

VERINT SYSTEMS INC  
Form 10-Q  
December 06, 2012

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 October 31, 2012

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)

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 (§232.405 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  Smaller Reporting Company   
(Do not check if a smaller reporting company)

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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 40,095,775 shares of the registrant's common stock outstanding on November 15, 2012.

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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 “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:

- uncertainties regarding the impact of general economic conditions in the United States and abroad, particularly in information technology spending and government budgets, on our business;
- risks associated with our ability to keep pace with technological changes and evolving industry standards in our product offerings and to successfully develop, launch, and drive demand for new and enhanced, innovative, high-quality products that meet or exceed customer needs;
- risks associated with the planned merger (the "Merger") with our controlling stockholder, Comverse Technology, Inc. ("CTI"), pursuant to the terms and conditions of the Agreement and Plan of Merger we executed on August 12, 2012 (the "Merger Agreement"), including risks associated with our and CTI's ability to satisfy the conditions and terms of the Merger, and to execute the Merger in the estimated timeframe, or at all, and the issuance of shares of our common stock in connection with the Merger;
- uncertainties regarding the expected benefits of the Merger;
- risks arising as a result of unknown or unexpected CTI obligations or liabilities assumed upon completion of the Merger, or as a result of parties obligated to provide us with indemnification being unwilling or unable to stand behind such obligations;
- risks associated with any litigation against us or our directors or officers that we may face, or any litigation against counterparties that we may inherit, in connection with the Merger;
- uncertainties regarding the tax consequences of the Merger;
- risks associated with CTI's current ability to control our board of directors and the outcome of matters submitted for stockholder action;
- risks associated with being a consolidated subsidiary of CTI and formerly part of CTI's consolidated tax group;
- 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 created by the continued consolidation of our competitors or the introduction of large competitors in our markets with greater resources than we have;
- risks associated with our ability to successfully compete for, consummate, and implement mergers and acquisitions, including risks associated with capital constraints, costs and expenses, maintaining profitability levels, management distraction, post-acquisition integration activities, and potential asset impairments;
- risks that we may be unable to maintain and enhance relationships with key resellers, partners, and systems integrators;
- risks relating to our ability to effectively and efficiently execute on our growth strategy, including managing investments in our business and operations and enhancing and securing our internal and external operations;
- risks relating to our ability to successfully implement and maintain 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 the mishandling or perceived mishandling of sensitive or confidential information, security



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lapses, or with information technology system failures or disruptions;

- risks associated with our ability to efficiently and effectively allocate limited financial and human resources to business, development, strategic, or other opportunities that may not come to fruition or produce satisfactory returns;
- risks associated with significant international operations, including, among others, in Israel, Europe, and Asia, exposure to regions subject to political or economic instability, and fluctuations in foreign exchange rates;
- risks associated with complex and changing local and foreign regulatory environments in the jurisdictions in which we operate;
- risks associated with our ability to recruit and retain qualified personnel in regions in which we operate;
- challenges associated with selling sophisticated solutions, long sales cycles, and emphasis on larger transactions, including in accurately forecasting revenue and expenses and in maintaining profitability;
- 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 that our products may contain undetected defects, which could expose us to substantial liability;
  - 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 associated with our dependence on a limited number of suppliers or original equipment manufacturers for certain components of our products, including companies that may compete with us or work with our competitors;
- risks that our 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 that we may experience liquidity or working capital issues and related risks that financing sources may be unavailable to us on reasonable terms or at all;
- risks associated with significant leverage resulting from our current debt position, including with respect to covenant limitations and compliance, fluctuations in interest rates, and our ability to maintain our credit ratings;
- risks relating to our ability to timely implement new accounting pronouncements or new interpretations of existing accounting pronouncements and related risks of future restatements or filing delays; and
- risks associated with changing tax rates, tax laws and regulations, and the continuing availability of expected tax benefits.

These risks, uncertainties and challenges, as well as other factors, are discussed in greater detail in “Risk Factors” under Part II, Item 1A of this Quarterly Report on Form 10-Q and Item 1A of our Annual Report on Form 10-K for the year ended January 31, 2012. 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.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## VERINT SYSTEMS INC. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

October 31, 2012 and January 31, 2012

(Unaudited)

(in thousands, except share and per share data)	October 31, 2012	January 31, 2012
Assets		
Current Assets:		
Cash and cash equivalents	\$192,028	\$150,662
Restricted cash and bank time deposits	11,518	12,863
Accounts receivable, net	157,402	154,753
Inventories	11,711	14,414
Deferred cost of revenue	4,457	11,951
Prepaid expenses and other current assets	53,041	56,047
Total current assets	430,157	400,690
Property and equipment, net	37,167	28,289
Goodwill	831,432	828,758
Intangible assets, net	154,253	184,230
Capitalized software development costs, net	6,126	5,846
Long-term deferred cost of revenue	7,486	13,285
Other assets	31,997	38,497
Total assets	\$1,498,618	\$1,499,595
Liabilities, Preferred Stock, and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$45,726	\$49,441
Accrued expenses and other current liabilities	170,444	168,947
Current maturities of long-term debt	6,438	6,228
Deferred revenue	138,653	156,772
Liabilities to affiliates	—	1,760
Total current liabilities	361,261	383,148
Long-term debt	586,146	591,151
Long-term deferred revenue	14,257	25,987
Other liabilities	53,804	69,472
Total liabilities	1,015,468	1,069,758
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 \$362,374 at October 31, 2012.	285,542	285,542
Commitments and Contingencies		
Stockholders' Equity:		
Common stock - \$0.001 par value; authorized 120,000,000 shares. Issued 40,397,000 and 39,265,000 shares; outstanding 40,095,000 and 38,982,000 shares as of October 31, 2012 and January 31, 2012, respectively.	40	40
Additional paid-in capital	574,462	554,351
Treasury stock, at cost - 302,000 and 283,000 shares as of October 31, 2012 and January 31, 2012, respectively.	(8,013)	(7,466)

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Accumulated deficit	(329,651	)	(357,764	)
Accumulated other comprehensive loss	(45,751	)	(47,736	)
Total Verint Systems Inc. stockholders' equity	191,087		141,425	
Noncontrolling interest	6,521		2,870	
Total stockholders' equity	197,608		144,295	
Total liabilities, preferred stock, and stockholders' equity	\$1,498,618		\$1,499,595	

See notes to condensed consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES  
Condensed Consolidated Statements of Operations  
Three and Nine Months Ended October 31, 2012 and 2011  
(Unaudited)

	Three Months Ended October		Nine Months Ended October	
	31,		31,	
(in thousands, except per share data)	2012	2011	2012	2011
Revenue:				
Product	\$87,404	\$101,164	\$281,393	\$284,865
Service and support	114,116	98,200	329,188	285,790
Total revenue	201,520	199,364	610,581	570,655
Cost of revenue:				
Product	25,420	33,623	92,694	89,368
Service and support	36,166	33,091	105,772	96,469
Amortization of acquired technology and backlog	3,696	3,425	11,124	8,760
Total cost of revenue	65,282	70,139	209,590	194,597
Gross profit	136,238	129,225	400,991	376,058
Operating expenses:				
Research and development, net	27,732	28,464	86,330	81,640
Selling, general and administrative	85,626	76,536	232,302	218,988
Amortization of other acquired intangible assets	6,109	5,943	18,342	16,904
Total operating expenses	119,467	110,943	336,974	317,532
Operating income	16,771	18,282	64,017	58,526
Other income (expense), net:				
Interest income	125	153	379	447
Interest expense	(7,698)	) (7,905)	) (23,283)	) (24,556)
Loss on extinguishment of debt	—	—	—	(8,136)
Other income (expense), net	(340)	) (1,313)	) (189)	) 437
Total other expense, net	(7,913)	) (9,065)	) (23,093)	) (31,808)
Income before provision for income taxes	8,858	9,217	40,924	26,718
Provision for (benefit from) income taxes	2,243	(704)	) 9,414	3,968
Net income	6,615	9,921	31,510	22,750
Net income attributable to noncontrolling interest	1,144	470	3,397	2,936
Net income attributable to Verint Systems Inc.	5,471	9,451	28,113	19,814
Dividends on preferred stock	(3,909)	) (3,747)	) (11,521)	) (11,003)
Net income attributable to Verint Systems Inc. common shares	\$1,562	\$5,704	\$16,592	\$8,811
Net income per common share attributable to Verint Systems Inc.				
Basic	\$0.04	\$0.15	\$0.42	\$0.23
Diluted	\$0.04	\$0.15	\$0.41	\$0.22
Weighted-average common shares outstanding				
Basic	39,785	38,807	39,622	38,263
Diluted	39,922	39,263	40,094	39,267

See notes to condensed consolidated financial statements.



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VERINT SYSTEMS INC. AND SUBSIDIARIES  
Condensed Consolidated Statements of Comprehensive Income  
Three and Nine Months Ended