

VERIFONE SYSTEMS, INC.

Form 10-Q

June 04, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 30, 2010

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 001-32465

VERIFONE SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

04-3692546
(I.R.S. Employer
Identification No.)

2099 Gateway Place, Suite 600

San Jose, CA 95110

(Address of principal executive offices with zip code)

(408) 232-7800

(Registrant's telephone number, including area code)

VeriFone Holdings, Inc.

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

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

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VERIFONE SYSTEMS, INC.

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VERIFONE SYSTEMS, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

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

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

The accompanying Notes to Condensed Consolidated Financial Statements

are an integral part of these financial statements.

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VERIFONE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

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

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

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

The accompanying Notes to Condensed Consolidated Financial Statements

are an integral part of these financial statements.

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VERIFONE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Six Months Ended April 30, 2010 2009 (1) (Unaudited) (In thousands) | |
|--|--|--------------|
| Cash flows from operating activities | | |
| Net income (loss) | \$ 30,846 | \$ (171,843) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization, net | 25,111 | 30,368 |