

VERINT SYSTEMS INC
Form 10-Q
June 03, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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, 2013

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 <input type="radio"/>	Accelerated Filer <input type="radio"/>	Non-Accelerated Filer <input type="radio"/>	Smaller Reporting Company <input type="radio"/>
(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 52,707,611 shares of the registrant's common stock outstanding on May 15, 2013.

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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 (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). 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:

- 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 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 associated with our ability to effectively and efficiently 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 the mishandling or perceived mishandling of sensitive or confidential information, security lapses, or with information technology system failures or disruptions;
- risks associated with our 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 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 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 assisting customers in realizing the value they expect and 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;

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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, 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 arising as a result of contingent, unknown or unexpected obligations or liabilities of our former parent company, Comverse Technology, Inc. ("CTI"), assumed upon completion of the merger with CTI, pursuant to which CTI merged with and into our new, wholly owned subsidiary (the "CTI Merger"), including regulatory or compliance liabilities, or as a result of parties obligated to provide us with indemnification being unwilling or unable to perform such obligations;

risks associated with being a former consolidated subsidiary of CTI and formerly part of CTI's consolidated tax group;

risks relating to our reliance on CTI's former subsidiary, Comverse, Inc. ("Comverse"), to perform certain transition services following the CTI Merger on a timely basis or at all in order for us to comply with certain regulatory requirements;

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; and

risks associated with changing tax rates, tax laws and regulations, and the continuing availability of expected tax benefits, including those expected as a result of the CTI Merger.

These risks, uncertainties and challenges, 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, 2013. 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

Item 1. Financial Statements

VERINT SYSTEMS INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

	April 30, 2013	January 31, 2013
(in thousands, except share and per share data)		
Assets		
Current Assets:		
Cash and cash equivalents	\$256,164	\$209,973
Restricted cash and bank time deposits	7,943	11,128
Short-term investments	63,179	13,593
Accounts receivable, net of allowance for doubtful accounts of \$1.3 million and \$1.8 million, respectively	177,761	168,415
Inventories	11,603	15,014
Deferred cost of revenue	4,812	6,253
Prepaid expenses and other current assets	85,329	77,277
Total current assets	606,791	501,653
Property and equipment, net	37,140	38,161
Goodwill	825,465	829,909
Intangible assets, net	133,841	144,261
Capitalized software development costs, net	6,128	6,343
Long-term deferred cost of revenue	8,601	7,742
Other assets	66,103	36,200
Total assets	\$1,684,069	\$1,564,269
Liabilities, Preferred Stock, and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$46,117	\$47,355
Accrued expenses and other current liabilities	186,054	177,736
Current maturities of long-term debt	7,406	5,867
Deferred revenue	169,181	163,252
Total current liabilities	408,758	394,210
Long-term debt	642,051	570,822
Long-term deferred revenue	12,867	13,562
Other liabilities	94,298	70,457
Total liabilities	1,157,974	1,049,051
Preferred Stock - \$0.001 par value; authorized 2,500,000 shares. Series A convertible preferred stock; Issued and outstanding 0 and 293,000 shares as of April 30, 2013 and January 31, 2013, respectively; aggregate liquidation preference and redemption value of \$365,914 at January 31, 2013.	—	285,542
Commitments and Contingencies		
Stockholders' Equity:		
Common stock - \$0.001 par value; authorized 120,000,000 shares. Issued 52,989,000 and 40,460,000 shares; outstanding 52,687,000 and 40,158,000 shares as of April 30, 2013 and January 31, 2013, respectively.	53	40
Additional paid-in capital	887,883	580,762
Treasury stock, at cost - 302,000 shares as of April 30, 2013 and January 31, 2013.	(8,013) (8,013)

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Accumulated deficit	(312,915) (303,762)
Accumulated other comprehensive loss	(46,936) (44,225)
Total Verint Systems Inc. stockholders' equity	520,072	224,802	
Noncontrolling interest	6,023	4,874	
Total stockholders' equity	526,095	229,676	
Total liabilities, preferred stock, and stockholders' equity	\$1,684,069	\$1,564,269	

See notes to condensed consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended April 30,	
(in thousands, except per share data)	2013	2012
Revenue:		
Product	\$87,350	\$91,999
Service and support	117,436	104,636
Total revenue	204,786	196,635
Cost of revenue:		
Product	31,172	30,892
Service and support	38,498	33,652
Amortization of acquired technology and backlog	3,638	3,784
Total cost of revenue	73,308	68,328
Gross profit	131,478	128,307
Operating expenses:		
Research and development, net	30,028	28,403
Selling, general and administrative	81,704	72,723
Amortization of other acquired intangible assets	6,033	6,198
Total operating expenses	117,765	107,324
Operating income	13,713	20,983
Other income (expense), net:		
Interest income	155	130
Interest expense	(7,188)	) (7,718)
Loss on extinguishment of debt	(9,706)) —
Other income (expense), net	(1,808)	) 634
Total other expense, net	(18,547)	) (6,954)
Income (loss) before provision for income taxes	(4,834)	) 14,029
Provision for income taxes	3,103	2,399
Net income (loss)	(7,937)	) 11,630
Net income attributable to noncontrolling interest	1,216	1,595
Net income (loss) attributable to Verint Systems Inc.	(9,153)	) 10,035
Dividends on preferred stock	(174)	) (3,744)
Net income (loss) attributable to Verint Systems Inc. common shares	\$(9,327)	) \$6,291
Net income (loss) per common share attributable to Verint Systems Inc.:		
Basic	\$(0.18)	) \$0.16
Diluted	\$(0.18)	) \$0.16
Weighted-average common shares outstanding:		
Basic	51,970	39,017
Diluted	51,970	39,889

See notes to condensed consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

(in thousands)	Three Months Ended April 30,	
	2013	2012
Net income (loss)	\$(7,937	) \$11,630
Other comprehensive income (loss), net of reclassification adjustments:		
Foreign currency translation adjustments	(4,664	) 5,015
Net unrealized gains on derivative financial instruments designated as hedges	2,072	146
Provision for income taxes on net unrealized gains on derivative financial instruments designated as hedges	(186	) (34
Other comprehensive income (loss)	(2,778	) 5,127
Comprehensive income (loss)	(10,715	) 16,757
Comprehensive income attributable to noncontrolling interest	1,149	1,699
Comprehensive income (loss) attributable to Verint Systems Inc.	\$(11,864) \$15,058

See notes to condensed consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)

(in thousands)	Verint Systems Inc. Stockholders' Equity						Total Verint Systems Inc. Stockholders' Equity	Non-control Interest	Total Stockholders' Equity
	Common Stock Shares	Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss			
Balances as of January 31, 2012	38,982	\$40	\$554,351	\$(7,466)	\$(357,764)	\$(47,736)	\$141,425	\$2,870	\$144,295
Net income	—	—	—	—	10,035	—	10,035	1,595	11,630
Other comprehensive income	—	—	—	—	—	5,023	5,023	104	5,127
Stock-based compensation - equity portion	—	—	—	—	—	—	—	—	—