

VERINT SYSTEMS INC
Form 10-Q
September 08, 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 July 31, 2010
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

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 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 34,715,943 shares of the registrant's common stock outstanding on August 31, 2010.

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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) (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 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 Securities and Exchange Commission (SEC) reports, including the occurrence of known contingencies or unforeseen events that could delay our future filings, management distraction, and significant expense;
- risks that our credit rating could be downgraded or placed on a credit watch based on, among other things, our financial results or delays in the filing of our periodic reports;
- risks associated with being a consolidated, controlled subsidiary of Comverse Technology, Inc. (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;
- uncertainties regarding the impact of general economic conditions, particularly in information technology spending, on our business;
- risks 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;
- 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 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;

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uncertainties regarding the future impact on our business of our now concluded internal investigation, restatement, and extended filing delay, 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;

risks of possible future restatements if the processes used to produce the financial statements contained in our SEC reports are inadequate;

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

risks that we will be unable to maintain our listing on the NASDAQ Global Market;

risks associated with Converse 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;

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;

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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;
risks 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;
risks that we are unable to maintain and enhance relationships with key resellers, partners, and systems integrators; 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 in the Risk Factors section of this report and 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****July 31, 2010 and January 31, 2010****(Unaudited)**

(in thousands, except share and per share data)	July 31, 2010	January 31, 2010
Assets		
Current Assets:		
Cash and cash equivalents	\$ 128,199	\$ 184,335
Restricted cash and bank time deposits	14,893	5,206
Accounts receivable, net	132,553	127,826
Inventories	16,271	14,373
Deferred cost of revenue	8,536	11,232
Prepaid expenses and other current assets	59,263	64,554
Total current assets	359,715	407,526
Property and equipment, net	22,683	24,453
Goodwill	733,046	724,670
Intangible assets, net	164,716	173,833
Capitalized software development costs, net	7,148	8,530
Deferred cost of revenue	25,702	33,019
Other assets	29,134	24,306
Total assets	\$ 1,342,144	\$ 1,396,337
Liabilities, Preferred Stock, and Stockholders Equity (Deficit)		
Current Liabilities:		
Accounts payable	\$ 45,923	\$ 46,570
Accrued expenses and other liabilities	153,311	155,422
Current maturities of long-term debt		22,678
Deferred revenue	153,203	183,719
Liabilities to affiliates	1,751	1,709
Total current liabilities	354,188	410,098
Long-term debt	598,234	598,234
Deferred revenue	44,724	51,412
Other liabilities	57,814	65,618
Total liabilities	1,054,960	1,125,362
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 \$332,196 at July 31, 2010.	285,542	285,542

Commitments and Contingencies**Stockholders Equity (Deficit):**

Common stock \$0.001 par value; authorized 120,000,000 shares. Issued 34,911,000 and 32,687,000 shares, respectively; outstanding 34,651,000 and 32,584,000 shares, as of July 31, 2010 and January 31, 2010, respectively.	35	33
Additional paid-in capital	478,031	451,166
Treasury stock, at cost - 260,000 and 103,000 shares as of July 31, 2010 and January 31, 2010, respectively.	(6,639)	(2,493)
Accumulated deficit	(425,071)	(420,338)
Accumulated other comprehensive loss	(46,432)	(43,134)
Total Verint Systems Inc. stockholders deficit	(76)	(14,766)
Noncontrolling interest	1,718	199
Total stockholders equity (deficit)	1,642	(14,567)
Total liabilities, preferred stock, and stockholders equity (deficit)	\$ 1,342,144	\$ 1,396,337

See notes to condensed consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
Three and Six Months Ended July 31, 2010 and 2009
(Unaudited)

(in thousands, except per share data)	Three Months Ended July		Six Months Ended July	
	2010	2009	2010	2009
Revenue:				
Product	\$ 93,103	\$ 88,107	\$ 185,173	\$ 185,178
Service and support	87,573	81,162	168,116	159,239
Total revenue	180,676	169,269	353,289	344,417
Cost of revenue:				
Product	31,909	30,900	60,255	62,957
Service and support	26,217	26,190	53,445	49,103
Amortization of acquired technology and backlog	2,220	1,977	4,453	4,076
Total cost of revenue	60,346	59,067	118,153	116,136
Gross profit	120,330	110,202	235,136	228,281
Operating expenses:				
Research and development, net	22,049	20,638	48,481	39,539
Selling, general and administrative	69,144	70,258	156,161	127,484
Amortization of other acquired intangible assets	5,338	5,586	10,677	11,516
Restructuring		11		24
Total operating expenses	96,531	96,493	215,319	178,563
Operating income	23,799	13,709	19,817	49,718
Other income (expense), net:				
Interest income	117	98	200	245
Interest expense	(5,936)	(6,369)	(11,884)	(12,722)
Other expense, net	(2,448)	(3,106)	(6,146)	(8,069)
Total other expense, net	(8,267)	(9,377)	(17,830)	(20,546)
Income before provision for income taxes	15,532	4,332	1,987	29,172
Provision for income taxes	3,141	2,850	5,212	7,118
Net income (loss)	12,391	1,482	(3,225)	22,054
Net income (loss) attributable to noncontrolling interest	916	(116)	1,508	822
Net income (loss) attributable to Verint Systems Inc.	11,475	1,598	(4,733)	21,232

Dividends on preferred stock	(3,554)	(3,406)	(6,957)	(6,668)
Net income (loss) attributable to Verint Systems Inc. common shares	\$ 7,921	\$ (1,808)	\$ (11,690)	\$ 14,564
Net income (loss) per share attributable to Verint Systems Inc.				
Basic	\$ 0.24	\$ (0.06)	\$ (0.35)	\$ 0.45
Diluted	\$ 0.23	\$ (0.06)	\$ (0.35)	\$ 0.45
Weighted-average common shares outstanding				
Basic	33,272	32,465	32,972	32,462
Diluted	35,006	32,465	32,972	32,606

See notes to condensed consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders Equity (Deficit)
Six Months Ended July 31, 2010 and 2009
(Unaudited)

	Verint Systems Inc. Stockholders				Deficit		Total Accumulated Verint Systems Inc. Non-			Total
	Common Stock Par	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Other Comprehensive Loss	Stockholders' Equity	Interest	Stock	Stockholders' Equity (Deficit)	
(in thousands)	Shares	Value	Capital	Stock	Deficit	Loss	Deficit	Interest	(Deficit)	
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					21,232		21,232	822	22,054	
Unrealized gains on derivative financial instruments, net						1,439	1,439		1,439	
Unrealized gains on available for sale securities, net						9	9		9	
Currency translation adjustments						24,417	24,417	13	24,430	
Total comprehensive income					21,232	25,865	47,097	835	47,932	
Stock-based compensation expense			15,532				15,532		15,532	
Common stock issued for stock awards	20									
Forfeitures of restricted stock awards	(3)		23	(23)						
Purchases of treasury stock	(8)			(50)			(50)		(50)	
Balances as of July 31, 2009	32,544	\$ 32	\$ 435,492	\$ (2,426)	\$ (414,723)	\$ (32,539)	\$ (14,164)	\$ 1,508	\$ (12,656)	
Balances as of January 31, 2010	32,584	\$ 33	\$ 451,166	\$ (2,493)	\$ (420,338)	\$ (43,134)	\$ (14,766)	\$ 199	\$ (14,567)	

Comprehensive income (loss):									
Net income (loss)					(4,733)		(4,733)	1,508	(3,225)
Unrealized losses on derivative financial instruments, net						(5)	(5)		(5)
Currency translation adjustments					(3,293)		(3,293)	11	(3,282)
Total comprehensive income (loss)									
					(4,733)	(3,298)	(8,031)	1,519	(6,512)
Stock-based compensation expense			15,636				15,636		15,636
Exercises of stock options	726	1	11,934				11,935		11,935
Common stock issued for stock awards	1,498	1	(1)						
Purchases of treasury stock	(157)			(4,146)			(4,146)		(4,146)
Tax effects from stock award plans			(704)				(704)		(704)
Balances as of									
July 31, 2010	34,651	\$ 35	\$ 478,031	\$ (6,639)	\$ (425,071)	\$ (46,432)	\$ (76)	\$ 1,718	\$ 1,642

See notes to condensed consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
Six Months Ended July 31, 2010 and 2009
(Unaudited)

(in thousands)	Six Months Ended July 31,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ (3,225)	\$ 22,054
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	23,952	25,507
Equity-based compensation	15,636	15,532
Non-cash losses on derivative financial instruments, net	3,347	7,035
Other non-cash items, net	867	(1,816)
Changes in operating assets and liabilities, net of effects of business combination:		
Accounts receivable	(5,447)	(2,513)
Inventories	(2,124)	3,430
Deferred cost of revenue	9,273	6,165
Accounts payable and accrued expenses	(3,798)	(11,321)
Deferred revenue	(33,273)	(518)
Prepaid expenses and other assets	2,936	(8,759)
Other, net	(2,632)	(2,616)
Net cash provided by operating activities	5,512	52,180
Cash flows from investing activities:		
Cash paid for business combination, net of cash acquired, and payments of contingent consideration associated with business combinations in prior periods	(15,292)	(96)
Purchases of property and equipment	(3,550)	(2,019)
Settlements of derivative financial instruments not designated as hedges	(11,997)	(8,261)
Cash paid for capitalized software development costs	(858)	(1,258)
Change in restricted cash and bank time deposits	(9,720)	223
Net cash used in investing activities	(41,417)	(11,411)
Cash flows from financing activities:		
Repayments of borrowings and other financing obligations	(22,679)	(5,988)
Proceeds from exercises of stock options	11,650	
Dividends paid to noncontrolling interest		(2,142)
Purchases of treasury stock	(4,146)	
Other financing activities	(3,688)	(202)
Net cash used in financing activities	(18,863)	(8,332)
Effect of exchange rate changes on cash and cash equivalents	(1,368)	5,349

Net increase (decrease) in cash and cash equivalents	(56,136)	37,786
Cash and cash equivalents, beginning of period	184,335	115,928
Cash and cash equivalents, end of period	\$ 128,199	\$ 153,714
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 10,236	\$ 13,184
Cash paid for income taxes	\$ 3,244	\$ 4,991
Non-cash investing and financing transactions:		
Accrued but unpaid purchases of property and equipment	\$ 936	\$ 329
Inventory transfers to property and equipment	\$ 87	\$ 347
Stock options exercised, proceeds received subsequent to period end	\$ 285	\$
Accrued but unpaid debt fees	\$ 310	\$
Supplier financing arrangements	\$ 1,480	\$

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

Condensed Consolidated Financial Statements Preparation

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, 2010. The condensed consolidated statements of operations, stockholders' equity (deficit) and cash flows for the periods ended July 31, 2010 and 2009, and the condensed consolidated balance sheet as of July 31, 2010, 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, 2010 is derived from the audited consolidated balance sheet presented in our Annual Report on Form 10-K for the year ended January 31, 2010. 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 Report on Form 10-K filed with the SEC for the year ended January 31, 2010. 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.

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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.

Recent Accounting Pronouncements

Standards Implemented:

In May 2009, the Financial Accounting Standards Board (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. The adoption of this standard, as amended, did not have a material impact on our condensed 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 was effective for us for the fiscal year beginning on February 1, 2010. The adoption of this standard did not impact our condensed 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. The initial phase, effective for us as of February 1, 2010, requires enhanced disclosures about inputs and valuation techniques used to measure fair value as well as disclosures about significant transfers. The adoption of this standard did not have a material impact on our condensed consolidated financial statements. The second phase, effective for us as of February 1, 2011, is further discussed below.

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New Standards to be Implemented:

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. This revenue recognition guidance, and the guidance discussed in the preceding paragraph, 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 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. The initial phase, as previously discussed, was effective for us in our fiscal year beginning February 1, 2010. The second phase, effective for us as of February 1, 2011, will require presentation of disaggregated activity within the reconciliation for fair value measurements using significant unobservable inputs (Level 3). We are assessing the impact that the application of this new guidance may have on our consolidated financial statements.

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The following table summarizes the calculation of basic and diluted net income (loss) per share attributable to Verint Systems Inc. for the three and six months ended July 31, 2010 and 2009:

(in thousands, except per share amounts)	Three Months Ended July		Six Months Ended July	
	2010	2009	2010	2009
Net income (loss)	\$ 12,391	\$ 1,482	\$ (3,225)	\$ 22,054
Net income (loss) attributable to noncontrolling interest	916	(116)	1,508	822
Net income (loss) attributable to Verint Systems Inc.	11,475	1,598	(4,733)	21,232
Dividends on preferred stock	(3,554)	(3,406)	(6,957)	(6,668)
Net income (loss) attributable to Verint Systems Inc. for basic net income (loss) per share	7,921	(1,808)	(11,690)	14,564
Dilutive effect of dividends on preferred stock				
Net income (loss) attributable to Verint Systems Inc. for diluted net income (loss) per share	\$ 7,921	\$ (1,808)	\$ (11,690)	\$ 14,564
Weighted-average shares outstanding				
Basic	33,272	32,465	32,972	32,462
Dilutive effect of employee equity award plans	1,734			144
Dilutive effect of assumed conversion of preferred stock				
Diluted	35,006	32,465	32,972	32,606
Net income (loss) per share attributable to Verint Systems Inc.				
Basic	\$ 0.24	\$ (0.06)	\$ (0.35)	\$ 0.45
Diluted	\$ 0.23	\$ (0.06)	\$ (0.35)	\$ 0.45

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 July		Six Months Ended July 31,	
	2010	2009	2010	2009
Shares excluded from calculation:				
Stock options and restricted stock-based awards	3,484	8,530	6,842	5,763
Convertible preferred stock	10,171	9,787	10,123	9,740

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Inventories consist of the following as of July 31, 2010 and January 31, 2010:

(in thousands)	July 31, 2010	January 31, 2010
Raw materials	\$ 8,370	\$ 5,987
Work-in-process	5,374	4,649
Finished goods	2,527	3,737
Total inventories	\$ 16,271	\$ 14,373

4. Business Combination

On February 4, 2010, our wholly owned subsidiary, Verint Americas Inc., acquired all of the outstanding shares of Iontas Limited (Iontas), a privately held provider of desktop analytics solutions. Prior to this acquisition, we licensed certain technology from Iontas, whose solutions measure application usage and analyze workflows to help improve staff performance in contact center, branch, and back-office operations environments. We acquired Iontas, among other objectives, to expand the desktop analytical capabilities of our workforce optimization solutions. We have included the financial results of Iontas in our condensed consolidated financial statements since February 4, 2010. We acquired Iontas for total consideration valued at \$21.9 million, including cash consideration of \$17.9 million, and additional milestone-based contingent payments of up to \$3.8 million, tied to certain performance targets being achieved over the next two years.

We recorded the acquisition-date estimated fair value of the contingent consideration of \$3.2 million as a component of the purchase price of Iontas. The acquisition-date fair value of the contingent consideration was measured based on the probability-adjusted present value of the contingent consideration expected to be earned and transferred. The fair value of the contingent consideration was remeasured as of July 31, 2010 at \$3.3 million, and the change in the fair value of the contingent consideration between the acquisition date and July 31, 2010 is recorded within selling, general and administrative expenses in our condensed consolidated statements of operations.

Our purchase price to acquire Iontas also includes \$1.5 million of prepayments for product licenses and support services procured from Iontas prior to the acquisition date, partially offset by \$0.7 million of trade accounts payable to Iontas as of the acquisition date.

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The following table sets forth the components and the preliminary allocation of the purchase price of Iontas. We are continuing to evaluate certain assets and liabilities of Iontas using information known to us at the acquisition date, and therefore may adjust the preliminary purchase price allocation after obtaining additional information regarding, among other things, asset valuations, liabilities assumed and revisions of previous estimates.

(in thousands)	Amount	Estimated Useful Lives
Components of Purchase Price:		
Cash	\$ 17,861	
Fair value of contingent consideration	3,224	
Prepaid product licenses and support services	1,493	
Trade accounts payable	(712)	
Total purchase price	\$ 21,866	
Allocation of Purchase Price:		
Net tangible assets:		
Cash	\$ 2,569	
Other current assets	286	
Other assets	89	
Current liabilities	(211)	
Deferred income taxes – current and long-term	(993)	
Net tangible assets	1,740	
Identifiable intangible assets:		
Developed technology	6,949	6 years
Non-competition agreements	278	3 years
Total identifiable intangible assets (1)	7,227	
Goodwill	12,899	
Total purchase price	\$ 21,866	

(1) The weighted-average amortization period of all finite-lived identifiable intangible assets is 5.9 years.

Among the factors that contributed to the recognition of goodwill in this transaction were the expansion of our desktop analytical capabilities, the expansion of our suite of products and services, and the addition of an assembled workforce. This goodwill has been assigned to our Workforce Optimization segment, and is not deductible for income

tax purposes.

Transaction costs, primarily professional fees, directly related to the acquisition of Iontas, totaled \$1.3 million, including \$0.5 million incurred during the six months ended July 31, 2010, and were expensed as incurred.

The pro forma impact of the Iontas acquisition is not material to our historical consolidated operating results and is therefore not presented. Revenues from Iontas for the three and six months ended July 31, 2010 were also not material.

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Acquisition-related intangible assets consist of the following as of July 31, 2010 and January 31, 2010:

(in thousands)	Cost	July 31, 2010 Accumulated Amortization	Net
Customer relationships	\$ 197,206	\$ (64,314)	\$ 132,892
Acquired technology	60,963	(32,795)	28,168
Trade names	9,506	(8,542)	964
Non-competition agreements	3,689	(2,451)	1,238
Distribution network	2,440	(986)	1,454
Total	\$ 273,804	\$ (109,088)	\$ 164,716

(in thousands)	Cost	January 31, 2010 Accumulated Amortization	Net
Customer relationships	\$ 198,084	\$ (54,825)	\$ 143,259
Acquired technology	54,629	(28,419)	26,210
Trade names	9,551	(7,989)	1,562
Non-competition agreements	3,429	(2,203)	1,226
Distribution network	2,440	(864)	1,576
Total	\$ 268,133	\$ (94,300)	\$ 173,833

Total amortization expense recorded for acquisition-related intangible assets was \$7.6 million and \$15.1 million for the three and six months ended July 31, 2010, respectively, and \$7.6 million and \$15.6 million for the three and six months ended July 31, 2009, respectively.

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

(in thousands)	Amount
Years Ended January 31,	
2011 (Remainder of year)	\$ 15,188
2012	29,454
2013	28,673
2014	23,658
2015	21,075
2016 and thereafter	46,668
Total	\$ 164,716

Goodwill activity for the six months ended July 31, 2010, 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, 2010	\$ 791,535	\$ 694,465	\$ 66,998	\$ 30,072
Accumulated impairment losses through January 31, 2010	(66,865)	(30,791)	(36,074)	
Goodwill, net, at January 31, 2010	724,670	663,674	30,924	30,072
Acquisition of Iontas Limited	12,899	12,899		
Foreign currency translation and other	(4,523)	(3,563)	(960)	
Goodwill, net, at July 31, 2010	\$ 733,046	\$ 673,010	\$ 29,964	\$ 30,072
Balance at July 31, 2010				
Goodwill, gross, at July 31, 2010	\$ 799,911	\$ 703,801	\$ 66,038	\$ 30,072
Accumulated impairment losses at July 31, 2010	(66,865)	(30,791)	(36,074)	
Goodwill, net, at July 31, 2010	\$ 733,046	\$ 673,010	\$ 29,964	\$ 30,072

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 six months ended July 31, 2010 or the six months ended July 31, 2009.

6. 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 agreement comprised of a \$650.0 million seven-year term loan facility and a \$25.0 million six-year revolving line of credit. Our \$25.0 million revolving line of credit was effectively reduced to \$15.0 million during the quarter ended October 31, 2008, in connection with the bankruptcy of Lehman Brothers and the related termination of its revolving commitment under the credit agreement in June 2009. During the quarter ended January 31, 2009, we borrowed the full \$15.0 million then available under the revolving line of credit. As discussed further below, the borrowing capacity under the revolving line of credit was increased to \$75.0 million in July 2010. The revolving line of credit and term loan mature in May 2013 and May 2014, respectively.

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The following is a summary of our outstanding financing arrangements as of July 31, 2010 and January 31, 2010:

(in thousands)	July 31, 2010	January 31, 2010
Term loan facility	\$ 583,234	\$ 605,912
Revolving line of credit	15,000	15,000
	598,234	620,912
Less: current portion		22,678
Long-term debt	\$ 598,234	\$ 598,234

In May 2010, we made a \$22.1 million mandatory excess cash flow payment of the term loan, based upon our operating results for the year ended January 31, 2010, \$12.4 million of which is being applied to the eight immediately following principal payments and \$9.7 million of which will be applied pro rata to the remaining principal payments. The credit agreement 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.

In April 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. In consideration for this amendment, we paid \$0.9 million to our lenders. This payment is being amortized as additional interest expense over the remaining term of the credit agreement using the effective interest method. Legal fees and other out-of-pocket costs directly relating to the amendment, which were expensed as incurred, were not significant.

In July 2010, the credit agreement was further amended to, among other things, (a) change the calculation of the applicable interest rate margin to be based on our periodic consolidated leverage ratio, (b) designate a London Interbank Offered Rate (LIBOR) floor of 1.50%, (c) change certain negative covenants, including providing covenant relief with respect to the permitted consolidated leverage ratio, and (d) increase the revolving line of credit from \$15.0 million to \$75.0 million. The commitment fee for unused capacity under the revolving line of credit was increased from 0.50% to 0.75% per annum.

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The credit agreement contains one financial covenant that requires us to meet a certain consolidated leverage ratio, defined as our consolidated net total debt divided by consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA), as defined in the agreement, for the trailing four quarters. The consolidated leverage ratio could not exceed 3.50:1 for the period ended July 31, 2010. As amended in July 2010, the consolidated leverage ratio cannot exceed 3.50:1 for all periods through October 31, 2011, and cannot exceed 3.00:1 for all quarterly periods thereafter.

In consideration for the July 2010 amendments, we paid \$2.6 million to our lenders. These payments are being amortized as additional interest expense over the remaining term of the credit agreement using the effective interest method. Legal fees and other out-of-pocket costs directly relating to these amendments, which were expensed as incurred, were not significant.

Substantial modifications of credit terms require assessment to determine whether the modifications should be accounted for and reported in the same manner as a formal extinguishment of the prior arrangement and replacement with a new arrangement, with the potential recognition of a gain or loss on the extinguishment. The July 2010 credit agreement amendments were assessed under applicable accounting guidance and determined to be modifications of the prior arrangement, not requiring extinguishment accounting.

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 with a notional amount of \$450.0 million to mitigate a portion of the risk associated with variable interest rates on the term loan. The original term of the interest rate swap extended through May 2011. However, on July 30, 2010, we entered into an agreement to terminate the interest rate swap in exchange for a payment of \$21.7 million to the counterparty, representing the approximate present value of the expected remaining quarterly settlement payments we otherwise would have owed under the agreement. This payment was made on August 3, 2010. We recorded a \$1.5 million loss on the interest rate swap for the three months ended July 31, 2010. See Note 11, Fair Value Measurements and Derivative Financial Instruments for further details regarding the interest rate swap agreement.

We incurred interest expense on borrowings under our credit agreement of \$4.9 million and \$10.3 million during the three and six months ended July 31, 2010, respectively, and \$5.7 million and \$11.5 million during the three and six months ended July 31, 2009, respectively. We also recorded amortization of our deferred debt issuance costs of \$0.8 million and \$1.3 million, reported within interest expense, during the three and six months ended July 31, 2010, respectively, inclusive of a \$0.3 million write-off associated with the \$22.1 million term loan principal payment in May 2010. Amortization of our deferred debt issuance costs during the three and six months ended July 31, 2009 was \$0.5 million and \$1.0 million, respectively.

As of July 31, 2010, the interest rates on the term loan and the revolving line of credit borrowings were 5.25% and 6.00%, respectively. The interest rate on the revolving line of credit borrowings reset to 5.25% as of August 4, 2010. The interest rate on both the term loan and the revolving line of credit borrowings was 3.49% as of January 31, 2010. The higher interest rates as of July 31, 2010 reflect, among other things, the impact of the July 2010 amendments discussed above.

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7. 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 July 31, 2010 and January 31, 2010, 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 July 31, 2010 and January 31, 2010, 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 July 31, 2010, cumulative, undeclared dividends on the preferred stock were \$39.2 million and as a result, the liquidation preference of the preferred stock was \$332.2 million at that date. If it were convertible at July 31, 2010, the preferred stock could be converted into approximately 10.2 million shares of our common stock.

8. Stockholders Equity (Deficit)

Treasury Stock

From time to time, our board of directors approves repurchases of our common stock from independent directors and executive officers upon vesting of restricted stock grants in order to provide funds for the recipient's obligation to pay associated income taxes upon vesting of stock awards.

During the six months ended July 31, 2010, we acquired 157,000 shares of treasury stock from certain executive officers and directors at a cost of \$4.1 million. Treasury stock activity for the six months ended July 31, 2009 was not significant.

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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 on available-for-sale marketable securities and derivative financial instruments were not significant.

(in thousands) **July 31,** **January 31,**