

VERINT SYSTEMS INC
Form 10-Q
December 09, 2011
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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 October 31, 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 (§232.405 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. (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 38,858,601 shares of the registrant's common stock outstanding on November 15, 2011.

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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 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 in the United States and abroad, particularly in information technology spending and government budgets, 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, costs and expenses, management distraction, 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;

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- risks relating to our ability to improve our infrastructure to enhance and secure our internal and external operations and to support growth;
- risks that we improperly handle sensitive or confidential information or the perception of such mishandling;

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- risks associated with Comverse Technology, Inc. (Comverse) controlling our board of directors and the outcome of all matters submitted for stockholder action, including the approval of significant corporate transactions, such as certain equity issuances or mergers and acquisitions, as well as speculation or announcements regarding Comverse s strategic plans;
- risks associated with being a consolidated, controlled subsidiary of Comverse and formerly part of Comverse s consolidated tax group, including risks of any future impact on us resulting from Comverse s previous extended filing delay or any other future issues;
- risks that products may contain undetected defects, which could expose us to substantial liability;
- risks associated with allocating 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 foreign and international operations, including exposure to regions subject to political or economic instability and 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 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 associated with our dependence on a limited number of suppliers or original equipment manufacturers (OEMs) for certain components of our products;

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- 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;

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- 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, including with respect to maintaining compliance with the leverage ratio covenant under our credit facility and maintaining our credit rating;
- 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 previous 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****October 31, 2011 and January 31, 2011****(Unaudited)**

| (in thousands, except share and per share data) | October 31, 2011 | January 31, 2011 |
|---|-----------------------------|-----------------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 112,413 | \$ 169,906 |
| Restricted cash and bank time deposits | 8,018 | 13,639 |
| Accounts receivable, net | 153,749 | 150,769 |
| Inventories | 14,814 | 16,987 |
| Deferred cost of revenue | 6,368 | 6,269 |
| Prepaid expenses and other current assets | 57,002 | 44,374 |
| Total current assets | 352,364 | 401,944 |
| Property and equipment, net | 27,549 | 23,176 |
| Goodwill | 817,744 | 738,674 |
| Intangible assets, net | 190,189 | 157,071 |
| Capitalized software development costs, net | 5,828 | 6,787 |
| Long-term deferred cost of revenue | 14,575 | 21,715 |
| Other assets | 37,855 | 26,760 |
| Total assets | \$ 1,446,104 | \$ 1,376,127 |
| Liabilities, Preferred Stock, and Stockholders Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$ 36,126 | \$ 36,861 |
| Accrued expenses and other current liabilities | 169,099 | 163,029 |
| Current maturities of long-term debt | 6,208 | |
| Deferred revenue | 134,454 | 142,465 |
| Liabilities to affiliates | 1,791 | 1,847 |
| Total current liabilities | 347,678 | 344,202 |
| Long-term debt | 592,695 | 583,234 |
| Long-term deferred revenue | 29,623 | 40,424 |
| Other liabilities | 65,256 | 45,038 |
| Total liabilities | 1,035,252 | 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 \$348,629 at October 31, 2011. | 285,542 | 285,542 |
| Commitments and Contingencies | | |
| Stockholders Equity: | | |
| Common stock - \$0.001 par value; authorized 120,000,000 shares. Issued 39,130,000 and 37,349,000 shares; outstanding 38,847,000 and 37,089,000 shares, as of October 31, 2011 and January 31, 2011, respectively. | 39 | 38 |
| Additional paid-in capital | 547,354 | 519,834 |

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| | | |
|---|---------------------|---------------------|
| Treasury stock, at cost - 283,000 and 260,000 shares as of October 31, 2011 and January 31, 2011, respectively. | (7,466) | (6,639) |
| Accumulated deficit | (374,943) | (394,757) |
| Accumulated other comprehensive loss | (43,783) | (42,069) |
| Total Verint Systems Inc. stockholders equity | 121,201 | 76,407 |
| Noncontrolling interest | 4,109 | 1,280 |
| Total stockholders equity | 125,310 | 77,687 |
| Total liabilities, preferred stock, and stockholders equity | \$ 1,446,104 | \$ 1,376,127 |

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, 2011 and 2010

(Unaudited)

| (in thousands, except per share data) | Three Months Ended October 31, | | Nine Months Ended October 31, | |
|---|--------------------------------|------------------|-------------------------------|-----------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenue: | | | | |
| Product | \$ 101,164 | \$ 97,769 | \$ 284,865 | \$ 282,942 |
| Service and support | 98,200 | 88,872 | 285,790 | 256,988 |
| Total revenue | 199,364 | 186,641 | 570,655 | 539,930 |
| Cost of revenue: | | | | |
| Product | 33,623 | 26,615 | 89,368 | 83,333 |
| Service and support | 33,091 | 30,070 | 96,469 | 87,052 |
| Amortization of acquired technology | 3,425 | 2,256 | 8,760 | 6,709 |
| Total cost of revenue | 70,139 | 58,941 | 194,597 | 177,094 |
| Gross profit | 129,225 | 127,700 | 376,058 | 362,836 |
| Operating expenses: | | | | |
| Research and development, net | 28,464 | 24,063 | 81,640 | 72,544 |
| Selling, general and administrative | 76,536 | 67,868 | 218,988 | 224,029 |
| Amortization of other acquired intangible assets | 5,943 | 5,376 | 16,904 | 16,053 |
| Total operating expenses | 110,943 | 97,307 | 317,532 | 312,626 |
| Operating income | 18,282 | 30,393 | 58,526 | 50,210 |
| Other income (expense), net: | | | | |
| Interest income | 153 | 109 | 447 | 309 |
| Interest expense | (7,905) | (8,941) | (24,556) | (20,825) |
| Loss on extinguishment of debt | | | (8,136) | |
| Other income (expense), net | (1,313) | 2,159 | 437 | (3,987) |
| Total other expense, net | (9,065) | (6,673) | (31,808) | (24,503) |
| Income before provision for (benefit from) income taxes | 9,217 | 23,720 | 26,718 | 25,707 |
| Provision for (benefit from) income taxes | (704) | 5,332 | 3,968 | 10,544 |
| Net income | 9,921 | 18,388 | 22,750 | 15,163 |
| Net income attributable to noncontrolling interest | 470 | 1,214 | 2,936 | 2,722 |
| Net income attributable to Verint Systems Inc. | 9,451 | 17,174 | 19,814 | 12,441 |
| Dividends on preferred stock | (3,747) | (3,592) | (11,003) | (10,549) |
| Net income attributable to Verint Systems Inc. common shares | \$ 5,704 | \$ 13,582 | \$ 8,811 | \$ 1,892 |
| Net income per share attributable to Verint Systems Inc. | | | | |
| Basic | \$ 0.15 | \$ 0.38 | \$ 0.23 | \$ 0.06 |
| Diluted | \$ 0.15 | \$ 0.36 | \$ 0.22 | \$ 0.05 |
| Weighted-average common shares outstanding | | | | |
| Basic | 38,807 | 35,368 | 38,263 | 33,785 |
| Diluted | 39,263 | 47,679 | 39,267 | 36,525 |

See notes to condensed consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders Equity (Deficit)

Nine Months Ended October 31, 2011 and 2010

(Unaudited)

| | Verint Systems Inc. Stockholders Equity (Deficit) | | | | | | Total Verint Systems Inc. Stockholders Equity (Deficit) | Noncontrolling Interest | Total Stockholders Equity (Deficit) |
|----------------|---|--------------|----------------------------------|-------------------|------------------------|---|--|----------------------------|---|
| | Common Stock Shares | Par Value | Additional Paid-in Capital | Treasury Stock | Accumulated Deficit | Accumulated Other Comprehensive Loss | | | |
| (in thousands) | | | | | | | | | |