

VERIFONE SYSTEMS, INC.

Form 10-Q

September 03, 2010

Table of Contents

**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 July 31, 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)

Edgar Filing: VERIFONE SYSTEMS, INC. - Form 10-Q

**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)

**N/A**

(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.

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 August 31, 2010, the number of shares outstanding of the registrant's common stock, \$0.01 par value was 85,830,150.

**Table of Contents**

**VERIFONE SYSTEMS, INC.**

**TABLE OF CONTENTS**

**INDEX**

**PART I FINANCIAL INFORMATION**

Item 1	<u>Financial Statements (Unaudited):</u>	3
	<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended July 31, 2010 and 2009</u>	3
	<u>Condensed Consolidated Balance Sheets as of July 31, 2010 and October 31, 2009</u>	4
	<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended July 31, 2010 and 2009</u>	5
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
Item 2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	36
Item 3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	49
Item 4	<u>Controls and Procedures</u>	51

**PART II OTHER INFORMATION**

Item 1	<u>Legal Proceedings</u>	53
Item 1A	<u>Risk Factors</u>	53
Item 2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	71
Item 3	<u>Defaults Upon Senior Securities</u>	71
Item 4	<u>[Removed and Reserved]</u>	71
Item 5	<u>Other Information</u>	71
Item 6	<u>Exhibits</u>	71
	<u>Signatures</u>	72
	<u>Exhibit Index</u>	73
	EXHIBIT 31.1	
	EXHIBIT 31.2	
	EXHIBIT 32.1	

**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS (Unaudited)**  
**VERIFONE SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2010	2009 (1)	2010	2009 (1)
	(Unaudited)			
	(In thousands, except per share data)			
Net revenues:				
System Solutions	\$ 213,091	\$ 182,198	\$ 600,653	\$ 541,619
Services	48,364	29,050	124,914	85,266
Total net revenues	261,455	211,248	725,567	626,885
Cost of net revenues:				
System Solutions	138,330	123,032	384,428	372,984
Services	27,630	16,220	74,528	47,681
Total cost of net revenues	165,960	139,252	458,956	420,665
Gross profit	95,495	71,996	266,611	206,220
Operating expenses:				
Research and development	18,888	15,554	53,799	48,450
Sales and marketing	24,145	17,079	67,035	53,701
General and administrative	21,327	8,506	61,488	57,471
Amortization of purchased intangible assets	3,544	4,835	11,641	15,533
Impairment of goodwill				175,512
Total operating expenses	67,904	45,974	193,963	350,667
Operating income (loss)	27,591	26,022	72,648	(144,447)
Interest expense	(7,468)	(2,427)	(21,856)	(19,217)
Interest income	334	259	888	1,275
Other income (expense), net	1,478	(4,686)	700	7,685
Income (loss) before income taxes	21,935	19,168	52,380	(154,704)
Provision for income taxes	3,396	2,621	2,995	592
Net income (loss)	\$ 18,539	\$ 16,547	\$ 49,385	\$ (155,296)
Net income (loss) per share:				
Basic	\$ 0.22	\$ 0.20	\$ 0.58	\$ (1.84)
Diluted	\$ 0.21	\$ 0.20	\$ 0.57	\$ (1.84)
Weighted average shares used in computing net income (loss) per share:				
Basic	85,214	84,475	84,970	84,461

Diluted	87,671	84,565	87,272	84,461
---------	--------	--------	--------	--------

- (1) Amounts for the three and nine months ended July 31, 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.

**Table of Contents**

**VERIFONE SYSTEMS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	July 31, 2010 (Unaudited)	October 31, 2009 (1)
	(In thousands, except par value)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 400,462	\$ 324,996
Accounts receivable, net of reserves of \$4,671 and \$4,556	137,705	157,357
Inventories	111,415	95,921
Deferred tax assets	7,534	7,393
Prepaid expenses and other current assets	59,826	36,526
<b>Total current assets</b>	<b>716,942</b>	<b>622,193</b>
Property, plant and equipment, net	45,671	46,978
Purchased intangible assets, net	40,163	52,974
Goodwill	155,501	150,845
Deferred tax assets	4,608	4,158
Debt issuance costs, net	5,643	7,393
Other assets	38,319	32,749
<b>Total assets</b>	<b>\$ 1,006,847</b>	<b>\$ 917,290</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 71,252	\$ 87,094
Income taxes payable	3,208	2,650
Accrued compensation	25,148	20,942
Accrued warranty	11,277	10,870
Deferred revenue, net	51,419	45,668
Deferred tax liabilities	1,632	408
Accrued expenses	10,636	7,844
Other current liabilities	90,183	64,478
Short-term debt	8,397	5,699
<b>Total current liabilities</b>	<b>273,152</b>	<b>245,653</b>
Accrued warranty	1,615	2,938
Deferred revenue, net	20,562	18,294
Long-term debt	465,292	463,165
Deferred tax liabilities	65,826	67,495
Other long-term liabilities	53,189	45,326
<b>Total liabilities</b>	<b>879,636</b>	<b>842,871</b>
Stockholders' equity:		
Preferred stock: 10,000 shares authorized as of July 31, 2010 and October 31, 2009; no shares issued and outstanding as of July 31, 2010 and October 31, 2009		
Common stock: \$0.01 par value, 200,000 shares authorized as of July 31, 2010 and October 31, 2009; 85,660 and 84,544 shares issued and outstanding as of July 31, 2010 and October 31, 2009	857	845

Edgar Filing: VERIFONE SYSTEMS, INC. - Form 10-Q

Additional paid-in capital	736,519	727,497
Accumulated deficit	(600,902)	(650,287)
Accumulated other comprehensive loss	(9,946)	(6,037)
Total stockholders' equity	126,528	72,018
Noncontrolling interests	683	2,401
Total equity	127,211	74,419
Total liabilities and equity	\$ 1,006,847	\$ 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.

**Table of Contents**

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

	<b>Nine Months Ended                      July 31,                      2010                  2009 (1)                      (Unaudited)</b>	
	<b>(In thousands)</b>	
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 49,385	\$ (155,296)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization, net	35,660	45,561