

VERINT SYSTEMS INC
Form 10-Q
September 04, 2014

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 July 31, 2014

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)

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 60,569,469 shares of the registrant's common stock outstanding on August 15, 2014.

Table of Contents

Verint Systems Inc. and Subsidiaries
 Index to Form 10-Q
 July 31, 2014

	Page
<u>Cautionary Note on Forward-Looking Statements</u>	<u>ii</u>
<u>PART I. FINANCIAL INFORMATION</u>	<u>1</u>
<u>ITEM 1. Financial Statements</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>1</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Stockholders' Equity</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>37</u>
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>55</u>
<u>ITEM 4. Controls and Procedures</u>	<u>56</u>
<u>PART II. OTHER INFORMATION</u>	<u>57</u>
<u>ITEM 1. Legal Proceedings</u>	<u>57</u>
<u>ITEM 1A. Risk Factors</u>	<u>57</u>
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>59</u>
<u>ITEM 3. Defaults Upon Senior Securities</u>	<u>59</u>
<u>ITEM 4. Mine Safety Disclosures</u>	<u>59</u>
<u>ITEM 5. Other Information</u>	<u>60</u>
<u>ITEM 6. Exhibits</u>	<u>60</u>
<u>SIGNATURES</u>	<u>61</u>

Table of Contents

Cautionary Note on Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "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 may appear throughout this report, including without limitation, Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and 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, assumptions, 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, assumptions, 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, valuations, costs and expenses, maintaining profitability levels, management distraction, post-acquisition integration activities, and potential asset impairments;
- 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 that we may be unable to maintain and enhance relationships with key resellers, partners, and systems integrators;
- 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 benefits of our solutions 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;

Table of Contents

risks that our products may contain defects, which could expose us to substantial liability;

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 liquidity considerations, covenant limitations and compliance, fluctuations in interest rates, dilution considerations (with respect to our convertible notes), and our ability to maintain our credit ratings;

risks arising as a result of contingent or other obligations or liabilities assumed in our acquisition of our former parent company, Comverse Technology, Inc. ("CTI"), or associated with formerly being consolidated with, and part of a consolidated tax group with, CTI, or as a result of CTI's former subsidiary, Comverse, Inc. ("Comverse"), being unwilling or unable to provide us with certain indemnities or transition services to which we are entitled;

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 acquisitions.

These risks, uncertainties, assumptions, 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 in our Annual Report on Form 10-K for the year ended January 31, 2014. 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

Item 1. Financial Statements

VERINT SYSTEMS INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

(in thousands, except share and per share data)	July 31, 2014	January 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	\$186,669	\$378,618
Restricted cash and bank time deposits	41,336	6,423
Short-term investments	39,361	32,049
Accounts receivable, net of allowance for doubtful accounts of \$0.9 million and \$1.2 million, respectively	235,893	194,312
Inventories	22,933	10,693
Deferred cost of revenue	10,767	10,818
Prepaid expenses and other current assets	73,319	61,478
Total current assets	610,278	694,391
Property and equipment, net	55,929	40,145
Goodwill	1,241,879	853,389
Intangible assets, net	363,410	132,847
Capitalized software development costs, net	7,901	8,483
Long-term deferred cost of revenue	10,517	9,843
Other assets	43,701	33,809
Total assets	\$2,333,615	\$1,772,907
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$70,297	\$65,656
Accrued expenses and other current liabilities	210,264	179,148
Current maturities of long-term debt	61	6,555
Deferred revenue	176,556	162,124
Total current liabilities	457,178	413,483
Long-term debt	731,891	635,830
Long-term deferred revenue	16,201	13,661
Other liabilities	98,893	76,815
Total liabilities	1,304,163	1,139,789
Commitments and Contingencies		
Stockholders' Equity:		
Preferred Stock - \$0.001 par value; authorized 2,207,000 shares at July 31, 2014 and January 31, 2014; none issued.	—	—
Common stock - \$0.001 par value; authorized 120,000,000 shares. Issued 60,916,000 and 53,907,000 shares; outstanding 60,568,000 and 53,605,000 shares at July 31, 2014 and January 31, 2014, respectively.	61	54
Additional paid-in capital	1,289,357	924,663
Treasury stock, at cost - 348,000 and 302,000 shares at July 31, 2014 and January 31, 2014, respectively.	(10,251	) (8,013
Accumulated deficit	(234,327	) (250,005

Edgar Filing: VERINT SYSTEMS INC - Form 10-Q

Accumulated other comprehensive loss	(24,396	) (39,725)
Total Verint Systems Inc. stockholders' equity	1,020,444	626,974	
Noncontrolling interest	9,008	6,144	
Total stockholders' equity	1,029,452	633,118	
Total liabilities and stockholders' equity	\$2,333,615	\$1,772,907	

See notes to condensed consolidated financial statements.

1

Table of Contents

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

(in thousands, except per share data)	Three Months Ended		Six Months Ended	
	July 31, 2014	2013	July 31, 2014	2013
Revenue:				
Product	\$ 113,175	\$ 97,865	\$ 221,311	\$ 185,215
Service and support	163,641	124,582	312,898	242,018
Total revenue	276,816	222,447	534,209	427,233
Cost of revenue:				
Product	32,122	30,090	71,599	61,262
Service and support	61,869	40,170	118,857	78,668
Amortization of acquired technology and backlog	8,564	2,347	14,922	5,985
Total cost of revenue	102,555	72,607	205,378	145,915
Gross profit	174,261	149,840	328,831	281,318
Operating expenses:				
Research and development, net	44,077	31,203	85,400	61,231
Selling, general and administrative	107,160	81,364	208,208	163,068
Amortization of other acquired intangible assets	11,554	6,010	22,757	12,043
Total operating expenses	162,791	118,577	316,365	236,342
Operating income	11,470	31,263	12,466	44,976
Other income (expense), net:				
Interest income	250	166	475	321
Interest expense	(9,383)	(7,383)	(19,609)	(14,571)
Losses on early retirements of debt	(5,454)	(173)	(12,546)	(9,879)
Other (expense) income, net	(1,729)	(2,559)	1,099	(4,367)
Total other expense, net	(16,316)	(9,949)	(30,581)	(28,496)
(Loss) income before provision for (benefit from) income taxes	(4,846)	21,314	(18,115)	16,480
Provision for (benefit from) income taxes	5,534	2,809	(36,554)	5,912
Net (loss) income	(10,380)	18,505	18,439	10,568
Net income attributable to noncontrolling interest	1,898	969	2,761	2,185
Net (loss) income attributable to Verint Systems Inc.	(12,278)	17,536	15,678	8,383
Dividends on preferred stock	—	—	—	(174)
Net (loss) income attributable to Verint Systems Inc. common shares	\$(12,278)	\$ 17,536	\$ 15,678	\$ 8,209
Net (loss) income per common share attributable to Verint Systems Inc.:				
Basic	\$(0.21)	\$ 0.33	\$ 0.28	\$ 0.16
Diluted	\$(0.21)	\$ 0.33	\$ 0.28	\$ 0.15
Weighted-average common shares outstanding:				
Basic	57,158	52,977	55,449	52,484
Diluted	57,158	53,637	56,559	53,176

See notes to condensed consolidated financial statements.

Table of Contents

VERINT SYSTEMS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(in thousands)	Three Months Ended		Six Months Ended	
	July 31,		July 31,	
	2014	2013	2014	2013
Net (loss) income	\$(10,380	) \$18,505	\$18,439	\$10,568
Other comprehensive income (loss), net of reclassification adjustments:				
Foreign currency translation adjustments	(1,744	) (6,031	) 14,992	(10,695
Net unrealized gains (losses) on available-for-sale securities	16	(122	) 13	(122
Net unrealized gains (losses) on derivative financial instruments designated as hedges	274	(919	) 585	1,153
(Provision for) benefit from income taxes on net unrealized gains (losses) on derivative financial instruments designated as hedges	(56	) 121	(158	) (65
Other comprehensive (loss) income	(1,510	) (6,951	) 15,432	(9,729
Comprehensive (loss) income	(11,890	) 11,554	33,871	839
Comprehensive income attributable to noncontrolling interest	1,975	865	2,864	2,014
Comprehensive (loss) income attributable to Verint Systems Inc.	\$(13,865	) \$10,689	\$31,007	\$(1,175

See notes to condensed consolidated financial statements.

VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)

(in thousands)	Verint Systems Inc. Stockholders' Equity							Non-convertible Interest	Total Stockholders' Equity
	Common Stock Shares	Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Verint Systems Inc. Stockholders' Equity		
Balances as of January 31, 2013	40,158	\$40	\$580,762	\$(8,013)	\$(303,762)	\$(44,225)	\$224,802	\$4,874	\$229,676
Net income	—	—	—	—	8,383	—	8,383	2,185	10,568
Other comprehensive loss	—	—	—	—	—	(9,558)	(9,558)	(171)	(9,729)
Stock-based compensation - equity portion	—	—	13,986	—	—	—	13,986	—	13,986
Exercises of stock options	115	—	2,735	—	—	—	2,735	—	2,735
Common stock issued for stock awards and stock bonuses	771	—	2,850	—	—	—	2,850	—	2,850
Stock issued for CTI Merger	12,274	13	299,626	—	—	—	299,639	—	299,639
Tax effects from stock award plans	—	—	6	—	—	—	6	—	6
Balances as of July 31, 2013	53,318	\$53	\$899,965	\$(8,013)	\$(295,379)	\$(53,783)	\$542,843	\$6,888	\$549,731
Balances as of January 31, 2014	53,605	\$54	\$924,663	\$(8,013)	\$(250,005)	\$(39,725)	\$626,974	\$6,144	\$633,118
Net income	—	—	—	—	15,678	—	15,678	2,761	18,439
Other comprehensive income	—	—	—	—	—	15,329	15,329	103	15,432
Common stock issued in public offering, net of issuance costs	5,750	6	264,970	—	—	—	264,976	—	264,976
Equity component of convertible notes, net of issuance costs	—	—	78,223	—	—	—	78,223	—	78,223
Purchase of convertible note	—	—	(60,800)	—	—	—	(60,800)	—	(60,800)

Edgar Filing: VERINT SYSTEMS INC - Form 10-Q

hedges									
Issuance of warrants	—	—	45,188	—	—	—	45,188	—	45,188
Stock-based compensation - equity portion	—	—	23,760	—	—	—	23,760	—	23,760
Exercises of stock options	246	—	8,499	—	—	—	8,499	—	8,499
Common stock issued for stock awards and stock bonuses	1,013	1	4,531	—	—	—	4,532	—	4,532
Purchases of treasury stock	(46)	—	—	(2,238)	—	—	(2,238)	—	(2,238)
Tax effects from stock award plans	—	—	323	—	—	—	323	—	323
Balances as of July 31, 2014	60,568	\$61	\$1,289,357	\$(10,251)	\$(234,327)	\$(24,396)	\$1,020,444	\$9,008	\$1,029,452

See notes to condensed consolidated financial statements.

Table of Contents

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

(in thousands)	Six Months Ended	
	July 31,	2013
	2014	2013
Cash flows from operating activities:		
Net income	\$18,439	\$10,568
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49,192	27,284
Stock-based compensation - equity portion	23,106	13,688
Amortization of discount on convertible notes	1,148	—
Reduction of valuation allowance resulting from acquisition of KANA	(45,171) —
Non-cash gains on derivative financial instruments, net	(103	) (676)
Losses on early retirement of debt	12,546	9,879
Other non-cash items, net	7,213	795
Changes in operating assets and liabilities, net of effects of business combinations:		
Accounts receivable	(23,189	) 2,517
Inventories	(8,958	) 332
Deferred cost of revenue	(545	) (662)
Prepaid expenses and other assets	6,716	19,941
Accounts payable and accrued expenses	22,288	(8,446)
Deferred revenue	7,675	(3,143)
Other, net	16	581
Net cash provided by operating activities	70,373	72,658
Cash flows from investing activities:		
Cash paid for business combinations, including adjustments, net of cash acquired	(602,943) —
Purchases of property and equipment	(9,358	) (5,624)
Purchases of investments	(17,187	) (124,990)
Sales and maturities of investments	9,790	20,000
Cash paid for capitalized software development costs	(2,892	) (1,604)
Change in restricted cash and bank time deposits, including long-term portion	(36,537	) 5,707
Other investing activities, net	(81	) 158
Net cash used in investing activities	(659,208	) (106,353)
Cash flows from financing activities:		
Proceeds from borrowings, net of original issuance discounts	1,526,750	646,750
Repayments of borrowings and other financing obligations	(1,361,708	) (582,263)
Proceeds from public issuance of common stock	274,563	—
Proceeds from issuance of warrants	45,188	—
Payments for convertible note hedges	(60,800) —
Payments of equity issuance, debt issuance and other debt-related costs		