

VERINT SYSTEMS INC
Form 10-Q
June 18, 2010

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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 April 30, 2009
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. 0-49790
Verint Systems Inc.**

(Exact Name of Registrant as Specified in its Charter)

Delaware

11-3200514

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

330 South Service Road, Melville, New York

11747

(Address of Principal Executive Offices)

(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

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

Small 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 32,794,402 shares of the registrant's common stock outstanding on May 31, 2010.

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Explanatory Note

This report of Verint Systems Inc. (together with its consolidated subsidiaries, Verint, the Company, we, us, and our, unless the context indicates otherwise) is for the three months ended April 30, 2009.

This report has been delayed due to the previously announced accounting reviews and internal investigations at Verint and at our majority stockholder, Comverse Technology, Inc. (Comverse), together with the resulting restatement of certain items and the making of other corrective adjustments to our previously-filed historical financial statements for periods through January 31, 2005, all of which were described in our comprehensive Annual Report on Form 10-K for the years ended January 31, 2008, 2007, and 2006 filed with the Securities and Exchange Commission (SEC) on March 17, 2010 (the Comprehensive Form 10-K). The filing of this report was further delayed by the preparation of the Comprehensive Form 10-K, our Annual Report on Form 10-K for the year ended January 31, 2009, and our Annual Report on Form 10-K for the year ended January 31, 2010, covering five years of audited financial information, and the process of filing of these reports over the course of a two-month period from March 17, 2010 to May 19, 2010. Please see our Comprehensive Form 10-K for more information regarding the accounting reviews and internal investigations and the related restatement.

As noted above, since the filing of our Comprehensive Form 10-K, we have filed, among other things, our Annual Report on Form 10-K for the year ended January 31, 2009 (on April 8, 2010) and our Annual Report on Form 10-K for the year ended January 31, 2010 (on May 19, 2010) as well as our Quarterly Report on Form 10-Q for the three months ended April 30, 2010 (on June 9, 2010). As a result, because information for periods subsequent to the three months ended April 30, 2009 is already available in our Annual Report on Form 10-K for the year ended January 31, 2010 and Quarterly Report on Form 10-Q for the three months ended April 30, 2010, in certain sections of this report, we have included information for periods after April 30, 2009 and, in some instances, we have made reference to such reports. Please see our Annual Report on Form 10-K for the year ended January 31, 2010 for additional information.

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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, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act) (which Sections were adopted as part of the Private Securities Litigation Reform Act of 1995). 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:

- risks relating to the filing of our SEC reports, including the occurrence of known contingencies or unforeseen events that could delay our filings, management distractions, and significant expense;
- risk associated with the SEC's initiation of an administrative proceeding on March 3, 2010 to suspend or revoke the registration of our common stock under the Exchange Act due to our previous failure to file an annual report on either Form 10-K or Form 10-KSB since April 25, 2005 or quarterly reports on either Form 10-Q or Form 10-QSB since December 12, 2005;
- risk that our credit rating could be downgraded or placed on a credit watch based on, among other things, our financial results, delays in the filing of our periodic reports, or the results of the SEC's administrative proceeding;
- risks associated with being a consolidated, controlled subsidiary of Comverse and formerly part of Comverse's consolidated tax group, including risk of any future impact on us resulting from Comverse's special committee investigation and restatement or related effects, and risks related to our dependence on Comverse to provide us with accurate financial information, including with respect to stock-based compensation expense and net operating loss carryforwards (NOLs), for our financial statements;
- uncertainty regarding the impact of general economic conditions, particularly in information technology spending, on our business;
- risk that our financial results will cause us not to be compliant with the leverage ratio covenant under our credit facility or that any delays in the filing of future SEC reports could cause us not to be compliant with the financial statement delivery covenant under our credit facility;

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risk 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;

risk that we will experience liquidity or working capital issues and related risk that financing sources will be unavailable to us on reasonable terms or at all;

uncertainty regarding the future impact on our business of our internal investigation, restatement, extended filing delay, and the SEC's administrative proceeding, including customer, partner, employee, and investor concern, and potential customer and partner transaction deferrals or losses;

risks relating to the remediation or inability to adequately remediate material weaknesses in our internal controls over financial reporting and relating to the proper application of highly complex accounting rules and pronouncements in order to produce accurate SEC reports on a timely basis;

risks relating to our implementation and maintenance of adequate systems and internal controls for our current and future operations and reporting needs;

risk of possible future restatements if the processes used to produce the financial statements contained in this report or in future SEC reports are inadequate;

risk associated with current or future regulatory actions or private litigations relating to our internal investigation, restatement, or delays in filing required SEC reports;

risk that we will be unable to re-list our common stock on NASDAQ or another national securities exchange and maintain such listing;

risks associated with Comverse controlling our board of directors and a majority of our common stock (and therefore the results of any significant stockholder vote);

risks associated with significant leverage resulting from our current debt position;

risks due to aggressive competition in all of our markets, including with respect to maintaining margins and sufficient levels of investment in the business and with respect to introducing quality products which achieve market acceptance;

risks created by continued consolidation of competitors or introduction of large competitors in our markets with greater resources than us;

risks associated with significant foreign and international operations, including exposure to fluctuations in exchange rates;

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

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risks associated with our ability to recruit and retain qualified personnel in all geographies in which we operate;
challenges in accurately forecasting revenue and expenses;
risks associated with acquisitions and related system integrations;
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 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;
risk that we improperly handle sensitive or confidential information or perception of such mishandling;
risks associated with dependence on a limited number of suppliers for certain components of our products;
risk that we are unable to maintain and enhance relationships with key resellers, partners, and systems integrators; and
risk that use of our NOLs or other tax benefits may be restricted or eliminated in the future.

These risks and uncertainties, 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, 2010. Readers are cautioned not to place undue reliance on forward-looking statements, which reflect our management's view only as of the filing 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, 2009 and January 31, 2009****(Unaudited)**

(in thousands, except share and per share data)	April 30, 2009	January 31, 2009
Assets		
Current Assets:		
Cash and cash equivalents	\$ 136,172	\$ 115,928
Restricted cash and bank time deposits	6,946	7,722
Accounts receivable, net	118,910	113,178
Inventories	19,407	20,455
Deferred cost of revenue	7,489	8,935
Prepaid expenses and other current assets	51,681	46,748
Total current assets	340,605	312,966
Property and equipment, net	28,139	30,544
Goodwill	713,079	709,984
Intangible assets, net	192,917	200,203
Capitalized software development costs, net	9,798	10,489
Deferred cost of revenue	43,636	47,913
Other assets	24,116	25,294
Total assets	\$ 1,352,290	\$ 1,337,393
Liabilities, Preferred Stock, and Stockholders Deficit		
Current Liabilities:		
Accounts payable	\$ 29,781	\$ 38,484
Accrued expenses and other liabilities	139,316	146,741
Current maturities of long-term debt	4,668	4,088
Deferred revenue	189,719	160,918
Liabilities to affiliates	1,459	1,389
Total current liabilities	364,943	351,620
Long-term debt	620,332	620,912
Deferred revenue	65,592	88,985
Other liabilities	62,494	66,404
Total liabilities	1,113,361	1,127,921
Preferred Stock \$0.001 par value; authorized 2,500,000 shares. Series A convertible preferred stock; 293,000 shares issued and outstanding; aggregate	285,542	285,542

liquidation preference and redemption value of \$316,538 at April 30, 2009**Commitments and Contingencies****Stockholders Deficit:**

Common stock \$0.001 par value; authorized 120,000,000 shares. Issued 32,643,000 and 32,623,000 shares; outstanding 32,552,000 and 32,535,000 shares, as of April 30, 2009 and January 31, 2009, respectively	32	32
Additional paid-in capital	426,216	419,937
Treasury stock, at cost - 91,000 and 88,000 shares as of April 30, 2009 and January 31, 2009, respectively	(2,375)	(2,353)
Accumulated deficit	(416,321)	(435,955)
Accumulated other comprehensive loss	(55,509)	(58,404)
Total Verint Systems Inc. stockholders deficit	(47,957)	(76,743)
Noncontrolling interest	1,344	673
Total stockholders deficit	(46,613)	(76,070)
Total liabilities, preferred stock, and stockholders deficit	\$ 1,352,290	\$ 1,337,393

See notes to condensed consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
Three Months Ended April 30, 2009 and 2008
(Unaudited)

(in thousands, except per share data)	Three Months Ended April 30,	
	2009	2008
Revenue:		
Product	\$ 97,071	\$ 84,846
Service and support	78,077	70,108
Total revenue	175,148	154,954
Cost of revenue:		
Product	32,057	30,839
Service and support	22,913	30,024
Amortization of acquired technology and backlog	2,099	2,325
Total cost of revenue	57,069	63,188
Gross profit	118,079	91,766
Operating expenses:		
Research and development, net	18,901	24,262
Selling, general and administrative	57,226	74,468
Amortization of other acquired intangible assets	5,930	6,714
Integration, restructuring and other, net	13	4,955
Total operating expenses	82,070	110,399
Operating income (loss)	36,009	(18,633)
Other income (expense), net:		
Interest income	147	547
Interest expense	(6,353)	(9,912)
Other income (expense), net	(4,963)	4,927
Total other expense, net	(11,169)	(4,438)
Income (loss) before provision for income taxes	24,840	(23,071)
Provision for income taxes	4,268	1,706
Net income (loss)	20,572	(24,777)
Net income attributable to noncontrolling interest	938	520
Net income (loss) attributable to Verint Systems Inc.	19,634	(25,297)
Dividends on preferred stock	(3,262)	(3,161)

Net income (loss) attributable to Verint Systems Inc. common shares	\$	16,372	\$	(28,458)
Net income (loss) per share attributable to Verint Systems Inc.				
Basic	\$	0.50	\$	(0.88)
Diluted	\$	0.47	\$	(0.88)
Weighted-average common shares outstanding				
Basic		32,459		32,381
Diluted		42,151		32,381

See notes to condensed consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders Equity (Deficit)
Three Months Ended April 30, 2009 and 2008
(Unaudited)

	Verint Systems Inc. Stockholders Equity (Deficit)					Total Accumulated Verint Systems Inc. Stockholders Equity (Deficit)		Noncontrolling Interest	Total Stockholders Equity (Deficit)
	Common Stock Par	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Other Comprehensive Loss	Stockholders Equity (Deficit)	Stockholders Equity (Deficit)		
(in thousands)	Shares	Value	Capital	Stock	Deficit	Loss	(Deficit)	Interest	(Deficit)
Balances as of January 31, 2008	32,526	\$ 32	\$ 387,537	\$ (2,094)	\$ (355,567)	\$ (610)	\$ 29,298	\$ 1,027	\$ 30,325
Comprehensive income (loss):									
Net income (loss)					(25,297)		(25,297)	520	(24,777)
Unrealized gains on available for sale securities, net						225	225		225
Currency translation adjustments						(1,420)	(1,420)	44	(1,376)
Total comprehensive income (loss)					(25,297)	(1,195)	(26,492)	564	(25,928)
Stock-based compensation expense			7,940				7,940		7,940
Forfeitures of restricted stock awards	(4)		69	(69)					
Purchases of treasury stock	(2)			(35)			(35)		(35)
Tax effects from stock award plans			165				165		165
Balances as of April 30, 2008	32,520	\$ 32	\$ 395,711	\$ (2,198)	\$ (380,864)	\$ (1,805)	\$ 10,876	\$ 1,591	\$ 12,467
Balances as of January 31, 2009	32,535	\$ 32	\$ 419,937	\$ (2,353)	\$ (435,955)	\$ (58,404)	\$ (76,743)	\$ 673	\$ (76,070)
Comprehensive income:									
Net income					19,634		19,634	938	20,572

Unrealized gains on derivative financial instruments, net			73	73		73			
Unrealized gains on available for sale securities, net			4	4		4			
Currency translation adjustments			2,818	2,818	(267)	2,551			
Total comprehensive income			19,634	2,895	22,529	671	23,200		
Stock-based compensation expense		6,257		6,257		6,257			
Common stock issued for stock awards	20								
Forfeitures of restricted stock awards	(3)	22	(22)						
Balances as of April 30, 2009	32,552	\$ 32	\$ 426,216	\$ (2,375)	\$ (416,321)	\$ (55,509)	\$ (47,957)	\$ 1,344	\$ (46,613)

See notes to condensed consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
Three Months Ended April 30, 2009 and 2008
(Unaudited)

(in thousands)	Three Months Ended April 30,	
	2009	2008
Cash flows from operating activities:		
Net income (loss)	\$ 20,572	\$ (24,777)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	13,073	14,400
Stock-based compensation	6,257	7,940
Losses (gains) on derivative financial instruments not designated as hedges, net	3,539	(4,368)
Other non-cash items, net	1,685	3,303
Changes in operating assets and liabilities:		
Accounts receivable	(5,365)	10,142
Inventories	938	(1,810)
Deferred cost of revenue	7,041	1,466
Accounts payable and accrued expenses	(15,012)	8,133
Deferred revenue	3,255	29,044
Prepaid expenses and other assets	(6,667)	5,543
Other, net	(1,874)	(1,088)
Net cash provided by operating activities	27,442	47,928
Cash flows from investing activities:		
Payments of contingent consideration associated with business combinations in prior periods	(7)	(1,822)
Purchases of property and equipment	(738)	(3,356)
Settlements of derivative financial instruments not designated as hedges	(3,850)	(391)
Cash paid for capitalized software development costs	(509)	(1,270)
Other investing activities	805	(4,091)
Net cash used in investing activities	(4,299)	(10,930)
Cash flows from financing activities:		
Repayments of borrowings and other financing obligations	(1,562)	(19)
Dividends paid to noncontrolling interest	(2,142)	
Other financing activities		(85)
Net cash used in financing activities	(3,704)	(104)
Effect of exchange rate changes on cash and cash equivalents	805	405
Net increase in cash and cash equivalents	20,244	37,299

Cash and cash equivalents, beginning of period	115,928	83,233
Cash and cash equivalents, end of period	\$ 136,172	\$ 120,532
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 7,310	\$ 3,752
Cash paid for income taxes	\$ 3,050	\$ 798
Non-cash investing and financing transactions:		
Accrued but unpaid purchases of property and equipment	\$ 216	\$ 510
Inventory transfers to property and equipment	\$ 195	\$ 169
Business combination consideration earned, but paid in subsequent periods	\$ 89	\$ 172
Settlement of embedded derivative	\$	\$ 8,121

See notes to condensed consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

Preparation of Condensed Consolidated Financial Statements

The condensed consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and on the same basis as the audited consolidated financial statements included in our Annual Report on Form 10-K filed with the SEC for the year ended January 31, 2009. The condensed consolidated statements of operations, stockholders' equity (deficit) and cash flows for the periods ended April 30, 2009 and 2008, and the condensed consolidated balance sheet as of April 30, 2009, are not audited but reflect all adjustments that are of a normal recurring nature and that are considered necessary for a fair presentation of the results of the periods shown. The condensed consolidated balance sheet as of January 31, 2009 is derived from the audited consolidated balance sheet presented in our Annual Report on Form 10-K for the year ended January 31, 2009. Certain information and disclosures normally included in annual consolidated financial statements have been omitted pursuant to the rules and regulations of the SEC. Because the condensed consolidated interim financial statements do not include all of the information and disclosures required by GAAP for a complete set of financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in our Annual Reports on Form 10-K filed with the SEC. The results for interim periods are not necessarily indicative of a full year's results.

Unless the context otherwise requires, the terms "Verint", "we", "our", and "us" and words of similar import as used in these notes to the condensed consolidated financial statements include Verint Systems Inc. and its consolidated subsidiaries.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Verint Systems Inc., our wholly owned subsidiaries, and a joint venture in which we hold a 50% equity interest. This joint venture functions as a systems integrator for Asian markets and is a variable interest entity in which we are the primary beneficiary. Investments in companies in which we have less than a 20% ownership interest and do not exercise significant influence are accounted for at cost. We include the results of operations of acquired companies from the date of acquisition. All significant intercompany transactions and balances are eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires our management to make estimates and assumptions, which may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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Recent Accounting Pronouncements

Standards Implemented:

In December 2007, the Financial Accounting Standards Board (FASB) revised their guidance on business combinations. This new guidance requires an acquiring entity to measure and recognize identifiable assets acquired and liabilities assumed, and contingent consideration at their fair values at the acquisition date with subsequent changes recognized in earnings. In addition, acquisition related costs and restructuring costs are recognized separately from the business combination and expensed as incurred. The new guidance also requires acquired in-process research and development costs to be capitalized as an indefinite-lived intangible asset and requires that changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period be recognized as a component of the provision for income taxes. In April 2009, the FASB issued a new standard which clarified the accounting for pre-acquisition contingencies. This guidance was effective for us beginning on February 1, 2009.

In December 2007, the FASB issued a new accounting standard which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The new standard also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. On February 1, 2009, we adopted this standard, and the presentation and disclosure requirements of this standard were applied retrospectively to all periods presented, as required by the standard. The adoption of this standard did not have a material impact on our condensed consolidated financial statements, other than the following changes in presentation of the noncontrolling interest:

Net income (loss) now includes net income (loss) attributable to both Verint Systems Inc. and the noncontrolling interest in the condensed consolidated statements of operations. The presentation of net income (loss) in prior periods excluded the noncontrolling interest in the net income of our joint venture. Net income (loss) excluding the noncontrolling interest in the net income of our joint venture is now presented after net income (loss), with the caption net income (loss) attributable to Verint Systems Inc.

The noncontrolling interest, which was previously reflected in other liabilities, is now presented in stockholders' deficit, separate from Verint Systems Inc.'s stockholders' deficit, in the condensed consolidated balance sheets.

The condensed consolidated statements of cash flows now begin with net income (loss), including the noncontrolling interest, instead of net income (loss) attributable to Verint Systems Inc.

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In March 2008, the FASB amended the disclosure requirements for derivative instruments and hedging activities. This new guidance requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This guidance was effective for us beginning on February 1, 2009.

New Standards to be Implemented:

In April 2009, the FASB issued staff positions that require enhanced fair value disclosures, including interim disclosures, on financial instruments, determination of fair value in turbulent markets, and recognition and presentation of other than temporary impairments. These staff positions are effective beginning with our quarter ended July 31, 2009. These staff positions will enhance our interim disclosures but are not expected to have a material impact on our consolidated financial statements.

In May 2009, the FASB issued a new accounting standard that establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. In February 2010, the FASB issued an amendment to this guidance that removed the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. This standard, as amended, is effective for us beginning with our interim period ended July 31, 2009. The adoption of this standard, as amended, is not expected to have a material impact on our consolidated financial statements.

In June 2009, the FASB issued a new accounting standard related to the consolidation of variable interest entities, requiring a company to perform an analysis to determine whether its variable interests give it a controlling financial interest in a variable interest entity. This analysis requires a company to assess whether it has the power to direct the activities of the variable interest entity and if it has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the variable interest entity. This standard requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity, eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity, and significantly enhances disclosures. The standard may be applied retrospectively to previously issued financial statements with a cumulative-effect adjustment to retained earnings as of the beginning of the first year restated. This standard is effective for us for the fiscal year beginning on February 1, 2010. The adoption of this standard is not expected to have a material impact on our consolidated financial statements.

During the third quarter of the year ended January 31, 2010, our financial statements will reflect our adoption of the new Accounting Standards Codification (ASC) as issued by the FASB. The ASC has become the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. The ASC is not intended to change or alter existing GAAP. The adoption of the ASC is not expected to have a material impact on our consolidated financial statements.

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In October 2009, the FASB issued guidance that applies to multiple-deliverable revenue arrangements. This guidance also provides principles and application guidance on whether a revenue arrangement contains multiple deliverables, how the arrangement should be separated, and how the arrangement consideration should be allocated. The guidance requires an entity to allocate revenue in a multiple-deliverable arrangement using estimated selling prices of the deliverables if a vendor does not have vendor specific objective evidence of fair value (VSOE) or third-party evidence of selling price. It eliminates the use of the residual method and, instead, requires an entity to allocate revenue using the relative selling price method. It also expands disclosure requirements with respect to multiple-deliverable revenue arrangements.

Also in October 2009, the FASB issued guidance related to multiple-deliverable revenue arrangements that contain both software and hardware elements, focusing on determining which revenue arrangements are within the scope of existing software revenue guidance. This additional guidance removes tangible products from the scope of the software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are within the scope of the software revenue guidance. The above guidance related to revenue recognition should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. It will be effective for us in our fiscal year beginning February 1, 2011, although early adoption is permitted. Alternatively, an entity can elect to adopt the provisions of these issues on a retrospective basis. We are assessing the impact that the application of this new guidance, and the new guidance discussed in the preceding paragraph, may have on our consolidated financial statements.

In January 2010, the FASB issued amended standards that require additional fair value disclosures. These disclosure requirements are effective in two phases. Effective in our fiscal year beginning February 1, 2010, the amended standards will require enhanced disclosures about inputs and valuation techniques used to measure fair value as well as disclosures about significant transfers. Effective in our fiscal year beginning February 1, 2011, the amended standards will require presentation of disaggregated activity within the reconciliation for fair value measurements using significant unobservable inputs (Level 3). These amended standards are not expected to significantly impact our consolidated financial statements.

Table of Contents**2. Net Income (Loss) Per Share Attributable to Verint Systems Inc.**

The following table summarizes the calculation of basic and diluted net income (loss) per share attributable to Verint Systems Inc. for the three months ended April 30, 2009 and 2008:

(in thousands, except per share amounts)	Three Months Ended April 30,	
	2009	2008
Net income (loss)	\$ 20,572	\$ (24,777)
Net income attributable to noncontrolling interest	938	520
Net income (loss) attributable to Verint Systems Inc.	19,634	(25,297)
Dividends on preferred stock	(3,262)	(3,161)
Net income (loss) attributable to Verint Systems Inc. for basic net income (loss) per share	16,372	(28,458)
Dilutive effect of dividends on preferred stock	3,262	
Net income (loss) attributable to Verint Systems Inc. for diluted net income (loss) per share	\$ 19,634	\$ (28,458)
Weighted-average shares outstanding:		
Basic	32,459	32,381
Dilutive effect of employee equity award plans		
Dilutive effect of assumed conversion of preferred stock	9,692	
Diluted	42,151	32,381
Net income (loss) per share attributable to Verint Systems Inc.		
Basic	\$ 0.50	\$ (0.88)
Diluted	\$ 0.47	\$ (0.88)

We excluded the following weighted-average shares underlying stock-based awards and convertible preferred stock from the calculations of diluted net income (loss) per share because their inclusion would have been anti-dilutive:

(in thousands)	Three Months Ended April 30,	
	2009	2008
Shares excluded from calculation:		
Stock options and restricted stock-based awards	6,204	7,229
Convertible preferred stock		9,325

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Diluted weighted-average shares outstanding include the dilutive effect, if applicable, of in-the-money options and unvested restricted stock awards and restricted stock units, which is calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, the exercise price of the award, any unrecognized future service costs, and tax benefits that would be recorded as additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

Diluted weighted-average shares outstanding also include the dilutive effect, if applicable, of common shares issuable from the assumed conversion of our preferred stock.

In periods in which we report a net loss applicable to Verint Systems Inc., weighted-average shares outstanding for determining basic and diluted net loss per share are identical since the effect of potential common shares is antidilutive and therefore excluded.

3. Inventories

Inventories consist of the following as of April 30, 2009 and January 31, 2009:

(in thousands)	April 30, 2009	January 31, 2009
Raw materials	\$ 9,526	\$ 6,389
Work-in-process	4,890	5,070
Finished goods	4,991	8,996
Total inventories	\$ 19,407	\$ 20,455

Table of Contents**4. Intangible Assets and Goodwill**

Acquisition-related intangible assets consist of the following as of April 30, 2009 and January 31, 2009:

(in thousands)	Cost	April 30, 2009 Accumulated Amortization	Net
Customer relationships	\$ 194,840	\$ (39,452)	\$ 155,388
Acquired technology	53,944	(22,285)	31,659
Trade names	9,389	(6,827)	2,562
Non-competition agreements	3,421	(1,872)	1,549
Distribution network	2,440	(681)	1,759
Total	\$ 264,034	\$ (71,117)	\$ 192,917

(in thousands)	Cost	January 31, 2009 Accumulated Amortization	Net
Customer relationships	\$ 194,076	\$ (34,420)	\$ 159,656
Acquired technology	53,781	(20,134)	33,647
Trade names	9,350	(5,926)	3,424
Non-competition agreements	3,416	(1,760)	1,656
Distribution network	2,440	(620)	1,820
Total	\$ 263,063	\$ (62,860)	\$ 200,203

Total amortization expense recorded for acquisition-related intangible assets was \$8.0 million and \$9.0 million for the three months ended April 30, 2009 and 2008, respectively.

Estimated future finite-lived acquisition-related intangible asset amortization expense is as follows:

(in thousands) Years Ended January 31,	Amount
2010 (Remainder of year)	\$ 21,839
2011	28,867
2012	27,953
2013	27,183
2014	22,304
2015 and thereafter	64,771
Total	\$ 192,917

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Goodwill activity for the three months ended April 30, 2009, in total and by reportable segment, was as follows:

(in thousands)	Total	Reportable Segment		
		Workforce Optimization	Video Intelligence	Communications Intelligence
Goodwill, gross, at January 31, 2009	\$ 776,849	\$ 681,140	\$ 65,726	\$ 29,983
Accumulated impairment losses through January 31, 2009	(66,865)	(30,791)	(36,074)	
Goodwill, net, at January 31, 2009	709,984	650,349	29,652	29,983
Additional consideration previous acquisitions (1)	89			89
Foreign currency translation	3,006	2,485	521	
Goodwill, net, at April 30, 2009	\$ 713,079	\$ 652,834	\$ 30,173	\$ 30,072
Balance at April 30, 2009				
Goodwill, gross, at April 30, 2009	\$ 779,944	\$ 683,625	\$ 66,247	\$ 30,072
Accumulated impairment losses through April 30, 2009	(66,865)	(30,791)	(36,074)	
Goodwill, net, at April 30, 2009	\$ 713,079	\$ 652,834	\$ 30,173	\$ 30,072

(1) Contingent consideration for acquisitions completed in prior years.

We test our goodwill for impairment at least annually as of November 1, or more frequently if an event occurs indicating the potential for impairment. No events or circumstances indicating the potential for goodwill impairment were identified during either the three months ended April 30, 2009 or the three months ended April 30, 2008.

5. Long-term Debt

On May 25, 2007, to partially finance the acquisition of Witness Systems Inc. (Witness), we entered into a \$675.0 million secured credit facility comprised of a \$650.0 million seven-year term loan facility and a \$25.0 million six-year revolving credit facility.

The following is a summary of our outstanding financing arrangements as of April 30, 2009 and January 31, 2009:

(in thousands)	April 30, 2009	January 31, 2009
Term loan facility	\$ 610,000	\$ 610,000
Revolving credit facility	15,000	15,000
Total debt	625,000	625,000
Less: current portion	4,668	4,088

Long-term debt	\$ 620,332	\$ 620,912
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The interest rates on the term loan were 3.70% and 3.59% as of April 30, 2009 and January 31, 2009, respectively. Our \$25.0 million revolving line of credit facility was reduced to \$15.0 million during the three months ended October 31, 2008 as a result of the bankruptcy of Lehman Brothers. During the three months ended January 31, 2009, we borrowed the full \$15.0 million available under the revolving credit facility. Repayment of these borrowings is required upon expiration of the facility in May 2013. The interest rates on the revolving line of credit borrowings were 3.69% and 3.64% as of April 30, 2009 and January 31, 2009, respectively.

On May 25, 2007, concurrently with entry into our credit facility, we entered into a receive-variable/pay-fixed interest rate swap agreement with a multinational financial institution on a notional amount of \$450.0 million to mitigate a portion of the risk associated with variable interest rates on the term loan. This interest rate swap agreement terminates in May 2011. See Note 10, Fair Value Measurements and Derivative Financial Instruments for further details regarding the interest rate swap agreement.

During the three months ended April 30, 2009 and 2008, we incurred \$5.8 million and \$9.4 million of interest expense, respectively, on borrowings under our credit facilities. We also recorded \$0.4 million during each of the three months ended April 30, 2009 and 2008 for amortization of our deferred debt issuance costs, which is reported within interest expense.

In May 2009, we made a \$4.1 million mandatory excess cash flow prepayment of the term loan, based upon our operating results for the year ended January 31, 2009, which was applied to the three immediately following principal payments.

The credit agreement also includes a requirement that we submit audited consolidated financial statements to the lenders within 90 days of the end of each fiscal year, beginning with the financial statements for the year ended January 31, 2010. Should we fail to deliver such audited consolidated financial statements as required, the agreement provides a thirty day period to cure such default, or an event of default occurs.

On April 27, 2010, we entered into an amendment to our credit agreement to extend the due date for delivery of audited consolidated financial statements and related documentation for the year ended January 31, 2010 from May 1, 2010 to June 1, 2010. See Note 14, Subsequent Events for further details regarding this amendment.

Table of Contents**6. Convertible Preferred Stock**

On May 25, 2007, in connection with our acquisition of Witness, we entered into a Securities Purchase Agreement with Comverse, whereby Comverse purchased, for cash, an aggregate of 293,000 shares of our Series A Convertible Preferred Stock, for an aggregate purchase price of \$293.0 million. Proceeds from the issuance of the preferred stock were used to partially finance the acquisition.

The terms of the preferred stock provide that upon a fundamental change, as defined, the holders of the preferred stock would have the right to require us to repurchase the preferred stock for 100% of the liquidation preference then in effect. Therefore, the preferred stock has been classified as mezzanine equity on our condensed consolidated balance sheets as of April 30, 2009 and January 31, 2009, separate from permanent equity, because the occurrence of these fundamental changes, and thus potential redemption of the preferred stock, however remote in likelihood, is not solely under our control. Fundamental change events include the sale of substantially all of our assets and certain changes in beneficial ownership, board of directors representation, and business reorganizations.

We concluded that, as of April 30, 2009 and January 31, 2009, there were no indications that the occurrence of a fundamental change and the associated redemption of the preferred stock were probable. We therefore have not adjusted the initial carrying amount of the preferred stock to its redemption amount, which is its liquidation preference. Through April 30, 2009, cumulative, undeclared dividends on the preferred stock were \$23.5 million and as a result, the liquidation preference of the preferred stock was \$316.5 million at that date. If it were convertible at April 30, 2009, the preferred stock could be converted into approximately 9.7 million shares of our common stock.

7. Stockholders Deficit**Accumulated Other Comprehensive Loss**

The following table summarizes, as of each balance sheet date, the components of our accumulated other comprehensive loss. Income tax effects on unrealized gains and losses on available-for-sale marketable securities and derivative financial instruments were not significant.

(in thousands)	April 30, 2009	January 31, 2009
Foreign currency translation losses, net	\$ (55,658)	\$ (58,476)
Unrealized gains on derivative financial instruments	174	101
Unrealized losses on available-for-sale marketable securities	(25)	(29)
Total accumulated other comprehensive loss	\$ (55,509)	\$ (58,404)

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Foreign currency translation losses, net, primarily reflect the strengthening of the U.S. dollar against the British pound sterling since our acquisition of Witness in May 2007, which has resulted in lower U.S. dollar translated balances of British pound sterling denominated goodwill and intangible assets associated with the acquisition of Witness.

8. Integration, Restructuring and Other, Net

Integration, restructuring and other, net, is comprised of the following for the three months ended April 30, 2009 and 2008:

(in thousands)	Three Months Ended April	
	2009	2008
Restructuring expenses	\$ 13	\$ 201
Integration expenses		1,237
Other legal expenses		3,517
Total integration, restructuring and other, net	\$ 13	\$ 4,955

Restructuring and Integration Expenses

During the three months ended January 31, 2009, we implemented a global cost reduction plan in order to reduce our operating costs in response to uncertainty in the global economic environment. The associated restructuring charges consisted predominantly of severance and related employee payments resulting from terminations.

During the three months ended April 30, 2008, we also recorded activity related to the following restructuring plans:

Following the acquisition of Witness in May 2007, we implemented a plan to integrate the Witness business with our existing Workforce Optimization segment, which included actions to reduce fixed costs and eliminate redundancies; and

During the year ended January 31, 2008, we implemented a restructuring plan in our Video Intelligence segment to reduce our overall cost structure, predominantly in our North American and Hong Kong locations.

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The following table summarizes our restructuring expenses for the three months ended April 30, 2009 and 2008:

(in thousands)	Three Months Ended April 30,	
	2009	2008
Restructuring activity:		
Global cost reduction plan	\$ 13	\$ 122
Acquisition of Witness Video Intelligence plan		79
Total	\$ 13	\$ 201

The following table summarizes the activity during the three months ended April 30, 2009 in accrued restructuring expenses:

(in thousands)	Global Cost Reduction Plan	Video Intelligence Plan	Total
	Accrued restructuring costs January 31, 2009	\$ 531	\$ 10
Expenses accrued	13		13
Payments and settlements	(275)	(10)	(285)
Accrued restructuring costs April 30, 2009	\$ 269	\$	\$ 269

In addition to the aforementioned restructuring charges, we also incurred integration expenses of \$1.2 million during the three months ended April 30, 2008, resulting from the integration of the Witness and Verint businesses following our May 2007 acquisition of Witness. The process of integrating the Witness and Verint businesses was substantially complete as of January 31, 2009.

Other Legal Costs

During the three months ended April 30, 2008, we incurred \$3.5 million of legal fees related to an ongoing patent infringement litigation matter, which we are reporting within integration, restructuring and other, net. This litigation was subsequently settled in our favor during the three months ended October 31, 2008.

Table of Contents**9. Income Taxes**

Our quarterly provision for (benefit from) income taxes is measured using an estimated annual effective tax rate for the period, adjusted for discrete items that occurred within the periods presented. For the three months ended April 30, 2009, we recorded an income tax provision of \$4.3 million, which represents an effective tax rate of 17.2%. This rate is lower than the U.S. federal statutory rate of 35% primarily because we recorded an income tax provision on income from our foreign subsidiaries taxed at rates lower than the U.S. federal statutory rate, but did not record a federal income tax benefit because we maintain a valuation allowance against our U.S. deferred tax assets. The comparison of our effective tax rate between periods is significantly impacted by the level and mix of earnings and losses by taxing jurisdiction, foreign income tax rate differentials, relative impact of permanent book to tax differences, and the effects of valuation allowances.

For the three months ended April 30, 2008, we recorded an income tax provision of \$1.7 million, which represents an effective tax rate of (7.4%). The tax rate for the three months ended April 30, 2008 is negative due to the fact that we reported income tax expense on a consolidated pre-tax loss, primarily because we recorded valuation allowances against certain domestic and foreign pre-tax losses and an income tax provision in certain profitable foreign jurisdictions.

As required by the authoritative guidance on accounting for income taxes, we evaluate the realizability of deferred tax assets on a jurisdictional basis at each reporting date. Accounting for income taxes requires that a valuation allowance be established when it is more likely than not that all or a portion of the deferred tax assets will not be realized. In circumstances where there is sufficient negative evidence indicating that the deferred tax assets are not more-likely-than-not realizable, we establish a valuation allowance. We determined there is sufficient negative evidence to maintain the valuation allowances against our federal and certain state and foreign deferred tax assets as a result of historical losses in the most recent three-year period in the U.S. and certain foreign jurisdictions. We intend to maintain a valuation allowance against these assets until sufficient positive evidence exists to support its reversal. We had unrecognized tax benefits of \$36.0 million (excluding interest and penalties) as of April 30, 2009. As of April 30, 2009 the total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was approximately \$31.4 million. We regularly assess the adequacy of our provisions for income tax contingencies in accordance with the applicable authoritative guidance on accounting for income taxes. As a result, we may adjust the reserves for unrecognized tax benefits for the impact of new facts and developments, such as changes to interpretations of relevant tax law, assessments from taxing authorities, settlements with taxing authorities, and lapses of statutes of limitation. We believe that the total amount of unrecognized tax benefits at April 30, 2009 could decrease by approximately \$2 million in the next twelve months as a result of settlement of certain tax audits or lapses of statutes of limitation. Such decreases may involve the payment of additional taxes, the adjustment of certain deferred taxes including the need for additional valuation allowances, and the recognition of tax benefits. Our income tax returns are subject to ongoing tax examinations in several jurisdictions in which we operate. We also believe that it is reasonably possible that new issues may be raised by tax authorities or developments in tax audits may occur which would require increases or decreases to the balance of reserves for unrecognized tax benefits; however, an estimate of such changes cannot reasonably be made.

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10. Fair Value Measurements and Derivative Financial Instruments

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, we consider the principal or most advantageous market in which we would transact and consider assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. An instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. This fair value hierarchy consists of three levels of inputs that may be used to measure fair value:

Level 1: quoted prices in active markets for identical assets or liabilities;

Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

Level 3: unobservable inputs that are supported by little or no market activity.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. We review the fair value hierarchy classification of our applicable assets and liabilities on a quarterly basis. Changes in the observability of valuation inputs may result in transfers within the fair value measurement hierarchy. We did not identify any transfers between levels of the fair value measurement hierarchy during the three months ended April 30, 2009.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

Our assets and liabilities measured at fair value on a recurring basis consisted of the following as of April 30, 2009 and January 31, 2009:

(in thousands)	April 30, 2009		
	Fair Value Hierarchy Category Level 1	Level 2	Level 3