover, during the period from November 1, 2003 to March 1, 2005,  
24 VeriFone paid approximately \$1.8 million to Driver Alliant Insurance Services, Inc. ("Driver  
25 Alliant"), for insurance service fees and premiums. In addition, since November 1, 2003,  
26 VeriFone has also paid approximately \$91,000 to Horn Murdock Cole for consulting services.  
27 Additionally, prior to August 2006, Driver Alliant received customary commissions from various  
28 companies in their capacity as VeriFone's health insurance broker. Both Driver Alliant and Horn

1 Murdock Cole are controlled by GTCR, of which Roche is a principal. In entering into each of  
2 these transactions, VeriFone did not seek proposals from third parties for their services.  
3 Furthermore, for the years ended October 31, 2005 and 2004, VeriFone recorded \$125,000 and  
4 \$250,000, respectively, of management fees payable to GTCR.

5 (b) Director defendant Raff is Chairman of Bank Lemui. In conjunction with  
6 the Lipman acquisition, Bank Lemui USA, a subsidiary of Israel's Bank Lemui Group, entered  
7 into a Credit Agreement with VeriFone, which consists of a 6 year \$40 million secured revolving  
8 credit facility and a 7 year \$500 million secured Term B Loan. Bank Lemui is a co-  
9 documentation agent for the lenders under the Credit Agreement. As an agent for the lenders,  
10 Bank Lemui and its Chairman, defendant Raff, have a financial interest in the performance of the  
11 Company and in the fees and costs associated with the Amendment to the Credit Agreement,  
12 thus making Raff unable to independently and disinterestedly consider any pre-suit demand; and

13 (c) Director defendant Denend has longstanding business and personal ties  
14 with defendant Bergeron due to the professional relationship Denend had with defendant  
15 Bergeron's wife, Sandra Bergeron. Denend was President of Network Associates from  
16 December 1997 through 1998. Prior to and continuing throughout that time, Sandra Bergeron  
17 held several executive positions at Network Associates, including Executive Vice President of  
18 Corporate Development and Strategic Research. Hence, neither defendant Denend nor defendant  
19 Bergeron could independently and disinterestedly consider any pre-suit demand against the  
20 other.

21 146. Defendants Bergeron, Castle, Denend, Hart, Henske, Rinehart, Raff, and Roche,  
22 as directors of VeriFone, as more fully detailed herein, participated in, approved and/or permitted  
23 the wrongs alleged herein to have occurred and participated in efforts to conceal or disguise  
24 those wrongs from VeriFone's shareholders or recklessly and/or negligently disregarded the  
25 wrongs complained of herein, and are therefore not disinterested parties.

26 147. The acts complained of constitute violations of the fiduciary duties owed by  
27 VeriFone's officers and directors and these acts are incapable of ratification.

28



1 improper use of non-public material information concerning VeriFone. Specifically, GTCR sold  
2 over \$50.36%, or \$358 million, of its VeriFone holdings during the Relevant Period. In stark  
3 comparison, GTCR sold only \$285 million of its VeriFone holdings during the prior period.

4 154. The other Insider Selling Defendants' sales are also highly suspicious as  
5 evidenced by the fact that they sold more of their personal holdings during the Relevant Period  
6 compared to the year prior (May 2005 to August 2006). In particular, defendant Adams sold  
7 more than \$7.5 million during the Relevant Period compared to approximately \$4.0 million in  
8 the prior year; defendant Angel sold approximately \$5.8 million during the Relevant Period  
9 compared to no sales in the prior year; defendant Atkinson sold approximately \$6.4 million  
10 during the Relevant Period compared to approximately \$2.2 million in the prior year; defendant  
11 Bergeron sold more than \$83.9 million during the Relevant Period compared to approximately  
12 \$61 million in the prior year; defendant Castle sold \$176,404 during the Relevant Period  
13 compared to no sales in the prior year; defendant Waller sold approximately \$4.9 million during  
14 the Relevant Period compared to \$909,982 in the prior year; and defendant Zwarenstein sold  
15 \$7.1 million during the Relevant Period compared to \$912,671 million in the prior year.

16 155. Based on the foregoing, the Insider Selling Defendants sold their VeriFone  
17 common stock in California in violation of California Corporations Code section 25402.

18 156. Pursuant to California Corporations Code section 25502.5, the Insider Selling  
19 Defendants, and each of them, are liable to VeriFone for damages in an amount up to three times  
20 the difference between the price at which VeriFone common stock was sold by certain  
21 defendants, and each of them, and the market value which that VeriFone common stock would  
22 have had at the time of the sale if the information known to defendants, and each of them, had  
23 been publicly disseminated prior to that time and a reasonable time had elapsed for the market to  
24 absorb the information.

25 157. Plaintiffs, on behalf of VeriFone, have no adequate remedy at law.  
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**SECOND CAUSE OF ACTION**

**(Against the Insider Selling Defendants for Breach of Fiduciary Duties for Insider Selling and Misappropriation of Information)**

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2  
3 158. Plaintiffs incorporate by reference and reallege each and every allegation set forth  
4 above, as though fully set forth herein.

5 159. At the time of the stock sales set forth herein, the Insider Selling Defendants knew  
6 the information described above, and sold VeriFone common stock on the basis of such  
7 information.

8 160. The information described above was proprietary non-public information  
9 concerning the Company's financial condition and future business prospects. It was a proprietary  
10 asset belonging to the Company, which the Insider Selling Defendants used for their own benefit  
11 when they sold VeriFone common stock.

12 161. The Insider Selling Defendants' sales of VeriFone common stock while in  
13 possession and control of material adverse non-public information was a breach of their fiduciary  
14 duties of loyalty and good faith.

15 162. Since the use of the Company's proprietary information for their own gain  
16 constitutes a breach of the Insider Selling Defendants' fiduciary duties, the Company is entitled  
17 to the imposition of a constructive trust on any profits the Insider Selling Defendants obtained  
18 thereby.

19 163. Plaintiffs, on behalf of VeriFone, have no adequate remedy at law.

**THIRD CAUSE OF ACTION**

**(Against Defendants Bergeron, Castle, Denend, Hart, Henske, Rinehart, Raff, Roche, Bondy and Zwarenstein for Breach of Fiduciary Duties for Allowing Deficient Internal Controls and Causing and Allowing False and Misleading Press Releases and Filings with the SEC)**

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24 164. Plaintiffs incorporate by reference and reallege each and every allegation  
25 contained above, as though fully set forth herein.

26 165. Defendants Bergeron, Castle, Denend, Hart, Henske, Rinehart, Raff, Roche,  
27 Bondy and Zwarenstein owed VeriFone the highest obligation of good faith, fair dealing, loyalty  
28

1 and due care. These defendants, and each of them, violated and breached their fiduciary duties  
2 of care, loyalty, reasonable inquiry, oversight, good faith and supervision.

3 166. Defendants Bergeron, Castle, Denend, Hart, Henske, Rinehart, Raff, Roche,  
4 Bondy and Zwarenstein were aware of the importance of VeriFone's internal controls and  
5 procedures over its accounting practices and financial reporting. Further, defendants Bergeron,  
6 Castle, Denend, Hart, Henske, Rinehart, Raff, Roche, Bondy and Zwarenstein knew or were  
7 reckless in not knowing that VeriFone's internal controls were too deficient to prevent non-  
8 standard journal entries that allowed double-booking of in-transit inventory, materially  
9 overstating both inventories and pre-tax income, as well as rendering VeriFone's increasing gross  
10 margins and EBITDA margins likewise false and misleading. Further, defendants Bergeron,  
11 Castle, Denend, Hart, Henske, Rinehart, Raff, Roche, Bondy and Zwarenstein knew or were  
12 reckless in not knowing that the Company lacked accounting personnel with the necessary  
13 expertise to monitor non-standard journal entries and ensure that, among other things, the  
14 Company made accurate accounting entries with respect to its "cost of net revenues" account –  
15 VeriFone's most significant operating expense. Nonetheless, defendants Bergeron, Castle,  
16 Denend, Hart, Henske, Rinehart, Raff, Roche, Bondy and Zwarenstein allowed VeriFone's  
17 internal controls over its accounting practices and financial reporting to be insufficient and  
18 caused or allowed the issuance of false and/or misleading statements, including false and/or  
19 misleading press releases and filings with the SEC.

20 167. Defendants Bergeron, Castle, Denend, Hart, Henske, Rinehart, Roche, and  
21 Zwarenstein signed and certified VeriFone's 2006 10-K that falsely stated the Company had  
22 established and maintained disclosure controls and procedures and internal control over financial  
23 reporting, and that, based on recent evaluation of internal control over financial reporting, the  
24 Company's disclosure controls and procedures were effective. These statements were not  
25 accurate because the Company did not maintain effective internal controls over its accounting  
26 and financial reporting. Further, defendants Bergeron, Castle, Denend, Hart, Henske, Rinehart,  
27 Roche, and Zwarenstein's caused the Company to issue misleading public statements with regard  
28 to the Company's financial condition and business prospects.



1 controls over its accounting systems and financial reporting and causing and allowing VeriFone  
2 to misrepresent its financial performance and business prospects in breach of their fiduciary  
3 duties of care, loyalty, reasonable inquiry, oversight, good faith and supervision, defendants  
4 Bergeron and Zwarenstein, received substantial monetary compensation from VeriFone during  
5 the Relevant Period. Further, defendants Bergeron, Zwarenstein, Adams, Atkinson, Angel,  
6 Waller, Castle and GTCR (of which Bondy and Roche were principles) sold over \$474 million of  
7 their VeriFone shares on the basis of undisclosed material adverse information concerning the  
8 Company's misleading public statements and inadequate internal controls and procedures.

9 176. Plaintiffs, as shareholders and representatives of VeriFone, seek restitution from  
10 defendants Bergeron, Zwarenstein, Adams, Atkinson, Angel, Waller, Castle, Roche, Bondy and  
11 GTCR, and each of them, and seek an order of this Court disgorging all profits, benefits and  
12 other compensation obtained by these defendants, and each of them, from their wrongful conduct  
13 and fiduciary breaches.

14 177. Plaintiffs, on behalf of VeriFone, have no adequate remedy at law.

15 **SIXTH CAUSE OF ACTION**

16 **(Against GTCR for Aiding and Abetting Breach of Fiduciary Duty)**

17 178. Plaintiffs incorporate by reference and reallege each and every allegation set forth  
18 above, as though fully set forth herein.

19 179. GTCR, as an insider seller and through the direct representation of its designees  
20 on the Board, defendants Bondy and Roche, knew of and, in fact, actively encouraged and  
21 participated in the breach of fiduciary duties alleged herein. GTCR knowingly aided and abetted  
22 the breaches of fiduciary duty committed by the Individual Defendants, to the detriment of  
23 VeriFone. Further, GTCR was a direct beneficiary of the wrongs complained of and would be  
24 unjustly enriched absent relief in this action.

25 180. Plaintiffs, on behalf of VeriFone, have no adequate remedy at law.

26 **PRAYER FOR RELIEF**

27 WHEREFORE, plaintiffs demand judgment as follows:  
28

1           A.     Against all defendants and in favor of the Company for the amount of damages  
2 sustained by the Company as a result of defendants' breaches of fiduciary duties, waste of  
3 corporate assets and unjust enrichment, and GTCR's aiding and abetting thereof;

4           B.     Determining and awarding VeriFone treble damages pursuant to California  
5 Corporations Code Section 25502.5(a) for the Insider Selling Defendants' violations of  
6 California Corporations Code Section 25402;

7           C.     Directing VeriFone to take all necessary actions to reform and improve its  
8 corporate governance and internal procedures to comply with applicable laws and to protect  
9 VeriFone and its shareholders from a repeat of the damaging events described herein, including,  
10 but not limited to, putting forward for shareholder vote resolutions for amendments to the  
11 Company's By-Laws or Articles of Incorporation and taking such other action as may be  
12 necessary to place before shareholders for a vote the following Corporate Governance Policies:

13                 1.     A proposal to strengthen the Board's supervision of operations and  
14 develop and implement procedures for greater shareholder input into the policies and guidelines  
15 of the Board;

16                 2.     A provision to permit the shareholders of VeriFone to nominate at least  
17 three candidates for election to the Board;

18                 3.     A proposal to ensure the accuracy of the qualifications of VeriFone's  
19 directors, executives and other employees;

20                 4.     A proposal to control insider selling;

21                 5.     A proposal to appropriately test and then strengthen the internal audit and  
22 control functions; and

23                 6.     Extraordinary equitable and/or injunctive relief as permitted by law, equity  
24 and state statutory provisions sued hereunder, including attaching, impounding, imposing a  
25 constructive trust on or otherwise restricting the proceeds of the Insider Selling Defendants'  
26 trading activities or their other assets so as to assure that plaintiffs, on behalf of VeriFone, have  
27 an effective remedy;

28

1 D. Awarding to VeriFone restitution from defendants Bergeron, Zwarenstein,  
2 Adams, Atkinson, Angel, Waller, Castle, Roche, Bondy and GTCR, and each of them, and  
3 ordering disgorgement of all profits, benefits and other compensation obtained by these  
4 defendants;

5 E. Awarding to plaintiffs the costs and disbursements of the action, including  
6 reasonable attorneys' fees, accountants' and experts' fees, costs, and expenses; and

7 F. Granting such other and further relief as the Court deems just and proper.

8 **JURY DEMAND**

9 Plaintiffs demand a trial by jury.

10 DATED: October 31, 2008

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