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VeriFone Holdings Inc. F2Q09 (Qtr End 04/30/09) Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator instructions). Your first question comes from the line of Tien-Tsin Huang with JPMorgan. Please proceed.

Unidentified Analyst

Hey, good evening, guys. It's actually [Reggie] filling in for Tien-Tsin. I guess, first question on gross margins, I guess you guys talked about there is a shift towards lower margin product single application, fixed line products.

Just curious, can you talk a little bit about what the impact is from that shift? And then the follow-up on that question. I know you guys had a couple of initiatives on a gross margin line that you had planned for this year, just curious does the shift to these lower margin products changed the potential there?

Bob Dykes

So the mix shift is about 100 basis points or so. And as we noted, we got about \$9.2 million charge there, so there is about 4.5 basis points that the margin was depressed in this quarter. And I have to say that we're probably through most of the inventory reserve.

When I finished the first quarter, I said we might have some more in the second quarter. Now I can say that conceivably there could be some more in future quarters, but it will certainly be down from what we have expressed in the last two quarters, based on at least where we see the market today.

And going forward, the engineering changes that we have indicated could contribute around 500 basis points of improvement. I have previously indicated that will be rolling out quarter-by-quarter and we do expect to see improvement from that in the third and fourth quarter, so particularly fourth.

And into the first quarter of next quarter, I had indicated in the last quarter, it's probably, we had a shift from the fourth to the first quarter to get the full realization on that. So it's going to be multiple quarters that we things change. But the inventory reserves, we do expect to reduce the amount required there on the income statement basis next quarter and the subsequent quarters.

Doug Bergeron

Just one follow-up [Reggie] as it relates to a product planning and product roadmap. VeriFone has made its hay over the last decade by a very complex product portfolio that addresses first to market the needs to pay at the table, pay at the pump, wireless solutions, unattended solutions,

gateways, etcetera. And it's many of those high-end solutions that have been hit the hardest during this economic slowdown. When normal times return, we will be the beneficiary of that shift in mix to our sweet spot in our product profile.

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