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12 UNITED STATES DISTRICT COURT
13 NORTHERN DISTRICT OF CALIFORNIA

14 DANIEL OFFUTT, Individually and on Behalf) No.
15 of All Others Similarly Situated,)
16 Plaintiff,) CLASS ACTION
17 vs.) COMPLAINT FOR VIOLATIONS OF
FEDERAL SECURITIES LAWS
18 VERIFONE HOLDINGS INC., DOUGLAS G.)
BERGERON and BARRY ZWARENSTEIN,)
19 Defendants.)
20 DEMAND FOR JURY TRIAL

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1 Plaintiff has alleged the following based upon the investigation of plaintiff's counsel, which
2 included a review of United States Securities and Exchange Commission ("SEC") filings by
3 VeriFone Holdings, Inc. ("VeriFone" or the "Company"), as well as regulatory filings and reports,
4 securities analysts' reports and advisories about the Company, press releases and other public
5 statements issued by the Company, and media reports about the Company, and plaintiff believes that
6 substantial additional evidentiary support will exist for the allegations set forth herein after a
7 reasonable opportunity for discovery.

8 **NATURE OF THE ACTION**

9 1. This is a federal securities class action on behalf of purchasers of the common stock
10 of VeriFone between March 1, 2007 to November 30, 2007, inclusive (the "Class Period"), seeking
11 to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

12 **JURISDICTION AND VENUE**

13 2. The claims asserted herein arise under and pursuant to §§10(b) and 20(a) of the
14 Exchange Act [15 U.S.C. §§78j(b) and 78t(a)] and Rule 10b-5 promulgated thereunder by the SEC
15 [17 C.F.R. §240.10b-5].

16 3. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C.
17 §1331 and §27 of the Exchange Act [15 U.S.C. §78aa].

18 4. Venue is proper in this District pursuant to §27 of the Exchange Act and 28 U.S.C.
19 §1391(b), as many of the acts and practices complained of herein occurred in substantial part in this
20 District.

21 5. In connection with the acts alleged in this complaint, defendants, directly or
22 indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to,
23 the mails, interstate telephone communications and the facilities of the national securities markets.

24 **PARTIES**

25 6. Plaintiff Daniel Offutt, as set forth in the accompanying certification, incorporated by
26 reference herein, purchased the common stock of VeriFone at artificially inflated prices during the
27 Class Period and has been damaged thereby.

1 7. Defendant VeriFone engages in the design, marketing, and service of transaction
2 automation systems that enable electronic payments between consumers, merchants, and financial
3 institutions.

4 8. (a) Defendant Douglas G. Bergeron (“Bergeron”) was, at all relevant times,
5 Chairman and Chief Executive Officer of VeriFone.

6 (b) Defendant Barry Zwarenstein (“Zwarenstein”) was, at all relevant times,
7 VeriFone’s Executive Vice President and Chief Financial Officer.

8 9. Defendants Bergeron and Zwarenstein are collectively referred to herein as the
9 “Individual Defendants.”

10 10. Because of the Individual Defendants’ positions with the Company, they had access
11 to the adverse undisclosed information about the Company’s business, operations, operational
12 trends, financial statements, markets and present and future business prospects via access to internal
13 corporate documents (including the Company’s operating plans, budgets and forecasts and reports of
14 actual operations compared thereto), conversations and connections with other corporate officers and
15 employees, attendance at management and/or Board of Directors meetings and committees thereof
16 and via reports and other information provided to them in connection therewith.

17 11. It is appropriate to treat the Individual Defendants as a group for pleading purposes
18 and to presume that the false, misleading and incomplete information conveyed in the Company’s
19 public filings, press releases and other publications as alleged herein are the collective actions of the
20 narrowly defined group of defendants identified above. Each of the above officers of VeriFone, by
21 virtue of their high-level positions with the Company, directly participated in the management of the
22 Company, was directly involved in the day-to-day operations of the Company at the highest levels
23 and was privy to confidential proprietary information concerning the Company and its business,
24 operations, growth, financial statements, and financial condition, as alleged herein. Said defendants
25 were involved in drafting, producing, reviewing and/or disseminating the false and misleading
26 statements and information alleged herein, were aware, or recklessly disregarded, that the false and
27 misleading statements were being issued regarding the Company, and approved or ratified these
28 statements, in violation of the federal securities laws.

1 12. As officers and controlling persons of a publicly held company whose common stock
2 was, and is, registered with the SEC pursuant to the Securities Act as of 1933, and was traded on the
3 New York Stock Exchange (“NYSE”), and governed by the provisions of the federal securities laws,
4 the Individual Defendants each had a duty to disseminate promptly, accurate and truthful
5 information with respect to the Company’s financial condition and performance, growth, operations,
6 financial statements, business, markets, management, earnings and present and future business
7 prospects, and to correct any previously issued statements that had become materially misleading or
8 untrue, so that the market price of the Company’s publicly traded common stock would be based
9 upon truthful and accurate information. The Individual Defendants’ misrepresentations and
10 omissions during the Class Period violated these specific requirements and obligations.

11 13. The Individual Defendants participated in the drafting, preparation, and/or approval
12 of the various public and shareholder and investor reports and other communications complained of
13 herein and were aware of, or recklessly disregarded, the misstatements contained therein and
14 omissions therefrom, and were aware of their materially false and misleading nature. Because of
15 their Board membership and/or executive and managerial positions with VeriFone, each of the
16 Individual Defendants had access to the adverse undisclosed information about VeriFone’s financial
17 condition and performance as particularized herein and knew (or recklessly disregarded) that these
18 adverse facts rendered the positive representations made by or about VeriFone and its business
19 issued or adopted by the Company materially false and misleading.

20 14. The Individual Defendants, because of their positions of control and authority as
21 officers and/or directors of the Company, were able to and did control the content of the various SEC
22 filings, press releases and other public statements pertaining to the Company during the Class
23 Period. Each Individual Defendant was provided with copies of the documents alleged herein to be
24 misleading prior to or shortly after their issuance and/or had the ability and/or opportunity to prevent
25 their issuance or cause them to be corrected. Accordingly, each of the Individual Defendants is
26 responsible for the accuracy of the public reports and releases detailed herein and is therefore
27 primarily liable for the representations contained therein.

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1 “Based on these results, we are increasing our second quarter internal
2 expectations for net income, as adjusted, per share to be in the range of \$0.36 to
3 \$0.37. We remain very confident of our prospects for fiscal 2007.”

4 24. On May 29, 2007, VeriFone issued a press release announcing its financial results for
5 the second quarter of 2007, the period ending April 30, 2007. The Company reported earnings per
6 share of \$0.39. Defendant Bergeron commented on the results stating in pertinent part as follows:

7 “‘I am pleased to report on another very successful quarter for VeriFone as we
8 once again achieved record profitability During the quarter, our record margins
9 drove our robust EPS growth, and also resulted in strong cash flow We were
10 especially pleased with our continuing success of our wireless products and were
11 delighted with the resurgence of our North American business which grew
12 sequentially 8 percent from the previous quarter.’”

13 “‘Based on these results and the \$4 million of revenue which has been
14 recognized in the third quarter, we are increasing our third quarter internal
15 expectations for net revenue to \$225-\$227 million and increasing our guidance for
16 net income, as adjusted, per share to a range of \$0.39-\$0.40. We remain confident of
17 our prospects for the remainder of fiscal 2007.’”

18 25. On June 19, 2007, VeriFone issued a press release announcing that it had priced \$275
19 million principal amount of 1.375% Senior Convertible Notes due 2012.

20 26. On September 6, 2007, VeriFone issued a press release announcing its financial
21 results for the third quarter of 2007, the period ending July 31, 2007. For the quarter, the Company
22 reported earnings per share of \$0.42. Defendant Bergeron commented on the results stating in
23 pertinent part as follows:

24 “‘I am extremely pleased to report on another outstanding quarter as we once
25 again achieved exceptional financial results During the quarter, we achieved
26 record revenues and record gross and operating margins, all which led to strong EPS
27 growth Our North American business continued to surge, growing 9%
28 sequentially. Our compelling portfolio of wireless solutions and our strength in
 emerging markets were also significant factors driving our success this quarter.’”

 “‘We are increasing our internal expectations for the fourth quarter and now
 expect to repeat these record third quarter results. Our guidance for the fourth
 quarter, therefore, is for net revenue of \$231-\$233 million and net income, as
 adjusted, per share of \$0.41-\$0.42. As a result, we are also increasing our full year
 fiscal year 2007 expectations for net income, as adjusted per share to \$1.59 to \$1.60
 per share. As well, given the out-performance in profitability that we have
 consistently enjoyed since the closing of the Lipman acquisition last November, we
 are now taking this opportunity to update our long term financial model. We are
 reaffirming our revenue growth rate projection in the 10%-15% range and we are
 increasing our margin expectations as reflected in the table below.’”

1 27. The statements referenced above in ¶¶23-24 and 26 were each materially false and
2 misleading when issued because they misrepresented and failed to disclose the following material
3 adverse facts:

4 (a) the Company was materially overstating its financial results by failing to
5 properly value its inventory and it was materially understating its cost of net revenues;

6 (b) the Company was not following its publicly stated accounting policies; and

7 (c) as a result of the foregoing, the Company's financial statements were not
8 prepared in accordance with Generally Accepted Accounting Principles ("GAAP") and therefore
9 were materially false and misleading.

10 28. Then, on December 3, 2007, prior to the opening of the market, VeriFone issued a
11 press release announcing that "it has concluded that its unaudited interim consolidated financial
12 statements for the three months ended January 31, 2007, the three and six months ended April 30,
13 2007 and the three and nine months ended July 31, 2007 should no longer be relied upon, principally
14 due to errors in accounting related to the valuation of in-transit inventory and allocation of
15 manufacturing and distribution overhead to inventory, each of which affects VeriFone's reported
16 costs of net revenues." The Company further reported that it had materially overstated inventories
17 and materially understated cost of net revenues for interim periods in 2007. The press release
18 detailed the amounts of the overstatement stating in pertinent part as follows:

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

27 29. In response to this announcement, the price of VeriFone stock plummeted, falling
28 from \$48.03 per share on November 30, 2007 to as low as \$23.67 per share in intra-day trading on
December 3, 2007, on extremely heavy trading volume.

30 30. The market for VeriFone's common stock was open, well-developed and efficient at
all relevant times. As a result of these materially false and misleading statements and failures to

1 disclose, VeriFone's common stock traded at artificially inflated prices during the Class Period.
2 Plaintiff and other members of the Class purchased or otherwise acquired VeriFone common stock
3 relying upon the integrity of the market price of VeriFone's common stock and market information
4 relating to VeriFone, and have been damaged thereby.

5 31. During the Class Period, defendants materially misled the investing public, thereby
6 inflating the price of VeriFone's common stock, by publicly issuing false and misleading statements
7 and omitting to disclose material facts necessary to make defendants' statements, as set forth herein,
8 not false and misleading. Said statements and omissions were materially false and misleading in that
9 they failed to disclose material adverse information and misrepresented the truth about the Company,
10 its business and operations, as alleged herein.

11 32. At all relevant times, the material misrepresentations and omissions particularized in
12 this Complaint directly or proximately caused or were a substantial contributing cause of the
13 damages sustained by plaintiff and other members of the Class. As described herein, during the
14 Class Period, defendants made or caused to be made a series of materially false or misleading
15 statements about VeriFone's business, prospects and operations. These material misstatements and
16 omissions had the cause and effect of creating in the market an unrealistically positive assessment of
17 VeriFone and its business, prospects and operations, thus causing the Company's common stock to
18 be overvalued and artificially inflated at all relevant times. Defendants' materially false and
19 misleading statements during the Class Period resulted in plaintiff and other members of the Class
20 purchasing the Company's common stock at artificially inflated prices, thus causing the damages
21 complained of herein. When the true facts about the Company were revealed to the market the
22 inflation in the price of VeriFone stock was removed and the price of VeriFone stock declined
23 dramatically causing loss to plaintiff and the other members of the Class.

24 **ADDITIONAL SCIENTER ALLEGATIONS**

25 33. As alleged herein, defendants acted with scienter in that defendants knew that the
26 public documents and statements issued or disseminated in the name of the Company were
27 materially false and misleading; knew that such statements or documents would be issued or
28 disseminated to the investing public; and knowingly and substantially participated or acquiesced in

1 the issuance or dissemination of such statements or documents as primary violations of the federal
2 securities laws. As set forth elsewhere herein in detail, defendants, by virtue of their receipt of
3 information reflecting the true facts regarding VeriFone, their control over, and/or receipt and/or
4 modification of VeriFone's allegedly materially misleading misstatements and/or their associations
5 with the Company which made them privy to confidential proprietary information concerning
6 VeriFone, participated in the fraudulent scheme alleged herein.

7 34. Defendants' scienter is further evidenced by their massive insider selling during the
8 Class Period. During the Class Period, the Individual Defendants and other VeriFone insiders
9 collectively sold hundreds of millions of dollars of their personally held VeriFone stock to the
10 unsuspecting public. The insider trading of the Individual Defendants is shown below:

DEFENDANT	SHARES SOLD	PROCEEDS
BERGERON	1,203,222	\$47,493,206
ZWARENSTEIN	118,585	\$4,637,814
TOTAL	1,321,807	\$52,131,020

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15 **APPLICABILITY OF PRESUMPTION OF RELIANCE:
FRAUD ON THE MARKET DOCTRINE**

16 35. At all relevant times, the market for VeriFone's common stock was an efficient
17 market for the following reasons, among others:

18 (a) VeriFone's stock met the requirements for listing, and was listed and actively
19 traded on the NYSE, a highly efficient and automated market;

20 (b) As a regulated issuer, VeriFone filed periodic public reports with the SEC and
21 the NYSE;

22 (c) VeriFone regularly communicated with public investors via established
23 market communication mechanisms, including through regular disseminations of press releases on
24 the national circuits of major newswire services and through other wide-ranging public disclosures,
25 such as communications with the financial press and other similar reporting services; and

26 (d) VeriFone was followed by several securities analysts employed by major
27 brokerage firms who wrote reports which were distributed to the sales force and certain customers of
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1 their respective brokerage firms. Each of these reports was publicly available and entered the public
2 marketplace.

3 36. As a result of the foregoing, the market for VeriFone's common stock promptly
4 digested current information regarding VeriFone from all publicly available sources and reflected
5 such information in VeriFone's stock price. Under these circumstances, all purchasers of VeriFone's
6 common stock during the Class Period suffered similar injury through their purchase of VeriFone's
7 common stock at artificially inflated prices and a presumption of reliance applies.

8 **LOSS CAUSATION/ECONOMIC LOSS**

9 37. During the Class Period, as detailed herein, defendants engaged in a scheme to
10 deceive the market and a course of conduct that artificially inflated VeriFone's stock price and
11 operated as a fraud or deceit on Class Period purchasers of VeriFone stock by misrepresenting the
12 Company's financial results and business. Defendants achieved this façade of success, growth and
13 strong future business prospects by blatantly misrepresenting earnings. Over three consecutive
14 quarters, Q1 2007-Q3 2007, defendants improperly inflated VeriFone's reported results. Later,
15 however, when defendants' prior misrepresentations and fraudulent conduct were disclosed and
16 became apparent to the market, VeriFone stock fell precipitously as the prior artificial inflation came
17 out of VeriFone's stock price. As a result of their purchases of VeriFone stock during the Class
18 Period, plaintiff and other members of the Class suffered economic loss, *i.e.*, damages under the
19 federal securities laws.

20 38. On December 3, 2007, defendants were forced to publicly disclose that: (i) the
21 Company had overstated inventories and understated cost of net revenues during certain periods of
22 2007; (ii) VeriFone's financial reports were erroneous and could no longer be relied upon; and (iii)
23 the Company had overstated its earnings for the first three quarters of fiscal 2007. These public
24 revelations indicated that there had been prior falsification of VeriFone's financial results due to
25 defendants' accounting manipulations. As investors and the market became aware that VeriFone's
26 prior financial results had been falsified, the prior artificial inflation came out of VeriFone's stock
27 price, damaging investors.

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1 false, and/or the forward-looking statement was authorized and/or approved by an executive officer
2 of VeriFone who knew that those statements were false when made.

3 **COUNT I**

4 **Violation of Section 10(b) of the Exchange Act and Rule 10b-5**
5 **Promulgated Thereunder Against All Defendants**

6 42. Plaintiff repeats and realleges each and every allegation contained above as if fully set
7 forth herein.

8 43. During the Class Period, defendants disseminated or approved the materially false
9 and misleading statements specified above, which they knew or deliberately disregarded were
10 misleading in that they contained misrepresentations and failed to disclose material facts necessary
11 in order to make the statements made, in light of the circumstances under which they were made, not
12 misleading.

13 44. Defendants: (a) employed devices, schemes, and artifices to defraud; (b) made untrue
14 statements of material fact and/or omitted to state material facts necessary to make the statements
15 made not misleading; and (c) engaged in acts, practices, and a course of business which operated as a
16 fraud and deceit upon the purchasers of the Company's common stock during the Class Period.

17 45. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of
18 the market, they paid artificially inflated prices for VeriFone common stock. Plaintiff and the Class
19 would not have purchased VeriFone common stock at the prices they paid, or at all, if they had been
20 aware that the market prices had been artificially and falsely inflated by defendants' misleading
21 statements.

22 46. As a direct and proximate result of these defendants' wrongful conduct, plaintiff and
23 the other members of the Class suffered damages in connection with their purchases of VeriFone
24 common stock during the Class Period.

25 **COUNT II**

26 **Violation of Section 20(a) of the Exchange Act**
27 **All Defendants**

28 47. Plaintiff repeats and realleges each and every allegation contained above as if fully set
forth herein.

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