VERINT SYSTEMS INC
Form 8-K
March 22, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): March 22, 2007

VERINT SYSTEMS INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**0-49790**	**11-3200514**
(State or Other Jurisdiction of Incorporation)	**(Commission File Number)**	**(IRS Employer Identification No.)**

330 South Service Road, Melville, New York	**11747**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code: (631) 962-9600

None

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2.):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a 12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d 2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition.
On March 22, 2007, Verint Systems Inc. (the Company or Verint) issued a press release (the Press Release) announcing certain preliminary unaudited results for the fiscal year ended January 31, 2007 (fiscal 2006) and the fiscal year ended January 31, 2006 (fiscal 2005). A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated by reference into Items 2.02 and 7.01 in its entirety. The Press Release contains forward-looking statements regarding the Company. The Press Release also contains certain unaudited segmentation data and non-GAAP (generally accepted accounting principles) financial measures which management believes provides useful information to investors, as discussed in greater detail below.

Segmentation

Historically, the Company has concluded that it operated its business as a single segment actionable intelligence and that it was organized on a geographic basis. Within the actionable intelligence segment, the Company indicated that it sold its solutions in two markets security and business intelligence. Since the filing of its last annual report for the year ended January 31, 2005, however, the Company has concluded that circumstances have changed sufficiently to warrant a change in its reporting method. As a result, beginning with the Press Release and this report, the Company will report its business in two segments Security and Business Intelligence.

The Company s conclusion in previous years that it operated its business as a single segment and was organized on a geographic basis was based on an analysis of, among other things, the Company s customer base, its method of allocating resources, its regional management structure, and the similarity of the expected long-term financial performance of its product lines.

Over the period since the filing of the Company s last annual report for the year ended January 31, 2005, however, there have been significant developments within the Company and its business which the Company believes support a different conclusion with respect to its segmentation analysis. Such developments include:

- Significant growth in the Company s revenue and earnings in each of the security market and the business intelligence market, thereby increasing the importance to the Company of each of these markets in its own right, and emphasizing the need to separately monitor financial information for these markets;

- Increased management focus on the results of our security business and our business intelligence business as separate segments for purposes of resource allocation and performance assessment within the Company s overall business;

- Changes in the marketplace which have altered management s view of the business and increased investor and analyst focus on, and tracking of, the Company s growth and performance in the security market and the business intelligence market as separate categories; and

- Acquisitions made by the Company that are substantially targeted to one market or the other.

Although the Company continues to operate largely on a geographic basis, the Company believes that the foregoing developments support a change to its conclusion about the number of segments in which the Company operates based on the factors outlined in Statement of Financial Accounting Standards No. 131.

The Company has always reported sales of its networked video solutions as being primarily attributable to the security market. In the past, however, the Company would attribute a portion of some of these networked video solution sales to the business intelligence market where, in the Company s estimation, a given customer was deriving both security and business intelligence benefits from the solution. The allocation of revenue on these types of sales between the security market and the business intelligence market was based on management s estimation as to the relative security and business intelligence benefits being derived by the customer from the solution. As part of the process of defining the two segments in which the Company will now report, however, the Company believes that it is necessary to allocate all revenues from sales of its networked video solutions to a single segment and to account for the associated costs accordingly. As a result, the Company is attributing all revenues from sales of its networked video solutions solely to the Security segment.

As described in greater detail in the Explanatory Note and Cautionary Statements below, the results presented in the Press Release and in this report are preliminary, unaudited, and subject to change based on the results of the on-going Special Committee investigation at our parent company, Comverse Technology, Inc., and the Company s own related voluntary internal review. As a result, for purposes of the Press Release and this report, the Company is only able to present revenues on a segmented basis. The Company believes that any other metrics are too uncertain at this stage to present on a segment by segment basis. The Company intends to provide additional segmentation disclosure when it next files its Annual Report on Form 10-K.

Reconciliation of Non-GAAP Financial Measures

The Press Release incorporated by reference into this report contains certain non-GAAP financial measures which management believes provide useful information to investors. These measures are not in accordance with or an alternative for GAAP and may be different from non-GAAP measures used by other companies. The Company believes that this presentation of non-GAAP data and non-GAAP financial measures provides useful information to management and investors regarding financial and business trends relating to the Company s financial condition and result of operations. In addition, the Company s management uses these measures for reviewing the financial results of the Company and for budget purposes. The reconciliation of these non-GAAP measures to the most directly comparable GAAP financial measures is provided below.

Reconciliation of GAAP net income to non-GAAP net income

(In Thousands)

	Twelve Months Ended January 31,		
	2005	**2006**	**2007**
GAAP net income	$ 19,026	$ 26,223	$ 2,843
Amortization of purchased intangible assets	2,629	5,799	7,781
Amortization of stock based compensation(1)	548	1,169	13,795
Comverse option investigation fees			2,645
OCS royalties settlement(2)			23,390
Legal reserve for 1996 dispute			3,100
Capital gain from sale of land			(765)
Acquisition-related charges:			
In-process research and development	3,154	2,852	
Write-down of capitalized software	1,481		
Other, included in gross profit and in operating expenses	888	671	310
Income tax effect of non-GAAP adjustments	(908)	(1,478)	(6,132)
Non-GAAP net income(3)	$ 26,818	$ 35,236	$ 46,967

(1) *Includes preliminary, unaudited non-cash expense of $5,000 in the 12 months ended January 31, 2007, $28,000 in the 12 months ended January 31, 2006 and $46,000 in the 12 months ended January 31, 2005 related to inaccuracies in grants by Comverse Technology, Inc., Verint s 57% shareholder, of options to acquire Comverse stock to Verint employees. Also includes preliminary, unaudited non-cash expense of $118,000 related to the modification of Verint stock options and $25,000 related to the modification of Comverse stock options to extend the exercise periods of such options for employees terminated during the period of time in which Verint and Converse have been non-current with their SEC filings.*

(2) *Represents royalty buyout arrangement with the Office of Chief Scientist of the Ministry of Industry, Trade and Labor of the State of Israel (OCS).*

(3) *Excludes income tax effect relating to the Comverse options situation.*

Note: As mentioned elsewhere in this report, all figures are preliminary, unaudited, and subject, among other things, to the completion of the Comverse Special Committee s investigation and the Company s own related voluntary internal review.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On March 16, 2007, the Compensation Committee (the Compensation Committee) of the Board of Directors of the Company approved certain compensation arrangements with the Company s named executive officers for fiscal 2006 and for the fiscal year ended January 31, 2008 (fiscal 2007).

The Compensation Committee also approved bonuses for fiscal 2006 for Dan Bodner, the Company s President and Chief Executive Officer, and for Douglas Robinson, the Company s Vice President and Chief Financial Officer. Mr. Bodner s bonus for fiscal 2006 will be $447,300 and Mr. Robinson s bonus for fiscal 2006 will be $94,500 (pro rated for a partial year of service). The amount of these bonuses was based on the Company s performance during fiscal 2006 measured by non-GAAP net income and revenue, and in the case of Mr. Robinson, was in accordance with his employment agreement with the Company. The Company does not currently have an employment agreement with Mr. Bodner.

For fiscal 2007, the Compensation Committee approved an increase in annual base salary, and a target bonus and related performance goals, for Mr. Bodner. The Compensation Committee also approved an increase in annual base salary, and performance goals, for Mr. Robinson. Mr. Robinson s target bonus is established by his employment agreement and equals 60% of his annual base salary. For fiscal 2007, Mr. Bodner s base salary will be increased to $507,000 and Mr. Robinson s base salary will be increased to $340,000. These salary increases are retroactive to the beginning of fiscal 2007. For fiscal 2007, Mr. Bodner s target bonus will be $434,000 and Mr. Robinson s target bonus will be $204,000. The actual bonuses to be paid to Messrs. Bodner and Robinson will range from 0 percent to a maximum of 200 percent of the established target bonus and depend on whether performance meets, exceeds or falls short of the established performance goals for the period. One half of each executive s target bonus is based upon the Company s non-GAAP net income for fiscal 2007 and one half is based upon the Company s revenue for the same period.

Item 7.01 Regulation FD Disclosure.

See Item 2.02 Results of Operations and Financial Condition above.

<u>Explanatory Note</u>

We are, and at all times since our initial public offering on May 16, 2002 have been, a majority-owned subsidiary of Comverse Technology, Inc. (Comverse). Prior to our initial public offering, we were a wholly-owned subsidiary of Comverse. During the period when we were a wholly-owned subsidiary of Comverse, some of our employees were granted options by Comverse to purchase Comverse stock.

On March 14, 2006, Comverse announced the creation of a Special Committee of its Board of Directors composed of independent directors (the Comverse Special Committee) to review matters relating to grants of Comverse stock options including, but not limited to, the accuracy of the stated dates of Comverse option grants and whether Comverse followed all proper corporate procedures in connection with such grants.

On April 17, 2006, Comverse announced that the Comverse Special Committee had reached a preliminary conclusion that the actual dates of measurement for certain past Comverse stock option grants differed for accounting purposes from the recorded grant dates for such awards. On the same date, Comverse also announced that certain Comverse historical financial statements should no longer be relied upon.

Under applicable accounting rules, because we are a consolidated subsidiary of Comverse, any compensation expense related to the granting of Comverse options to our employees was required to be recorded as an expense on our financial statements. As a result, following the announcement by Comverse of the preliminary conclusion as to measurement dates, we announced that the final outcome of the Comverse Special Committee s investigation might require us to record additional stock-based compensation expense in respect of the Comverse stock options granted to our employees. In addition, as a result of the Comverse announcement, we announced that our historical financial statements for each of the fiscal years ended January 31, 2005 (fiscal 2004), ended January 31, 2004 (fiscal 2003), ended January 31, 2003 (fiscal 2002), ended January 31, 2002 (fiscal 2001) and ended January 31, 2001 (fiscal 2000) and for the first three quarters of the fiscal year ended January 31, 2006 (fiscal 2005), and any related reports of our independent registered public accounting firm, should also no longer be relied upon.

Following the announcement of the Comverse investigation, we undertook an internal review of our own option practices and, based on this review, we believe that all stock options issued by us were granted at fair market value on the date of grant and the related accounting for these stock options in our publicly filed historical financial statements is correct.

On September 6, 2006, we announced that the Comverse Special Committee had provided us with preliminary measurement dates for the Comverse stock options granted to our employees. We were also provided with preliminary calculations of the additional stock-based compensation expense attributable to these stock options. We also announced that, based on this information, we expected that such non-cash expenses might be material for certain periods and we preliminarily expected to restate our historical financial statements for fiscal 2004, fiscal 2003, fiscal 2002 and fiscal 2001. We also announced that such charges could also affect periods prior to fiscal 2002 and that, in addition to such stock based compensation charges, we expected to record certain material tax charges, make various tax payments, and pay third-party fees and expenses relating to the impact of the Comverse backdated options.

On November 14, 2006, Comverse announced that the Comverse Special Committee had expanded its investigation into certain non-option related accounting matters, including possible revenue recognition errors, errors in recording of certain deferred tax assets, expense misclassification, misuse of accounting reserves, and misstatement of backlog. Comverse also announced that it had substantially completed its investigation of employee stock option practices and made a preliminary determination of the effect on its previously issued financial statements.

On February 23, 2007, we announced that we had determined the preliminary amounts of the non-cash stock-based compensation expense we would be required to take in respect of the backdated Comverse stock options issued to our employees. We announced that for the fiscal years ended January 31, 2007, 2006, and 2005, we expected this charge to be approximately $0, $31,000, and $64,000, respectively. We also announced that we expected the charge to be less than $20 million in the aggregate for all periods. These figures exclude any tax expense or related payments, which have not yet been determined. However, we also announced at that time that we no longer expected the tax implications to materially impact our liquidity or capital resources. In addition, we announced that in light of the on-going expanded inquiry by Comverse into certain non-option related accounting matters, we had commenced our own voluntary internal review into certain of these accounting matters, including accounting reserves, income statement expense reclassification and revenue recognition, focused primarily (though not exclusively) on facts and circumstances during the period of time when we were a wholly-owned subsidiary of Comverse.

Although the Comverse Special Committee has not yet produced its final report with respect to its options investigation, we believe that this portion of their investigation is sufficiently complete that we can present certain preliminary year-end unaudited financial results to our investors. However, we urge you to read the information under the caption Cautionary Statements below. Our own non-options related internal investigation and the non-options related portion of the Comverse Special Committee s investigation are still on-going and there can be no assurance that the results of these investigations will not have a material and adverse impact on our financial results, including those presented here and in the Press Release.

Cautionary Statements

The following cautionary statements update and supersede any previous cautionary statements filed by the Company.

This report contains forward-looking statements under 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 the actual results, performance or achievements of results to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Some of the important risks, uncertainties and other important factors that could cause actual results to differ materially are discussed below. Readers 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. The Company makes 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 the Company were in any particular instance to update or correct a forward-looking statement, investors and others should not conclude that the Company would make additional updates or corrections thereafter except as otherwise required under the federal securities laws.

Cautionary Statements Related to Our Preliminary Financial Results, the Comverse Special Committee Investigation, Our Voluntary Internal Review of Certain Related Matters and Our Continuing Relationship with Comverse

The financial information contained in this report is unaudited and preliminary and is subject to change.

As discussed above under Explanatory Note, while substantial progress has been made, neither the Comverse Special Committee investigation nor our own voluntary internal review of certain matters related to the Comverse investigation is yet complete. As a result, the financial information contained in the Press Release and incorporated by reference herein is not final or complete and remains subject to change. None of this information has been audited or reviewed by our independent registered public accounting firm. In addition, none of this information takes into account any related tax effects, expenses or liabilities, including any possible disallowance of previous tax deductions. Accordingly, this financial information is expected to change, possibly materially, based on the final results of the Comverse Special Committee investigation or our own internal review, the assessment of the tax impacts referred to above, and the completion of the restatement of our historical financial statements, which will be audited by our independent registered public accounting firm. We also cannot assure you that we will not have to make further adjustments to our current and historical financial statements as a result of the voluntary internal review currently being conducted by our Audit Committee.

We have been adversely affected as a result of being a consolidated, controlled subsidiary of Comverse and may continue to be adversely affected in the future.

Our status as a majority-owned subsidiary of Comverse has materially and adversely affected us as a result of the Comverse Special Committee investigation. As a result of applicable accounting rules relating to our status as a consolidated subsidiary, we have been forced to wait for Comverse to conclude its investigation before we can file our delinquent periodic reports. The Comverse investigation has resulted in both direct and indirect, financial and non-financial, effects on us which are discussed in greater detail below. These effects include, but are not limited to, the non-cash charge we are required to take as a result of the backdating of certain Comverse stock options granted to our employees while we were a wholly-owned subsidiary, the related tax expenses and tax liabilities as a result of the options situation, the diversion of our management s attention from our business, the need to restate our historical financial statements, our inability to timely make required filings during the pendancy of the Comverse investigation, our failure to comply with Securities and Exchange Commission (SEC) periodic reporting requirements and Nasdaq marketplace rules, our resulting delisting from the Nasdaq Global Market, our loss of S-3 eligibility, our inability to issue securities to the public market and severe limitations on our ability to issue equity to our employees, our inability to provide full financial results to the market, concern from customers, investors, employees and others regarding our financial results, status and potential liability and resulting risk of loss of business and employee attrition, and declines in our stock price resulting from the foregoing. In addition, we have incurred significant expenses, including fees and expenses of outside counsel, auditors and other experts, in analyzing and reacting to the Comverse situation and in undertaking our own internal reviews as a result of allegations raised at Comverse or by former Comverse personnel. We do not have any control over the actions or policies of Comverse or access, without Comverse s cooperation, to Comverse s books, records or other information. As a result, we cannot assure you that we will not become subject to other adverse effects from the actions of Comverse or its personnel in the future, whether in connection with the current Comverse investigation or otherwise.

We have been unable to remain current with the filing of our periodic reports with the SEC, and our efforts to become current have required and will continue to require substantial management time and attention as well as additional accounting and legal expense.

As a result of the Comverse Special Committee investigation, we have had to postpone the filing of our periodic reports, and following the filing of this Current Report on Form 8-K, we believe it is likely we will continue to have to delay the filing of our outstanding reports and our upcoming annual report on Form 10-K for the fiscal year ended January 31, 2007 and future quarterly reports on Form 10-Q for some time. The completion of our delinquent public filings will require substantial management time and attention as well as additional accounting and legal expense. Since neither the Comverse Special Committee investigation nor our voluntary internal review is complete, we are not in a position to predict when we will be able to make our delinquent filings. Accordingly, any investment in our securities involves a great degree of risk.

We are subject to the risk of potential litigation and regulatory proceedings or actions in connection with the Comverse Special Committee investigation, our voluntary internal review and the related restatements of our historical financial statements.

Comverse and certain current and former officers and directors of Comverse have been named in a number of class action and/or shareholder derivative lawsuits in connection with the circumstances surrounding the Comverse Special Committee investigation, including Igal Nissim, our former Chief Financial Officer (CFO), in his former capacity as CFO of Comverse and Dan Bodner, our Chief Executive Officer (CEO), in his capacity as CEO of Verint (i.e., as the president of a significant subsidiary of Comverse). As of the date of this filing, however, these suits continue to be pending and other suits may be filed in the future. We cannot assure you that Verint or other of our personnel will not be named in these or future lawsuits relating to the Comverse Special Committee investigation or our voluntary internal review of related issues or that these suits will not in the future allege wrongdoing at Verint or by Verint employees. Moreover, we cannot predict the outcome of any of these suits and an adverse result in one or more of them, particularly if it names us, Mr. Nissim, Mr. Bodner, or other of our personnel, could have a material adverse effect on our business, results of operation and financial condition.

On July 20, 2006, we announced that, in connection with the SEC s ongoing inquiry into Comverse s past stock option grants, we had received a letter requesting that we voluntarily provide to the SEC certain documents and information related to Verint s own stock option grants and practices. In the letter, the SEC noted that its request should not be construed as an indication by SEC staff that any violations of law had occurred or as an adverse reflection upon any person or security. We have voluntarily responded to this request and are cooperating with the SEC staff.

On August 9, 2006, criminal fraud charges were brought by the U.S. Attorney s office, and civil fraud charges were brought by the SEC, against Kobi Alexander, the former Chairman and CEO of Comverse, David Kreinberg, the former CFO of Comverse, and William Sorin, the former Senior General Counsel of Comverse, in connection with their respective actions at Comverse which came to light through the investigation into Comverse s historical option practices. Messrs. Alexander, Kreinberg and Sorin sat on the Company s Board of Directors until their resignations on April 28, 2006. On October 24, 2006, the SEC announced that it had settled its case against Mr. Kreinberg without Mr. Kreinberg admitting or denying the allegations in the complaint. On the same day, Mr. Kreinberg plead guilty to one criminal count of conspiracy to commit securities fraud, mail fraud and wire fraud, and one criminal count of securities fraud in the U.S. Attorney s case against him. On November 2, 2006, Mr. Sorin plead guilty to one criminal count of conspiracy to commi