

VERINT SYSTEMS INC
Form 10-Q
June 18, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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, 2009
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 No. 0-49790
Verint Systems Inc.**

(Exact Name of Registrant as Specified in its Charter)

Delaware

11-3200514

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

330 South Service Road, Melville, New York

11747

(Address of Principal Executive Offices)

(Zip Code)

(631) 962-9600

(Registrant's Telephone Number, Including Area Code)

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 (§232.40S 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

Small 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

There were 32,794,402 shares of the registrant's common stock outstanding on May 31, 2010.

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Explanatory Note

This report of Verint Systems Inc. (together with its consolidated subsidiaries, Verint, the Company, we, us, and our, unless the context indicates otherwise) is for the three months ended July 31, 2009.

This report has been delayed due to the previously announced accounting reviews and internal investigations at Verint and at our majority stockholder, Comverse Technology, Inc. (Comverse), together with the resulting restatement of certain items and the making of other corrective adjustments to our previously-filed historical financial statements for periods through January 31, 2005, all of which were described in our comprehensive Annual Report on Form 10-K for the years ended January 31, 2008, 2007, and 2006 filed with the Securities and Exchange Commission (SEC) on March 17, 2010 (the Comprehensive Form 10-K). The filing of this report was further delayed by the preparation of the Comprehensive Form 10-K, our Annual Report on Form 10-K for the year ended January 31, 2009, and our Annual Report on Form 10-K for the year ended January 31, 2010, covering five years of audited financial information, and the process of filing of these reports over the course of a two-month period from March 17, 2010 to May 19, 2010. Please see our Comprehensive Form 10-K for more information regarding the accounting reviews and internal investigations and the related restatement.

As noted above, since the filing of our Comprehensive Form 10-K, we have filed, among other things, our Annual Report on Form 10-K for the year ended January 31, 2009 (on April 8, 2010) and our Annual Report on Form 10-K for the year ended January 31, 2010 (on May 19, 2010) as well as our Quarterly Report on Form 10-Q for the three months ended April 30, 2010 (on June 9, 2010). As a result, because information for periods subsequent to the three months ended July 31, 2009 is already available in our Annual Report on Form 10-K for the year ended January 31, 2010 and Quarterly Report on Form 10-Q for the three months ended April 30, 2010, in certain sections of this report, we have included information for periods after July 31, 2009 and, in some instances, we have made reference to such reports. Please see our Annual Report on Form 10-K for the year ended January 31, 2010 for additional information.

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Cautionary Note on Forward-Looking Statements

Certain statements discussed in this report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, the provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act) (which Sections were adopted as part of the Private Securities Litigation Reform Act of 1995). Forward-looking statements include financial projections, statements of plans and objectives for future operations, statements of future economic performance, and statements of assumptions relating thereto. Forward-looking statements are often identified by future or conditional words such as will, plans, expects, intends, believes, seeks, estimates, or anticipates, or by variations of such words or by similar expressions. There can be no assurances that forward-looking statements will be achieved. By their very nature, forward-looking statements involve known and unknown risks, uncertainties, and other important factors that could cause our actual results or conditions to differ materially from those expressed or implied by such forward-looking statements. Important risks, uncertainties, and other factors that could cause our actual results or conditions to differ materially from our forward-looking statements include, among others:

- risks relating to the filing of our SEC reports, including the occurrence of known contingencies or unforeseen events that could delay our filings, management distractions, and significant expense;
- risk associated with the SEC's initiation of an administrative proceeding on March 3, 2010 to suspend or revoke the registration of our common stock under the Exchange Act due to our previous failure to file an annual report on either Form 10-K or Form 10-KSB since April 25, 2005 or quarterly reports on either Form 10-Q or Form 10-QSB since December 12, 2005;
- risk that our credit rating could be downgraded or placed on a credit watch based on, among other things, our financial results, delays in the filing of our periodic reports, or the results of the SEC's administrative proceeding;
- risks associated with being a consolidated, controlled subsidiary of Comverse and formerly part of Comverse's consolidated tax group, including risk of any future impact on us resulting from Comverse's special committee investigation and restatement or related effects, and risks related to our dependence on Comverse to provide us with accurate financial information, including with respect to stock-based compensation expense and net operating loss carryforwards (NOLs), for our financial statements;
- uncertainty regarding the impact of general economic conditions, particularly in information technology spending, on our business;
- risk that our financial results will cause us not to be compliant with the leverage ratio covenant under our credit facility or that any delays in the filing of future SEC reports could cause us not to be compliant with the financial statement delivery covenant under our credit facility;

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risk that customers or partners delay or cancel orders or are unable to honor contractual commitments due to liquidity issues, challenges in their business, or otherwise;

risk that we will experience liquidity or working capital issues and related risk that financing sources will be unavailable to us on reasonable terms or at all;

uncertainty regarding the future impact on our business of our internal investigation, restatement, extended filing delay, and the SEC's administrative proceeding, including customer, partner, employee, and investor concern, and potential customer and partner transaction deferrals or losses;

risks relating to the remediation or inability to adequately remediate material weaknesses in our internal controls over financial reporting and relating to the proper application of highly complex accounting rules and pronouncements in order to produce accurate SEC reports on a timely basis;

risks relating to our implementation and maintenance of adequate systems and internal controls for our current and future operations and reporting needs;

risk of possible future restatements if the processes used to produce the financial statements contained in this report or in future SEC reports are inadequate;

risk associated with current or future regulatory actions or private litigations relating to our internal investigation, restatement, or delays in filing required SEC reports;

risk that we will be unable to re-list our common stock on NASDAQ or another national securities exchange and maintain such listing;

risks associated with Comverse controlling our board of directors and a majority of our common stock (and therefore the results of any significant stockholder vote);

risks associated with significant leverage resulting from our current debt position;

risks due to aggressive competition in all of our markets, including with respect to maintaining margins and sufficient levels of investment in the business and with respect to introducing quality products which achieve market acceptance;

risks created by continued consolidation of competitors or introduction of large competitors in our markets with greater resources than us;

risks associated with significant foreign and international operations, including exposure to fluctuations in exchange rates;

risks associated with complex and changing local and foreign regulatory environments;

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risks associated with our ability to recruit and retain qualified personnel in all geographies in which we operate;
challenges in accurately forecasting revenue and expenses;
risks associated with acquisitions and related system integrations;
risks relating to our ability to improve our infrastructure to support growth;
risks that our intellectual property rights may not be adequate to protect our business or that others may make claims on our intellectual property or claim infringement on their intellectual property rights;
risks associated with a significant amount of our business coming from domestic and foreign government customers;
risk that we improperly handle sensitive or confidential information or perception of such mishandling;
risks associated with dependence on a limited number of suppliers for certain components of our products;
risk that we are unable to maintain and enhance relationships with key resellers, partners, and systems integrators; and
risk that use of our NOLs or other tax benefits may be restricted or eliminated in the future.

These risks and uncertainties, as well as other factors, are discussed in greater detail in Risk Factors under Item 1A of our Annual Report on Form 10-K for the year ended January 31, 2010. Readers are cautioned not to place undue reliance on forward-looking statements, which reflect our management's view only as of the filing date of this report. We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances after the date any such statement is made, except as otherwise required under the federal securities laws. If we were in any particular instance to update or correct a forward-looking statement, investors and others should not conclude that we would make additional updates or corrections thereafter except as otherwise required under the federal securities laws.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****VERINT SYSTEMS INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****As of July 31, 2009 and January 31, 2009****(Unaudited)**

(in thousands, except share and per share data)	July 31, 2009	January 31, 2009
Assets		
Current Assets:		
Cash and cash equivalents	\$ 153,714	\$ 115,928
Restricted cash and bank time deposits	7,660	7,722
Accounts receivable, net	117,780	113,178
Inventories	17,010	20,455
Deferred cost of revenue	10,994	8,935
Prepaid expenses and other current assets	59,658	46,748
Total current assets	366,816	312,966
Property and equipment, net	26,969	30,544
Goodwill	731,298	709,984
Intangible assets, net	190,248	200,203
Capitalized software development costs, net	9,416	10,489
Deferred cost of revenue	41,652	47,913
Other assets	24,631	25,294
Total assets	\$ 1,391,030	\$ 1,337,393
Liabilities, Preferred Stock, and Stockholders Deficit		
Current Liabilities:		
Accounts payable	\$ 35,628	\$ 38,484
Accrued expenses and other liabilities	140,708	146,741
Current maturities of long-term debt	2,136	4,088
Deferred revenue	196,609	160,918
Liabilities to affiliates	1,662	1,389
Total current liabilities	376,743	351,620
Long-term debt	618,776	620,912
Deferred revenue	61,311	88,985
Other liabilities	61,314	66,404
Total liabilities	1,118,144	1,127,921
Preferred Stock \$0.001 par value; authorized 2,500,000 shares. Series A convertible preferred stock; 293,000 shares issued and outstanding; aggregate liquidation preference and redemption value of \$319,630 at	285,542	285,542

July 31, 2009**Commitments and Contingencies****Stockholders Deficit:**

Common stock \$0.001 par value; authorized 120,000,000 shares. Issued 32,643,000 and 32,623,000 shares, respectively; outstanding 32,544,000 and 32,535,000 shares, as of July 31, 2009 and January 31, 2009 respectively	32	32
Additional paid-in capital	435,492	419,937
Treasury stock, at cost 99,000 and 88,000 shares as of July 31, 2009 and January 31, 2009, respectively	(2,426)	(2,353)
Accumulated deficit	(414,723)	(435,955)
Accumulated other comprehensive loss	(32,539)	(58,404)
Total Verint Systems Inc. stockholders deficit	(14,164)	(76,743)
Noncontrolling interest	1,508	673
Total stockholders deficit	(12,656)	(76,070)
Total liabilities, preferred stock, and stockholders deficit	\$ 1,391,030	\$ 1,337,393

See notes to condensed consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
Three and Six Months Ended July 31, 2009 and 2008
(Unaudited)

	Three Months Ended July		Six Months Ended July	
	31,		31,	
(in thousands, except per share data)	2009	2008	2009	2008
Revenue:				
Product	\$ 88,107	\$ 84,965	\$ 185,178	\$ 169,811
Service and support	81,162	81,060	159,239	151,168
Total revenue	169,269	166,025	344,417	320,979
Cost of revenue:				
Product	30,900	31,262	62,957	62,101
Service and support	26,190	32,582	49,103	62,606
Amortization of acquired technology and backlog	1,977	2,298	4,076	4,623
Total cost of revenue	59,067	66,142	116,136	129,330
Gross profit	110,202	99,883	228,281	191,649
Operating expenses:				
Research and development, net	20,638	23,672	39,539	47,934
Selling, general and administrative	70,258	73,644	127,484	148,112
Amortization of other acquired intangible assets	5,586	6,465	11,516	13,179
Integration, restructuring and other, net	11	3,606	24	8,561
Total operating expenses	96,493	107,387	178,563	217,786
Operating income (loss)	13,709	(7,504)	49,718	(26,137)
Other income (expense), net:				
Interest income	98	529	245	1,076
Interest expense	(6,369)	(9,694)	(12,722)	(19,606)
Other income (expense), net	(3,106)	1,695	(8,069)	6,622
Total other expense, net	(9,377)	(7,470)	(20,546)	(11,908)
Income (loss) before provision for income taxes	4,332	(14,974)	29,172	(38,045)
Provision for (benefit from) income taxes	2,850	(260)	7,118	1,446
Net income (loss)	1,482	(14,714)	22,054	(39,491)
Net income (loss) attributable to noncontrolling interest	(116)	373	822	893
	1,598	(15,087)	21,232	(40,384)

Net income (loss) attributable to Verint Systems Inc.

Dividends on preferred stock	(3,406)	(3,266)	(6,668)	(6,427)
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Net income (loss) attributable to Verint Systems Inc. common shares

\$ (1,808)	\$ (18,353)	\$ 14,564	\$ (46,811)
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Net income (loss) per share attributable to Verint Systems Inc.

Basic	\$ (0.06)	\$ (0.57)	\$ 0.45	\$ (1.45)
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Diluted	\$ (0.06)	\$ (0.57)	\$ 0.45	\$ (1.45)
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Weighted-average common shares outstanding

Basic	32,465	32,385	32,462	32,383
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Diluted	32,465	32,385	32,606	32,383
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See notes to condensed consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders Equity (Deficit)
Six Months Ended July 31, 2009 and 2008
(Unaudited)

	Verint Systems Inc. Stockholders Equity (Deficit)					Total Accumulated Verint Systems Inc. Noncontrolling Stockholders Equity (Deficit)			
	Common Stock Par	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Other Comprehensive Loss	Stockholders Equity (Deficit)	Noncontrolling Interest	Total Stockholders Equity (Deficit)	
(in thousands)	Shares	Value	Capital	Stock	Deficit	Loss	(Deficit)	Interest	(Deficit)
Balances as of January 31, 2008	32,526	\$ 32	\$ 387,537	\$ (2,094)	\$ (355,567)	\$ (610)	\$ 29,298	\$ 1,027	\$ 30,325
Comprehensive income (loss):									
Net income (loss)					(40,384)		(40,384)	893	(39,491)
Unrealized gains on available for sale securities, net						5	5		5
Currency translation adjustments						(1,351)	(1,351)	67	(1,284)
Total comprehensive income (loss)					(40,384)	(1,346)	(41,730)	960	(40,770)
Stock-based compensation expense			16,599				16,599		16,599
Common stock issued for stock awards	20								
Forfeitures of restricted stock awards	(7)		132	(132)					
Purchases of treasury stock	(5)			(93)			(93)		(93)
Tax effects from stock award plans			165				165		165
Balances as of July 31, 2008	32,534	\$ 32	\$ 404,433	\$ (2,319)	\$ (395,951)	\$ (1,956)	\$ 4,239	\$ 1,987	\$ 6,226
Balances as of January 31, 2009	32,535	\$ 32	\$ 419,937	\$ (2,353)	\$ (435,955)	\$ (58,404)	\$ (76,743)	\$ 673	\$ (76,070)

**Comprehensive
income:**

Net income	21,232	21,232	822	22,054
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