VERINT SYSTEMS INC
Form 10-Q
September 06, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q
(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 31, 2012

OR

o	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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer þ	Accelerated Filer o	Non-Accelerated Filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

There were 39,772,905 shares of the registrant’s common stock outstanding on August 15, 2012.

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Cautionary Note on Forward-Looking Statements

Certain statements discussed in this report constitute forward-looking statements, which include financial projections, statements of plans and objectives for future operations, statements of future economic performance, and statements of assumptions relating thereto. Forward-looking statements are often identified by future or conditional words such as “will”, “plans”, “expects”, “intends”, “believes”, “seeks”, “estimates”, or “anticipates”, or by variations of such words or by si expressions. There can be no assurances that forward-looking statements will be achieved. By their very nature, forward-looking statements involve known and unknown risks, uncertainties, and other important factors that could cause our actual results or conditions to differ materially from those expressed or implied by such forward-looking statements. Important risks, uncertainties, and other factors that could cause our actual results or conditions to differ materially from our forward-looking statements include, among others:

- uncertainties regarding the impact of general economic conditions in the United States and abroad, particularly in information technology spending and government budgets, on our business;
- risks associated with our ability to keep pace with technological changes and evolving industry standards in our product offerings and to successfully develop, launch, and drive demand for new and enhanced, innovative, high-quality products that meet or exceed customer needs;
- risks associated with the planned merger (the "Merger") with our controlling stockholder, Comverse Technology, Inc. ("CTI"), pursuant to the terms and conditions of the Agreement and Plan of Merger we executed on August 12, 2012 (the “Merger Agreement”), including risks associated with our and CTI's ability to satisfy the conditions and terms of the Merger, and to execute the Merger in the estimated timeframe, or at all, and the issuance of shares of our common stock in connection with the Merger;
- uncertainties regarding the expected benefits of the Merger;
- risks arising as a result of unknown or unexpected CTI obligations or liabilities assumed upon completion of the Merger, or as a result of parties obligated to provide us with indemnification being unwilling or unable to stand behind such obligations;
- risks associated with any litigation against us or our directors or officers that we may face, or any litigation against counterparties that we may inherit, in connection with the proposed Merger;
- uncertainties regarding the tax consequences of the Merger;
- risks associated with CTI's ability to control our board of directors and the outcome of matters submitted for stockholder action;
- risks associated with being a consolidated subsidiary of CTI and formerly part of CTI's consolidated tax group;
- risks due to aggressive competition in all of our markets, including with respect to maintaining margins and sufficient levels of investment in our business;
- risks created by the continued consolidation of our competitors or the introduction of large competitors in our markets with greater resources than we have;
- risks associated with our ability to successfully compete for, consummate, and implement mergers and acquisitions, including risks associated with capital constraints, costs and expenses, maintaining profitability levels, management distraction, post-acquisition integration activities, and potential asset impairments;
- risks that we may be unable to maintain and enhance relationships with key resellers, partners, and systems integrators;
- risks relating to our ability to effectively and efficiently execute on our growth strategy, including managing investments in our business and operations and enhancing and securing our internal and external operations;
- risks relating to our ability to successfully implement and maintain adequate systems and internal controls for our current and future operations and reporting needs and related risks of financial statement omissions, misstatements, restatements, or filing delays;
- risks associated with the mishandling or perceived mishandling of sensitive or confidential information, security

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lapses, or with information technology system failures or disruptions;

- risks associated with our ability to efficiently and effectively allocate limited financial and human resources to business, development, strategic, or other opportunities that may not come to fruition or produce satisfactory returns;
- risks associated with significant international operations, including, among others, in Israel, Europe, and Asia, exposure to regions subject to political or economic instability, and fluctuations in foreign exchange rates;
- risks associated with complex and changing local and foreign regulatory environments in the jurisdictions in which we operate;
- risks associated with our ability to recruit and retain qualified personnel in regions in which we operate;
- challenges associated with selling sophisticated solutions, long sales cycles, and emphasis on larger transactions, including in accurately forecasting revenue and expenses and in maintaining profitability;
- risks that our intellectual property rights may not be adequate to protect our business or assets or that others may make claims on our intellectual property or claim infringement on their intellectual property rights;
- risks that our products may contain undetected defects, which could expose us to substantial liability;
- risks associated with a significant amount of our business coming from domestic and foreign government customers, including the ability to maintain security clearances for certain projects;
- risks associated with our dependence on a limited number of suppliers or original equipment manufacturers for certain components of our products, including companies that may compete with us or work with our competitors;
- risks that our customers or partners delay or cancel orders or are unable to honor contractual commitments due to liquidity issues, challenges in their business, or otherwise;
- risks that we may experience liquidity or working capital issues and related risks that financing sources may be unavailable to us on reasonable terms or at all;
- risks associated with significant leverage resulting from our current debt position, including with respect to covenant limitations and compliance, fluctuations in interest rates, and our ability to maintain our credit ratings;
- risks relating to our ability to timely implement new accounting pronouncements or new interpretations of existing accounting pronouncements and related risks of future restatements or filing delays; and
- risks associated with changing tax rates, tax laws and regulations, and the continuing availability of expected tax benefits.

These risks, uncertainties and challenges, as well as other factors, are discussed in greater detail in “Risk Factors” under Part II, Item 1A of this Quarterly Report on Form 10-Q and Item 1A of our Annual Report on Form 10-K for the year ended January 31, 2012. You are cautioned not to place undue reliance on forward-looking statements, which reflect our management’s view only as of the date of this report. We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances after the date any such statement is made, except as otherwise required under the federal securities laws. If we were in any particular instance to update or correct a forward-looking statement, investors and others should not conclude that we would make additional updates or corrections thereafter except as otherwise required under the federal securities laws.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
July 31, 2012 and January 31, 2012
(Unaudited)

(in thousands, except share and per share data)	July 31, 2012	January 31, 2012
Assets		
Current Assets:		
Cash and cash equivalents	$173,250	$150,662
Restricted cash and bank time deposits	10,750	12,863
Accounts receivable, net	167,616	154,753
Inventories	10,000	14,414
Deferred cost of revenue	4,454	11,951
Prepaid expenses and other current assets	52,072	56,047
Total current assets	418,142	400,690
Property and equipment, net	32,142	28,289
Goodwill	825,069	828,758
Intangible assets, net	162,898	184,230
Capitalized software development costs, net	6,217	5,846
Long-term deferred cost of revenue	8,252	13,285
Other assets	34,566	38,497
Total assets	$1,487,286	$1,499,595
Liabilities, Preferred Stock, and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$49,231	$49,441
Accrued expenses and other current liabilities	165,935	168,947
Current maturities of long-term debt	6,292	6,228
Deferred revenue	146,163	156,772
Liabilities to affiliates	1,553	1,760
Total current liabilities	369,174	383,148
Long-term debt	587,675	591,151
Long-term deferred revenue	16,673	25,987
Other liabilities	51,768	69,472
Total liabilities	1,025,290	1,069,758
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 $358,869 at July 31, 2012.	285,542	285,542
Commitments and Contingencies		
Stockholders' Equity:		
Common stock - $0.001 par value; authorized 120,000,000 shares. Issued 40,074,000 and 39,265,000 shares; outstanding 39,772,000 and 38,982,000 shares as of July 31, 2012 and January 31, 2012, respectively.	40	40
Additional paid-in capital	569,555	554,351
Treasury stock, at cost - 302,000 and 283,000 shares as of July 31, 2012 and January 31, 2012, respectively.	(8,013)	(7,466)

Accumulated deficit	(335,122)	(357,764)
Accumulated other comprehensive loss	(55,178)	(47,736)
Total Verint Systems Inc. stockholders' equity	171,282	141,425
Noncontrolling interest	5,172	2,870
Total stockholders' equity	176,454	144,295
Total liabilities, preferred stock, and stockholders' equity	$1,487,286	$1,499,595

See notes to condensed consolidated financial statements.

VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
Three and Six Months Ended July 31, 2012 and 2011
(Unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
(in thousands, except per share data)	2012	2011	2012	2011
Revenue:				
Product	$101,990	$100,423	$193,989	$183,701
Service and support	110,436	94,536	215,072	187,590
Total revenue	212,426	194,959	409,061	371,291
Cost of revenue:				
Product	36,382	33,214	67,274	55,745
Service and support	35,954	33,210	69,606	63,378
Amortization of acquired technology and backlog	3,644	2,685	7,428	5,335
Total cost of revenue	75,980	69,109	144,308	124,458
Gross profit	136,446	125,850	264,753	246,833
Operating expenses:				
Research and development, net	30,195	26,808	58,598	53,176
Selling, general and administrative	73,953	72,217	146,676	142,452
Amortization of other acquired intangible assets	6,035	5,415	12,233	10,961
Total operating expenses	110,183	104,440	217,507	206,589
Operating income	26,263	21,410	47,246	40,244
Other income (expense), net:				
Interest income	124	146	254	294
Interest expense	(7,867)	(7,857)	(15,585)	(16,651)
Loss on extinguishment of debt	—	—	—	(8,136)
Other income (expense), net	(483)	738	151	1,750
Total other expense, net	(8,226)	(6,973)	(15,180)	(22,743)
Income before provision for income taxes	18,037	14,437	32,066	17,501
Provision for income taxes	4,772	3,163	7,171	4,672
Net income	13,265	11,274	24,895	12,829
Net income attributable to noncontrolling interest	658	799	2,253	2,466
Net income attributable to Verint Systems Inc.	12,607	10,475	22,642	10,363
Dividends on preferred stock	(3,868)	(3,707)	(7,612)	(7,256)
Net income attributable to Verint Systems Inc. common shares	$8,739	$6,768	$15,030	$3,107
Net income per common share attributable to Verint Systems Inc.				
Basic	$0.22	$0.18	$0.38	$0.08
Diluted	$0.22	$0.17	$0.38	$0.08

Weighted-average common shares outstanding				
Basic	39,712	38,557	39,392	37,984
Diluted	40,072	39,377	39,938	39,239

See notes to condensed consolidated financial statements.

VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income
Three and Six Months Ended July 31, 2012 and 2011
(Unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
(in thousands)	2012	2011	2012	2011
Net income	$13,265	$11,274	$24,895	$12,829
Other comprehensive income, before income taxes and net of reclassification adjustments:				
Foreign currency translation adjustments	(9,396)	(3,922)	(4,381)	5,315
Net unrealized gains (losses) on derivative financial instruments designated as hedges	(3,486)	(1,185)	(3,340)	557
Other comprehensive income, before benefit from income taxes	383	6,167	17,174	18,701
Benefit from income taxes, related to items of other comprehensive income	(362)	(46)	(328)	(4)
Comprehensive income	745	6,213	17,502	18,705
Comprehensive income attributable to noncontrolling interest	603	906	2,302	2,637
Comprehensive income attributable to Verint Systems Inc.	$142	$5,307	$15,200	$16,068

See notes to condensed consolidated financial statements.

VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity
Six Months Ended July 31, 2012 and 2011
(Unaudited)

	Verint Systems Inc. Stockholders' Equity								
	Common Stock								
(in thousands)	Shares	Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Verint Systems Inc. Stockholders' Equity	Non-controlling Interest	Total Stockholders' Equity
Balances as of January 31, 2011	37,089	$38	$519,834	$(6,639)	$(394,757)	$(42,069)	$76,407	$ 1,280	$77,687
Net income	—	—	—	—	10,363	—	10,363	2,466	12,829
Other comprehensive income	—	—	—	—	—	5,705	5,705	171	5,876
	—	—	11,640	—	—	—	11,640	—	11,640

Stock-based compensation expense									
Exercises of stock options	432	—	8,685	—	—	—	8,685	—	8,685
Common stock issued for stock awards	1,289	1	(1)	—	—	—	—	—	—
Purchases of treasury stock	(23)	—	—	(827)	—	—	(827)	—	(827)
Tax effects from stock award plans	—	—	586	—	—	—	586	—	586
Balances as of July 31, 2011	38,787	$39	$540,744	$(7,466)	$(384,394)	$(36,364)	$112,559	$ 3,917	$116,476
Balances as of January 31, 2012	38,982	$40	$554,351	$(7,466)	$(357,764)	$(47,736)	$141,425	$ 2,870	$144,295
Net income	—	—	—	—	22,642	—	22,642	2,253	24,895
Other comprehensive loss	—	—	—	—	—	(7,442)	(7,442)	49	(7,393)
Stock-based compensation expense	—	—	10,472	—	—	—	10,472	—	10,472
Exercises of stock options	59	—	1,013	—	—	—	1,013	—	1,013
Common stock issued for stock awards and stock bonuses	752	—	3,764	—	—	—	3,764	—	3,764
Purchases of treasury stock	(21)	—	—	(615)	—	—	(615)	—	(615)
Treasury stock retired	—	—	(68)	68	—	—	—	—	—
Tax effects from stock award plans	—	—	23	—	—	—	23	—	23
Balances as of July 31, 2012	39,772	$40	$569,555	$(8,013)	$(335,122)	$(55,178)	$171,282	$ 5,172	$176,454

See notes to condensed consolidated financial statements.

VERINT SYSTEMS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Six Months Ended July 31, 2012 and 2011

(Unaudited)

	Six Months Ended July 31,	
(in thousands)	2012	2011
Cash flows from operating activities:		
Net income	$24,895	$12,829

Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,265	25,539
Stock-based compensation - equity portion	10,994	11,640
Non-cash (gains) losses on derivative financial instruments, net	(131)	1,907
Loss on extinguishment of debt	—	8,136
Other non-cash items, net	(6,123)	3,294
Changes in operating assets and liabilities, net of effects of business combination:		
Accounts receivable	(13,295)	(4,491)
Inventories	3,599	(2,860)
Deferred cost of revenue	12,292	5,692
Prepaid expenses and other assets	5,022	(3,417)
Accounts payable and accrued expenses	(7,528)	(16,207)
Deferred revenue	(18,315)	(10,432)
Other, net	(424)	(3,792)
Net cash provided by operating activities	39,251	27,838
Cash flows from investing activities:		
Cash paid for business combinations, including adjustments, net of cash acquired	(660)	(11,958)
Purchases of property and equipment	(6,180)	(6,715)
Settlements of derivative financial instruments not designated as hedges	(266)	(1,178)
Cash paid for capitalized software development costs	(2,298)	(1,662)
Change in restricted cash and bank time deposits	1,811	(1,883)
Other investing activities	—	(1,230)
Net cash used in investing activities	(7,593)	(24,626)
Cash flows from financing activities:		
Proceeds from borrowings, net of original issuance discount	—	597,000
Repayments of borrowings and other financing obligations	(3,486)	(583,786)
Payments of debt issuance and other debt-related costs	(159)	(15,034)
Proceeds from exercises of stock options	1,395	8,716
Purchases of treasury stock	(615)	(827)
Payments of contingent consideration for business combinations (financing portion)	(5,140)	(2,004)
Net cash provided by (used in) financing activities	(8,005)	4,065
Effect of exchange rate changes on cash and cash equivalents	(1,065)	1,964
Net increase in cash and cash equivalents	22,588	9,241
Cash and cash equivalents, beginning of period	150,662	169,906
Cash and cash equivalents, end of period	$173,250	$179,147

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 AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Unless the context otherwise requires, the terms “Verint”, “we”, “us”, and “our” in these notes to condensed consolidated financial statements refer to Verint® Systems Inc. and its consolidated subsidiaries.

Verint is a global leader in Actionable Intelligence® solutions and value-added services. Our solutions enable organizations of all sizes to make more timely and effective decisions to improve enterprise performance and make the world a safer place. Our solutions are used to capture, distill, and analyze complex and underused information sources, such as voice, video, and unstructured text. In the enterprise intelligence market, our workforce optimization and voice of the customer solutions help organizations enhance the customer service experience, increase customer loyalty, enhance products and services, reduce operating costs, and drive revenue. In the security intelligence market, our communications and cyber intelligence, video and situation intelligence, and public safety solutions help government and commercial organizations in their efforts to protect people and property and neutralize terrorism and crime.

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 U.S. Securities and Exchange Commission (“SEC”) for the year ended January 31, 2012. The condensed consolidated statements of operations, comprehensive income, stockholders’ equity, and cash flows for the periods ended July 31, 2012 and 2011, and the condensed consolidated balance sheet as of July 31, 2012, 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 for the periods shown. The condensed consolidated balance sheet as of January 31, 2012 is derived from the audited consolidated financial statements presented in our Annual Report on Form 10-K for the year ended January 31, 2012. 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, 2012. The results for interim periods are not necessarily indicative of a full year’s results.

Please refer to Note 3, “Business Combinations” for information regarding measurement period adjustments related to certain business combinations that have been applied retrospectively to our January 31, 2012 condensed consolidated balance sheet.

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 condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant Accounting Policies

We describe our significant accounting policies in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended January 31, 2012. There were no significant changes to our significant accounting policies during the six months ended July 31, 2012. Additional disclosures regarding our policy for calculating net income per common share attributable to Verint Systems Inc. appear below.

Net Income Per Common Share Attributable to Verint Systems Inc.

Shares used in the calculation of basic net income per common share are based on the weighted-average number of common shares outstanding during the accounting period. Shares used in the calculation of basic net income per common share include vested but unissued shares underlying awards of restricted stock units, because all necessary conditions for earning those shares have been satisfied at the award's vesting date, but exclude unvested shares of restricted stock because they are contingent upon future service conditions. Shares used in the calculation of diluted net income per common share are based on the weighted-average number of common shares outstanding, adjusted for the assumed exercise of all potentially dilutive stock options and other stock-based awards outstanding using the treasury stock method. Shares used in the calculation of diluted net income per common share also include the assumed conversion of our Series A Convertible Preferred Stock ("Preferred Stock"), if dilutive. In periods for which we report a net loss, basic net loss per common share and diluted net loss per common share are identical since the effect of potential common shares is anti-dilutive and therefore excluded.

Recent Accounting Pronouncements

New Accounting Pronouncements Implemented:

In June 2011, the Financial Accounting Standards Board (“FASB”) issued amended standards regarding the presentation of comprehensive income. These amendments eliminate the option to present components of other comprehensive income as part of the statement of stockholders’ equity and require the presentation of comprehensive income, the components of net income, and the components of other comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB updated this guidance to indefinitely defer the requirement to present items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. This guidance does not change the items that must be reported within other comprehensive income or the criteria for determining when an item of other comprehensive income must be reclassified to net income. This guidance was effective for us on February 1, 2012 and has been applied retrospectively, as required by the standards. Other than the change in presentation, adoption of this guidance did not impact our condensed consolidated financial statements.

In May 2011, the FASB issued updated accounting guidance to amend existing requirements for fair value measurements and disclosures. The guidance expands the disclosure requirements around fair value measurements categorized in Level 3 of the fair value hierarchy and requires disclosure of the level in the fair value hierarchy of items that are not measured at fair value but whose fair value must be disclosed. It also clarifies and expands upon existing requirements for fair value measurements of financial assets and liabilities as well as instruments classified in stockholders' equity. This guidance was effective for us on February 1, 2012, and its adoption did not materially impact our condensed consolidated financial statements.

New Accounting Pronouncements To Be Implemented:

In July 2012, the FASB issued amended standards to simplify how entities test indefinite-lived intangible assets for impairment which are intended to improve consistency in impairment testing requirements among long-lived asset categories. These amended standards permit an assessment of qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. For assets in which this assessment concludes that it is more likely than not that the fair value is more than its carrying value, these amended standards eliminate the requirement to perform quantitative impairment testing. The amended guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. We do not expect these new standards to significantly impact our condensed consolidated financial statements.

2. NET INCOME PER COMMON SHARE ATTRIBUTABLE TO VERINT SYSTEMS INC.

The following table summarizes the calculation of basic and diluted net income per common share attributable to Verint Systems Inc. for the three and six months ended July 31, 2012 and 2011:

	Three Months Ended July 31,		Six Months Ended July 31,	
(in thousands, except per share amounts)	2012	2011	2012	2011
Net income	$13,265	$11,274	$24,895	$12,829
Net income attributable to noncontrolling interest	658	799	2,253	2,466
Net income attributable to Verint Systems Inc.	12,607	10,475	22,642	10,363
Dividends on Preferred Stock	(3,868)	(3,707)	(7,612)	(7,256)
Net income attributable to Verint Systems Inc. for basic net income per common share	8,739	6,768	15,030	3,107
Dilutive effect of dividends on Preferred Stock	—	—	—	—
Net income attributable to Verint Systems Inc. for diluted net income per common share	$8,739	$6,768	$15,030	$3,107
Weighted-average shares outstanding:				
Basic	39,712	38,557	39,392	37,984
Dilutive effect of employee equity award plans	360	820	546	1,255
Dilutive effect of assumed conversion of Preferred Stock	—	—	—	—
Diluted	40,072	39,377	39,938	39,239
Net income per common share attributable to Verint Systems Inc.				
Basic	$0.22	$0.18	$0.38	$0.08
Diluted	$0.22	$0.17	$0.38	$0.08

We excluded the following weighted-average common shares underlying stock-based awards and the assumed conversion of our Preferred Stock from the calculations of diluted net income per common share because their inclusion would have been anti-dilutive:

	Three Months Ended	Six Months Ended

(in thousands)	July 31, 2012	2011	July 31, 2012	2011
Common shares excluded from calculation:				
Stock options and restricted stock-based awards	1,224	824	1,068	830
Convertible Preferred Stock	10,988	10,571	10,935	10,521

3. BUSINESS COMBINATIONS

Six Months Ended July 31, 2012

We did not execute any business combinations during the six months ended July 31, 2012.

Year Ended January 31, 2012

Vovici Corporation

On August 4, 2011, we acquired all of the outstanding shares of Vovici Corporation ("Vovici"), a U.S.-based provider of online survey management and enterprise feedback solutions, for total consideration of $66.1 million. Included in this consideration was $9.9 million for the fair value of potential additional cash payments to the former Vovici shareholders of up to approximately $19.1 million, payment of which is contingent upon the achievement of certain performance targets over the period from the acquisition date through January 31, 2013.

At each reporting date, we revalue all contingent consideration obligations associated with business combinations to their estimated fair values, and any increases or decreases in fair values are reflected within selling, general and administrative expenses in our condensed consolidated statement of operations.

For the three and six months ended July 31, 2012, we recorded benefits of $4.0 million and $3.7 million, respectively, within

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selling, general and administrative expenses for changes in the fair value of the Vovici contingent consideration obligation, which primarily reflected the impacts of revised expectations of achieving the performance targets. As of July 31, 2012, the fair value of this contingent consideration was $3.5 million, and no payments had been made to the former Vovici shareholders under this arrangement.

Transaction and related costs, consisting primarily of professional fees and integration expenses, directly related to the acquisition of Vovici totaled $0.2 million for the six months ended July 31, 2012, the majority of which were incurred during the three months ended April 30, 2012. Such costs totaled $1.3 million for the six months ended July 31, 2011, all of which were incurred during the three months ended July 31, 2011. All transaction and related costs were expensed as incurred.

Global Management Technologies

On October 7, 2011, we acquired all of the outstanding shares of Global Management Technologies ("GMT"), a U.S.-based provider of workforce management solutions whose software and services are widely used by organizations, particularly in retail branch banking environments, for total consideration of $36.6 million. Included in this consideration was $12.0 million for the fair value of potential additional cash payments to the former GMT shareholders of up to approximately $17.4 million, payment of which is contingent upon the achievement of certain performance targets over the period from the acquisition date through January 31, 2014.

For the three and six months ended July 31, 2012, we recorded benefits of $0.9 million and $4.5 million, respectively, within selling, general and administrative expenses for changes in the fair value of the GMT contingent consideration obligation, which primarily reflected the impacts of revised expectations of achieving the performance targets. As of July 31, 2012, the fair value of this contingent consideration was $5.1 million, and no payments had been made to the former GMT shareholders under this arrangement.

Transaction and related costs, consisting primarily of professional fees and integration expenses, directly related to the acquisition of GMT, totaled $0.3 million for the six months ended July 31, 2012, the majority of which were incurred during the three months ended April 30, 2012. Such costs totaled $0.1 million for the six months ended July 31, 2011, all of which were incurred during the three months ended July 31, 2011. All transaction and related costs were expensed as incurred.

Other Business Combinations

During the year ended January 31, 2012, we executed five additional business combinations for total combined consideration of $55.2 million, including $20.5 million for the fair value of potential additional cash payments to the respective former shareholders or asset owners aggregating up to approximately $41.0 million, payment of which is contingent upon the achievement of certain performance targets over periods extending through January 31, 2015. Two of these combinations were acquisitions of assets in transactions that qualified as business combinations.

For the three and six months ended July 31, 2012, we recorded net charges of $0.3 million and $0.6 million, respectively, within selling, general and administrative expenses for changes in the aggregate fair values of the contingent consideration obligations associated with these acquisitions, reflecting the impacts of revised expectations of achieving the performance targets, as well as decreases in the discount periods since the acquisition dates. As of July 31, 2012, the aggregate fair value of the contingent consideration obligations associated with these acquisitions was $16.6 million. During the three months ended July 31, 2012, we made $4.2 million of payments to the respective former shareholders or asset owners under these arrangements. No such payments were made during the three months ended April 30, 2012.

Transaction and related costs, consisting primarily of professional fees and integration expenses, directly related to these acquisitions, totaled \$0.3 million and \$0.6 million for the three and six months ended July 31, 2012, respectively. Such costs totaled \$1.5 million for the six months ended July 31, 2011, the majority of which were incurred during the three months ended July 31, 2011. All transaction and related costs were expensed as incurred.

As of January 31, 2012, the tax deductibility of \$21.4 million of the goodwill associated with these business combinations was still being assessed. Purchase price allocation adjustments, as discussed below, as well as fluctuations in foreign currency exchange rates reduced this goodwill to \$16.5 million at July 31, 2012, and we have concluded that \$6.4 million of this goodwill is tax deductible, and \$10.1 million is not tax deductible.

In connection with one of the foregoing business combinations, we have evaluated and continue to evaluate the impact of certain liabilities associated with pre-acquisition business activities of the acquired company. As of January 31, 2012, the current and long-term liabilities for these matters were \$4.0 million and \$4.7 million, respectively. Corresponding

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indemnification assets were reflected within current and long-term assets, recognizing the selling shareholders' contractual obligation to indemnify us for these pre-acquisition liabilities, and were measured on the same basis as the corresponding liabilities. As of April 30, 2012, the current and long-term liabilities for these matters, and corresponding indemnification assets, were $3.6 million and $4.3 million, respectively. As of July 31, 2012, the current and long-term liabilities for these matters, and corresponding indemnification assets, were $3.2 million and $3.9 million, respectively. The changes in these amounts during the three and six months ended July 31, 2012 reflect the derecognition of certain liabilities and corresponding indemnification assets and the impact of foreign currency exchange rate fluctuations. These changes did not impact our condensed consolidated statements of operations for the three and six months ended July 31, 2012.

We are continuing to gather and assess information in this regard, and changes to the amounts previously recorded resulting from facts and circumstances that existed as of the acquisition date regarding these matters, if any, will be included in our results of operations.

Purchase Price Allocations

The purchase price allocations for acquisitions completed during the year ended January 31, 2012 were provisional and were based on the information that was available to us as of the respective acquisition dates, and represented our best estimates of the fair values of the assets acquired and liabilities assumed.

No purchase price allocation adjustments were identified during the three months ended July 31, 2012. Based upon additional information obtained during the three months ended April 30, 2012 about facts and circumstances that existed as of the respective acquisition dates, we adjusted the purchase price allocations for several acquisitions completed during the year ended January 31, 2012, as described below:

- For the Vovici purchase price allocation, we reduced certain liabilities by $0.2 million and recorded a corresponding reduction of goodwill.

- For the purchase price allocation associated with our August 2, 2011 Communications Intelligence acquisition, we adjusted certain acquisition-date deferred income taxes, which also required us to change several assumptions in the discounted cash flow models used to estimate the fair values of certain identified intangible assets. As a result, the estimated acquisition-date fair values of the developed technology and customer relationship intangible assets identified in this acquisition decreased by $0.3 million and $0.4 million, respectively, net deferred income tax liabilities decreased by $3.8 million, and goodwill decreased by $3.1 million. For the purchase price allocation associated with our January 5, 2012 Communications Intelligence acquisition, we recorded minor refinements to the purchase price and to certain liabilities, which resulted in a $0.1 million increase in goodwill.

Changes to a provisional purchase price allocation resulting from additional information obtained about facts and circumstances that existed as of the acquisition date are adjusted retrospectively to the condensed consolidated financial statements. Accordingly, our January 31, 2012 condensed consolidated balance sheet has been revised to reflect the impacts of these adjustments. These adjustments resulted in decreases to goodwill of $2.9 million, intangible assets, net of $0.6 million, accrued expenses and other current liabilities of $0.2 million, and other liabilities of $3.1 million, and a $0.2 million increase to other assets. Accounts payable was increased by a negligible amount.

These adjustments did not materially impact our condensed consolidated statements of operations.

The purchase price allocation for the acquisition of GMT did not change during the six months ended July 31, 2012.

The purchase price allocations for all acquisitions executed during the year ended January 31, 2012 were complete as of July 31, 2012.

The following table sets forth the components and the allocations of the purchase price for the acquisition of Vovici, as well as the combined purchase prices for our other individually insignificant acquisitions completed during the year ended January 31, 2012, reflecting all purchase price allocation adjustments identified through July 31, 2012:

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(in thousands)	Vovici	Other Acquisitions
Components of Purchase Price:		
Cash	$55,708	$33,835
Fair value of contingent consideration	9,900	20,504
Fair value of stock options	60	—
Bank debt, repaid at closing	435	—
Other purchase price adjustments	—	816
Total purchase price	$66,103	$55,155
Allocation of Purchase Price:		
Net tangible assets (liabilities):		
Accounts receivable	$1,106	$842
Other current assets	5,398	15,650
Other assets	913	5,5