

VeriFone Holdings, Inc.
Form 10-Q/A
August 19, 2008

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q/A
(Amendment No. 2)

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended **January 31, 2007**
- 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 HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

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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 Smaller reporting Company
(Do not check if a 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 March 7, 2007, the number of shares outstanding of the registrant's common stock, \$0.01 par value per share was 82,654,237.

Table of Contents

EXPLANATORY NOTE

This Amendment No. 2 (the Second Amended 10-Q) to the Quarterly Report on Form 10-Q/A of VeriFone Holdings, Inc. (the Company or VeriFone) for the three months ended January 31, 2007 is being filed to correct certain errors in VeriFone s Condensed Consolidated Financial Statements and the related disclosures.

As discussed in Note 2, Restatement of Condensed Consolidated Financial Statements, of the notes to the accompanying Condensed Consolidated Financial Statements in this Second Amended 10-Q, the correction of these errors from previously reported information for the three months ended January 31, 2007 has resulted in a reduction in income (loss) before income taxes of \$12.5 million and an associated \$12.5 million increase in total cost of net revenues.

On December 3, 2007, we announced that our management had identified errors in accounting related to the valuation of in-transit inventory and the allocation of manufacturing and distribution overhead to inventory and that as a result of these errors we anticipated that a restatement of our unaudited condensed consolidated financial statements would be required for the following interim periods:

the three months ended January 31, 2007;

the three and six months ended April 30, 2007; and

the three and nine months ended July 31, 2007.

On December 3, 2007, following our announcement, the Audit Committee approved the commencement of an independent investigation into the errors in accounting that led to the anticipated restatement. The Audit Committee engaged independent counsel, Simpson Thacher & Bartlett LLP (Simpson Thacher), to conduct the independent investigation under the Audit Committee s supervision. Simpson Thacher engaged Navigant Consulting, Inc. (Navigant) as independent forensic accountants. The scope of the investigation was proposed by Simpson Thacher in consultation with Navigant and approved by the Audit Committee.

On April 2, 2008, the Company announced that its Audit Committee had completed the independent investigation. The Audit Committee investigation found no evidence that any period prior to fiscal year 2007 required restatement.

Concurrently with the Audit Committee investigation, we also conducted an internal review for the purpose of restating our fiscal 2007 interim financial statements and preparing our fiscal 2007 annual financial statements and fiscal 2008 interim financial statements. This review included evaluations of the previously made accounting determinations and judgments. As a result, we have also corrected additional errors, including errors that had previously not been corrected because our management believed that individually and in the aggregate such errors were not material to our consolidated financial statements. Management also made additional adjustments to reduce certain accruals which had been recorded, such as bonuses, which were accrued based upon information which, following the restatement, was no longer accurate.

The following items have been amended principally as a result of, and to reflect, the restatements:

Part I Item 1. Financial Statements (Unaudited);

Part I Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations;

Part I Item 4. Controls and Procedures; and

Part II Item 6. Exhibits.

For the convenience of the reader, this Second Amended 10-Q amends and restates in its entirety the Quarterly Report on Form 10-Q/A for the three months ended January 31, 2007 (the Amended 10-Q). However, this Second Amended 10-Q amends only the items referred to above, in each case as a result of and to reflect the adjustments discussed above and more fully in Note 2 of the accompanying Condensed Consolidated Financial Statements and related disclosures. No other information in the Amended 10-Q is amended hereby. The foregoing items have not been updated to reflect other events occurring after the filing of the Amended 10-Q, or to modify or update those disclosures affected by other subsequent events. In particular, forward-looking statements included in the Second

Table of Contents

Amended 10-Q represented management's views as of the date of filing of the Amended 10-Q for the quarterly period ended January 31, 2007 on March 12, 2007. Such forward-looking statements should not be assumed to be accurate as of any future date. VeriFone undertakes no duty to update such information whether as a result of new information, future events or otherwise.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, VeriFone's principal executive officer and principal financial officer are providing Rule 13a-14(a) certifications dated August 19, 2008 in connection with this Second Amended 10-Q (but otherwise identical to their prior certifications) and are also furnishing, but not filing, written statements pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated August 19, 2008 (but otherwise identical to their prior statements).

VeriFone Holdings, Inc.

INDEX

PART I FINANCIAL INFORMATION

<u>Item 1</u>	<u>Financial Statements (unaudited):</u>	
	<u>Condensed Consolidated Balance Sheets January 31, 2007 (restated) and October 31, 2006</u>	5
	<u>Condensed Consolidated Statements of Operations Three Months Ended January 31, 2007 (restated) and 2006</u>	6
	<u>Condensed Consolidated Statements of Cash Flows Three Months Ended January 31, 2007(restated) and 2006</u>	7
	<u>Notes to Condensed Consolidated Financial Statements (restated)</u>	8
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	52
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	64
<u>Item 4</u>	<u>Controls and Procedures</u>	65

PART II OTHER INFORMATION

<u>Item 1</u>	<u>Legal Proceedings</u>	68
<u>Item 1A</u>	<u>Risk Factors</u>	68
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	72
<u>Item 3</u>	<u>Defaults Upon Senior Securities</u>	72
<u>Item 4</u>	<u>Submission of Matters to a Vote of Security Holders</u>	72
<u>Item 5</u>	<u>Other Information</u>	72
<u>Item 6</u>	<u>Exhibits</u>	72
<u>Signatures</u>		73
<u>EXHIBIT 31.1</u>		
<u>EXHIBIT 31.2</u>		
<u>EXHIBIT 32.1</u>		

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	January 31, 2007	October 31, 2006
	(Restated)(1)	
	(Unaudited)	
	(In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 161,889	\$ 86,564
Accounts receivable, net of allowances of \$2,917 and \$2,364	155,719	119,839
Inventories	117,481	86,631
Deferred tax assets	15,231	13,267
Prepaid expenses and other current assets	38,758	12,943
Total current assets	489,078	319,244
Property, plant and equipment, net	30,467	7,300
Purchased intangible assets, net	201,396	16,544
Goodwill	565,222	52,689
Deferred tax assets	25,221	21,706
Debt issuance costs, net	10,659	10,987
Transaction costs		12,350
Other assets	19,626	12,125
Total assets	\$ 1,341,669	\$ 452,945
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 69,378	\$ 66,685
Income taxes payable	4,573	5,951
Accrued compensation	19,985	16,202
Accrued warranty	5,843	4,902
Deferred revenue, net	34,366	23,567
Accrued expenses	4,306	4,752
Accrued transaction costs		12,000
Other current liabilities	45,172	13,661
Current portion of long-term debt	5,058	1,985

Restructuring liabilities	3,186	2,963
Total current liabilities	191,867	152,668
Accrued warranty	448	530
Deferred revenue	12,324	7,371
Long-term debt, less current portion	495,065	190,904
Deferred tax liabilities	70,939	859
Other long-term liabilities	12,383	1,872
Total liabilities	783,026	354,204
Stockholders' equity:		
Preferred Stock: 10,000 shares authorized as of January 31, 2007 and October 31, 2006; no shares issued and outstanding as of January 31, 2007 and October 31, 2006		
Common Stock: \$0.01 par value, 100,000 shares authorized at January 31, 2007 and October 31, 2006; 82,439 and 68,148 shares issued and outstanding as of January 31, 2007 and October 31, 2006	824	682
Additional paid-in-capital	599,692	140,569
Accumulated deficit	(49,147)	(43,468)
Accumulated other comprehensive income	7,274	958
Total stockholders' equity	558,643	98,741
Total liabilities and stockholders' equity	\$ 1,341,669	\$ 452,945

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements.

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

VERIFONE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended	
	January 31,	
	2007	2006
	(Restated)(1)	
	(Unaudited)	
	(In thousands, except per share data)	
Net revenues:		
System Solutions	\$ 188,966	\$ 118,685
Services	27,397	15,945
Total net revenues	216,363	134,630
Cost of net revenues:		
System Solutions	133,291	67,115
Services	14,449	7,913
Total cost of net revenues	147,740	75,028
Gross profit	68,623	59,602
Operating expenses:		
Research and development	16,898	11,407
Sales and marketing	23,040	14,201
General and administrative	17,376	9,698
Amortization of purchased intangible assets	5,351	1,159
In-process research and development	6,560	
Total operating expenses	69,225	36,465
Operating income (loss)	(602)	23,137
Interest expense	(9,756)	(3,279)
Interest income	991	687
Other income (expense), net	(261)	201
Income (loss) before income taxes	(9,628)	20,746
Provision for (benefit from) income taxes	(3,949)	6,952
Net income (loss)	\$ (5,679)	\$ 13,794
Net income (loss) per share:		
Basic	\$ (0.07)	\$ 0.21
Diluted	\$ (0.07)	\$ 0.20

Weighted-average shares used in computing net income (loss) per share:		
Basic	80,993	65,705
Diluted	80,993	68,810

(1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements.

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**VERIFONE HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three Months Ended	
	January 31,	
	2007	2006
	(Restated)(1)	
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities		
Net income (loss)	\$ (5,679)	\$ 13,794
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Amortization of purchased intangible assets	14,960	2,752
Depreciation and amortization of property, plant and equipment	2,004	774
Amortization of capitalized software	295	275
In-process research and development	6,560	
Amortization of debt issuance costs	328	266
Stock-based compensation	7,796	923
Minority interest and equity in earnings of affiliates and other	24	9
Net cash provided by operating activities before changes in working capital	26,288	18,793
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,623)	(5,543)
Inventories	35,289	(3,503)
Deferred tax assets	(1,903)	(853)
Prepaid expenses and other current assets	(14,458)	(956)
Other assets	(2,362)	(190)
Accounts payable	(6,905)	(5,298)
Income taxes payable	(1,705)	4,639
Tax benefit from stock-based compensation	(2,342)	(874)
Accrued compensation	(3,762)	(1,512)
Accrued warranty	(1,226)	(333)
Deferred revenue, net	6,862	2,549
Deferred tax liabilities	4,981	
Accrued expenses and other liabilities	(13,796)	(473)
Net cash provided by operating activities	22,338	6,446
Cash flows from investing activities		
Software development costs capitalized	(1,145)	(428)
Purchase of property, plant and equipment, net	(6,571)	(610)
Purchase of other assets		(276)
Purchases of marketable securities		(55,950)
Sales and maturities of marketable securities		51,150
Acquisition of business, net of cash and cash equivalents acquired	(259,857)	
Net cash used in investing activities	(267,573)	(6,114)

Cash flows from financing activities

Proceeds from long-term debt, net of costs	304,950	
Repayment of long-term debt		(462)
Repayments of capital leases	(13)	(55)
Tax benefit of stock-based compensation	2,342	874
Proceeds from exercises of stock options	12,986	324
Other	22	45
Net cash provided by financing activities	320,287	726
Effect of foreign currency exchange rate changes on cash	273	473
Net increase in cash and cash equivalents	75,325	1,531
Cash and cash equivalents, beginning of period	86,564	65,065
Cash and cash equivalents, end of period	\$ 161,889	\$ 66,596

Supplemental disclosures of cash flow information

Cash paid for interest	\$ 3,556	\$ 3,085
Cash paid for taxes	\$ 2,404	\$ 3,434

Supplemental schedule of non-cash transactions:

Issuance of common stock and stock options for business acquisition	\$ 435,228	\$
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- (1) See Note 2, Restatement of Condensed Consolidated Financial Statements, of the Notes to Condensed Consolidated Financial Statements.

The accompanying notes are an integral part of these condensed consolidated financial statements.