

VERINT SYSTEMS INC
Form 10-Q
June 08, 2011
Table of Contents

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 April 30, 2011

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. 001-34807

Verint Systems Inc.

(Exact Name of Registrant as Specified in its Charter)

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Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

11-3200514
(I.R.S. Employer Identification No.)

330 South Service Road, Melville, New York
(Address of Principal Executive Offices)

11747
(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

* The registrant is not presently required to submit Interactive Data Files.

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

There were 38,329,445 shares of the registrant's common stock outstanding on May 16, 2011.

Table of Contents

<u>CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS</u>		ii
<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	1
<u>ITEM 1.</u>	<u>FINANCIAL STATEMENTS.</u>	1
	<u>CONDENSED CONSOLIDATED BALANCE SHEETS</u>	1
	<u>CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS</u>	2
	<u>CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)</u>	3
	<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	4
	<u>NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	5
<u>ITEM 2.</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	35
<u>ITEM 3.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	51
<u>ITEM 4.</u>	<u>CONTROLS AND PROCEDURES</u>	52
<u>PART II.</u>	<u>OTHER INFORMATION</u>	53
<u>ITEM 1.</u>	<u>LEGAL PROCEEDINGS</u>	53
<u>ITEM 1A.</u>	<u>RISK FACTORS</u>	53
<u>ITEM 2.</u>	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	53
<u>ITEM 3.</u>	<u>DEFAULTS UPON SENIOR SECURITIES</u>	54
<u>ITEM 4.</u>	<u>REMOVED AND RESERVED</u>	54
<u>ITEM 5.</u>	<u>OTHER INFORMATION</u>	54
<u>ITEM 6.</u>	<u>EXHIBITS</u>	55
<u>SIGNATURES</u>		56

Table of Contents

Cautionary Note on Forward-Looking Statements

Certain statements discussed in this report constitute forward-looking statements, which 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 anticipated 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:

- uncertainties regarding the impact of general economic conditions, particularly in information technology spending, on our business;
- risks due to aggressive competition in all of our markets, including with respect to maintaining margins and sufficient levels of investment in our business;
- risks associated with keeping pace with technological changes and evolving industry standards in our product offerings and with successfully introducing new, quality products which meet customer needs and achieve market acceptance;
- risks created by continued consolidation of competitors or introduction of large competitors in our markets with greater resources than we have;
- risks associated with successfully competing for, consummating, and implementing mergers and acquisitions, including risks associated with capital constraints, post-acquisition integration activities, and potential asset impairments;
- risks 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;
- risks relating to our implementation and maintenance of adequate systems and internal controls for our current and future operations and reporting needs and related risks of financial statement omissions, misstatements, restatements, or filing delays;
- risks associated with being a consolidated, controlled subsidiary of Comverse Technology, Inc. (Comverse) and formerly part of Comverse s consolidated tax group, including risks of any future impact on us resulting from Comverse s extended filing delay or any other future issues;

- risks associated with Converse controlling our board of directors and the outcome of all matters submitted for stockholder action, including the approval of significant corporate

Table of Contents

transactions, such as certain equity issuances or mergers and acquisitions, as well as speculation or announcements regarding Converse's strategic plans;

- risks that products may contain undetected defects which could expose us to substantial liability;

- risks associated with allocating limited financial and human resources to opportunities that may not come to fruition or produce satisfactory returns;

- risks associated with significant foreign and international operations, including exposure to regions subject to political instability or fluctuations in exchange rates;

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

- risks associated with our ability to recruit and retain qualified personnel in geographies in which we operate;

- challenges in accurately forecasting revenue and expenses and maintaining profitability;

- 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 assets 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, including the ability to maintain security clearances for certain projects;

- risks that we improperly handle sensitive or confidential information or perception of such mishandling;

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- risks associated with our dependence on a limited number of suppliers or original equipment manufacturers (OEMs) for certain components of our products;
- risks that we are unable to maintain and enhance relationships with key resellers, partners, and systems integrators;
- risks that contract terms may expose us to unlimited liability or other unfavorable positions and risks that we may experience losses that are not covered by insurance;
- risks that we will experience liquidity or working capital issues and related risks that financing sources will be unavailable to us on reasonable terms or at all;
- risks associated with significant leverage resulting from our current debt position;

Table of Contents

- risks that we will be unable to comply with the leverage ratio covenant under our credit facility;

- risks that our credit rating could be downgraded or placed on a credit watch;

- risks relating to timely implementation of new accounting pronouncements or new interpretations of existing accounting pronouncements and related risks of future restatements or filing delays;

- risks associated with future regulatory actions or private litigations relating to our extended filing delay and related circumstances;
and

- risks that use of our tax benefits may be restricted or eliminated in the future.

These risks, uncertainties and challenges, as well as other factors, are discussed in greater detail under Item 1A of our Annual Report on Form 10-K for the year ended January 31, 2011. You are cautioned not to place undue reliance on forward-looking statements, which reflect our management's view only as of the 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****April 30, 2011 and January 31, 2011****(Unaudited)**

(in thousands, except share and per share data)	April 30, 2011	January 31, 2011
Assets		
Current Assets:		
Cash and cash equivalents	\$ 179,358	\$ 169,906
Restricted cash and bank time deposits	12,305	13,639
Accounts receivable, net	137,553	150,769
Inventories	20,650	16,987
Deferred cost of revenue	5,500	6,269
Prepaid expenses and other current assets	45,157	44,374
Total current assets	400,523	401,944
Property and equipment, net	24,297	23,176
Goodwill	757,463	738,674
Intangible assets, net	155,554	157,071
Capitalized software development costs, net	6,630	6,787
Long-term deferred cost of revenue	20,924	21,715
Other assets	32,776	26,760
Total assets	\$ 1,398,167	\$ 1,376,127
Liabilities, Preferred Stock, and Stockholders Equity		
Current Liabilities:		
Accounts payable	\$ 37,502	\$ 36,861
Accrued expenses and other current liabilities	147,646	163,029
Current maturities of long-term debt	4,500	
Deferred revenue	144,048	142,465
Liabilities to affiliates	1,951	1,847
Total current liabilities	335,647	344,202
Long-term debt	592,500	583,234
Long-term deferred revenue	39,391	40,424
Other liabilities	43,821	45,038
Total liabilities	1,011,359	1,012,898
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 \$341,918 at April 30, 2011.	285,542	285,542
Commitments and Contingencies		
Stockholders Equity:		

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Common stock - \$0.001 par value; authorized 120,000,000 shares. Issued 38,579,000 and 37,349,000 shares; outstanding 38,305,000 and 37,089,000 shares as of April 30, 2011 and January 31, 2011, respectively.	39	38
Additional paid-in capital	531,422	519,834
Treasury stock, at cost - 274,000 and 260,000 shares as of April 30, 2011 and January 31, 2011, respectively.	(7,141)	(6,639)
Accumulated deficit	(394,869)	(394,757)
Accumulated other comprehensive loss	(31,196)	(42,069)
Total Verint Systems Inc. stockholders equity	98,255	76,407
Noncontrolling interest	3,011	1,280
Total stockholders equity	101,266	77,687
Total liabilities, preferred stock, and stockholders equity	\$ 1,398,167	\$ 1,376,127

See notes to condensed consolidated financial statements.

Table of Contents

VERINT SYSTEMS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

Three Months Ended April 30, 2011 and 2010

(Unaudited)

(in thousands, except per share data)	Three Months Ended April 30,	
	2011	2010
Revenue:		
Product	\$ 83,278	\$ 92,070
Service and support	93,054	80,543
Total revenue	176,332	172,613
Cost of revenue:		
Product	22,531	26,852
Service and support	30,168	28,722
Amortization of acquired technology	2,650	2,233
Total cost of revenue	55,349	57,807
Gross profit	120,983	114,806
Operating expenses:		
Research and development, net	26,368	26,432
Selling, general and administrative	70,235	87,017
Amortization of other acquired intangible assets	5,546	5,339
Total operating expenses	102,149	118,788
Operating income (loss)	18,834	(3,982)
Other income (expense), net:		
Interest income	148	83
Interest expense	(8,794)	(5,948)
Loss on extinguishment of debt	(8,136)	
Other income (expense), net	1,012	(3,698)
Total other expense, net	(15,770)	(9,563)
Income (loss) before provision for income taxes	3,064	(13,545)
Provision for income taxes	1,509	2,071
Net income (loss)	1,555	(15,616)
Net income attributable to noncontrolling interest	1,667	592
Net loss attributable to Verint Systems Inc.	(112)	(16,208)
Dividends on preferred stock	(3,549)	(3,403)
Net loss attributable to Verint Systems Inc. common shares	\$ (3,661)	\$ (19,611)
Net loss per share attributable to Verint Systems Inc.		
Basic	\$ (0.10)	\$ (0.60)
Diluted	\$ (0.10)	\$ (0.60)
Weighted-average common shares outstanding		
Basic	37,392	32,663
Diluted	37,392	32,663

See notes to condensed consolidated financial statements.

Table of Contents

VERINT SYSTEMS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders Equity (Deficit)

Three Months Ended April 30, 2011 and 2010

(Unaudited)

(in thousands)	Verint Systems Inc. Stockholders Equity (Deficit)								
	Common Shares	Stock Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Verint Systems Inc. Stockholders Equity (Deficit)	Noncontrolling Interest	Total Stockholders Equity (Deficit)
Balances as of January 31, 2010	32,584	\$ 33	\$ 451,166	\$ (2,493)	\$ (420,338)	\$ (43,134)	\$ (14,766)	\$ 199	\$ (14,567)
Comprehensive income (loss):									
Net income (loss)					(16,208)		(16,208)	592	(15,616)
Unrealized gains on derivative financial instruments, net						81	81		81
Currency translation adjustments						(8,261)	(8,261)	(5)	(8,266)
Total comprehensive income (loss)					(16,208)	(8,180)	(24,388)	587	(23,801)
Stock-based compensation expense			7,546				7,546		7,546
Common stock issued for stock awards	342								
Purchases of treasury stock	(123)			(3,312)			(3,312)		(3,312)
Tax effects from stock award plans			(47)				(47)		(47)
Balances as of April 30, 2010	32,803	\$ 33	\$ 458,665	\$ (5,805)	\$ (436,546)	\$ (51,314)	\$ (34,967)	\$ 786	\$ (34,181)
Balances as of January 31, 2011	37,089	\$ 38	\$ 519,834	\$ (6,639)	\$ (394,757)	\$ (42,069)	\$ 76,407	\$ 1,280	\$ 77,687
Comprehensive income (loss):									
Net income (loss)					(112)		(112)	1,667	1,555
Unrealized gains on derivative financial instruments, net						1,700	1,700		1,700
Currency translation adjustments						9,173	9,173	64	9,237
Total comprehensive income (loss)					(112)	10,873	10,761	1,731	12,492
Stock-based compensation expense			5,785				5,785		5,785
Exercises of stock options	258		5,230				5,230		5,230
Common stock issued for stock awards	972	1	(1)						
Purchases of treasury stock	(14)			(502)			(502)		(502)
Tax effects from stock award plans			574				574		574

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Balances as of April 30, 2011	38,305	\$	39	\$	531,422	\$	(7,141)	\$	(394,869)	\$	(31,196)	\$	98,255	\$	3,011	\$	101,266
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See notes to condensed consolidated financial statements.

Table of Contents**VERINT SYSTEMS INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows****Three Months Ended April 30, 2011 and 2010****(Unaudited)**

(in thousands)	Three Months Ended April 30,	
	2011	2010
Cash flows from operating activities:		
Net income (loss)	\$ 1,555	\$ (15,616)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	12,954	11,898
Stock-based compensation	5,785	7,546
Non-cash losses on derivative financial instruments, net	1,933	1,703
Loss on extinguishment of debt	8,136	
Other non-cash items, net	3,132	1,189
Changes in operating assets and liabilities, net of effects of business combination:		
Accounts receivable	14,164	(13,787)
Inventories	(3,421)	(488)
Deferred cost of revenue	2,516	6,161
Prepaid expenses and other assets	1,178	1,501
Accounts payable and accrued expenses	(22,568)	14,959
Deferred revenue	(4,201)	(18,476)
Other, net	(1,869)	(1,110)
Net cash provided by (used in) operating activities	19,294	(4,520)
Cash flows from investing activities:		
Cash paid for business combination, net of cash acquired	(11,958)	(15,292)
Purchases of property and equipment	(3,131)	(1,878)
Settlements of derivative financial instruments not designated as hedges	(826)	(6,333)