

VERINT SYSTEMS INC  
Form 10-Q  
June 06, 2012  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended April 30, 2012

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)

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Delaware  
(State or Other Jurisdiction of Incorporation or  
Organization)

11-3200514  
(I.R.S. Employer Identification No.)

330 South Service Road, Melville, New York  
(Address of Principal Executive Offices)

11747  
(Zip Code)

(631) 962-9600  
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days Yes  No

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

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

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

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

There were 39,142,324 shares of the registrant's common stock outstanding on May 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 anticipated 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:

- 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 our controlling stockholder's (Comverse Technology, Inc. (Comverse)) strategic plans and related speculation and announcements, such as Comverse's publicly announced plan to eliminate its holding company structure and maximize the value of its stake in Verint;
- risks associated with Comverse controlling our board of directors and the outcome of all matters submitted for stockholder action, including the approval of significant corporate transactions, such as certain equity issuances or mergers and acquisitions;
- risks associated with being a consolidated subsidiary of Comverse and formerly part of Comverse'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;

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- 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 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;

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- 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 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.



Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****VERINT SYSTEMS INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets****April 30, 2012 and January 31, 2012****(Unaudited)**

| (in thousands, except share and per share data)   | <b>April 30,<br/>2012</b> | <b>January 31,<br/>2012</b> |
|---|---------------------------|-----------------------------|
| <b>Assets</b>   |                           |                             |
| <b>Current Assets:</b>  |                           |                             |
| Cash and cash equivalents   | \$ 189,832                | \$ 150,662                  |
| Restricted cash and bank time deposits  | 13,038                    | 12,863                      |
| Accounts receivable, net  | 137,617                   | 154,753                     |
| Inventories   | 15,165                    | 14,414                      |
| Deferred cost of revenue  | 6,611                     | 11,951                      |
| Prepaid expenses and other current assets   | 56,207                    | 56,047                      |
| <b>Total current assets</b>   | <b>418,470</b>            | <b>400,690</b>              |
| Property and equipment, net   | 29,304                    | 28,289                      |
| Goodwill  | 833,572                   | 828,758                     |
| Intangible assets, net  | 174,659                   | 184,230                     |
| Capitalized software development costs, net   | 6,233                     | 5,846                       |
| Long-term deferred cost of revenue  | 11,448                    | 13,285                      |
| Other assets  | 36,673                    | 38,497                      |
| <b>Total assets</b>   | <b>\$ 1,510,359</b>       | <b>\$ 1,499,595</b>         |
| <b>Liabilities, Preferred Stock, and Stockholders Equity</b>  |                           |                             |
| <b>Current Liabilities:</b>   |                           |                             |
| Accounts payable  | \$ 43,362                 | \$ 49,441                   |
| Accrued expenses and other current liabilities  | 183,989                   | 168,947                     |
| Current maturities of long-term debt  | 6,239                     | 6,228                       |
| Deferred revenue  | 157,808                   | 156,772                     |
| Liabilities to affiliates   | 1,646                     | 1,760                       |
| <b>Total current liabilities</b>  | <b>393,044</b>            | <b>383,148</b>              |
| Long-term debt  | 589,392                   | 591,151                     |
| Long-term deferred revenue  | 25,076                    | 25,987                      |
| Other liabilities   | 50,896                    | 69,472                      |
| <b>Total liabilities</b>  | <b>1,058,408</b>          | <b>1,069,758</b>            |
| <b>Preferred Stock</b> - \$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 \$355,398 at April 30, 2012. | <b>285,542</b>            | <b>285,542</b>              |
| <b>Commitments and Contingencies</b>  |                           |                             |
| <b>Stockholders Equity:</b>   |                           |                             |
| Common stock - \$0.001 par value; authorized 120,000,000 shares. Issued 39,421,000 and 39,265,000 shares; outstanding 39,128,000 and 38,982,000 shares as of April 30, 2012 and January 31, 2012, respectively.                             | 40                        | 40                          |
| Additional paid-in capital  | 560,009                   | 554,351                     |

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|   |                     |                     |
|---|---------------------|---------------------|
| Treasury stock, at cost - 293,000 and 283,000 shares as of April 30, 2012 and January 31, 2012, respectively. | (7,767)             | (7,466)             |
| Accumulated deficit   | (347,729)           | (357,764)           |
| Accumulated other comprehensive loss  | (42,713)            | (47,736)            |
| <b>Total Verint Systems Inc. stockholders equity</b>  | <b>161,840</b>      | <b>141,425</b>      |
| Noncontrolling interest   | 4,569               | 2,870               |
| <b>Total stockholders equity</b>  | <b>166,409</b>      | <b>144,295</b>      |
| <b>Total liabilities, preferred stock, and stockholders equity</b>  | <b>\$ 1,510,359</b> | <b>\$ 1,499,595</b> |

See notes to condensed consolidated financial statements.

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## VERINT SYSTEMS INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Operations

Three Months Ended April 30, 2012 and 2011

(Unaudited)

| (in thousands, except per share data)   | Three Months Ended April 30, |                   |
|---|------------------------------|-------------------|
|   | 2012                         | 2011              |
| <b>Revenue:</b>   |                              |                   |
| Product   | \$ 91,999                    | \$ 83,278         |
| Service and support   | 104,636                      | 93,054            |
| <b>Total revenue</b>  | <b>196,635</b>               | <b>176,332</b>    |
| <b>Cost of revenue:</b>   |                              |                   |
| Product   | 30,892                       | 22,531            |
| Service and support   | 33,652                       | 30,168            |
| Amortization of acquired technology and backlog                               | 3,784                        | 2,650             |
| <b>Total cost of revenue</b>  | <b>68,328</b>                | <b>55,349</b>     |
| <b>Gross profit</b>   | <b>128,307</b>               | <b>120,983</b>    |
| <b>Operating expenses:</b>  |                              |                   |
| Research and development, net   | 28,403                       | 26,368            |
| Selling, general and administrative   | 72,723                       | 70,235            |
| Amortization of other acquired intangible assets                              | 6,198                        | 5,546             |
| <b>Total operating expenses</b>   | <b>107,324</b>               | <b>102,149</b>    |
| <b>Operating income</b>   | <b>20,983</b>                | <b>18,834</b>     |
| <b>Other income (expense), net:</b>   |                              |                   |
| Interest income   | 130                          | 148               |
| Interest expense  | (7,718)                      | (8,794)           |
| Loss on extinguishment of debt  |                              | (8,136)           |
| Other income, net   | 634                          | 1,012             |
| <b>Total other expense, net</b>   | <b>(6,954)</b>               | <b>(15,770)</b>   |
| <b>Income before provision for income taxes</b>                               | <b>14,029</b>                | <b>3,064</b>      |
| Provision for income taxes  | 2,399                        | 1,509             |
| <b>Net income</b>   | <b>11,630</b>                | <b>1,555</b>      |
| Net income attributable to noncontrolling interest                            | 1,595                        | 1,667             |
| <b>Net income (loss) attributable to Verint Systems Inc.</b>                  | <b>10,035</b>                | <b>(112)</b>      |
| Dividends on preferred stock  | (3,744)                      | (3,549)           |
| <b>Net income (loss) attributable to Verint Systems Inc. common shares</b>    | <b>\$ 6,291</b>              | <b>\$ (3,661)</b> |
| <b>Net income (loss) per common share attributable to Verint Systems Inc.</b> |                              |                   |
| <b>Basic</b>  | <b>\$ 0.16</b>               | <b>\$ (0.10)</b>  |
| <b>Diluted</b>  | <b>\$ 0.16</b>               | <b>\$ (0.10)</b>  |
| <b>Weighted-average common shares outstanding</b>                             |                              |                   |
| <b>Basic</b>  | <b>39,017</b>                | <b>37,392</b>     |
| <b>Diluted</b>  | <b>39,889</b>                | <b>37,392</b>     |

See notes to condensed consolidated financial statements.



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## VERINT SYSTEMS INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Comprehensive Income

Three Months Ended April 30, 2012 and 2011

(Unaudited)

| (in thousands)  | Three Months Ended April 30, |                  |
|---|------------------------------|------------------|
|   | 2012                         | 2011             |
| <b>Net income</b>   | \$ 11,630                    | \$ 1,555         |
| <b>Other comprehensive income, before income taxes and net of reclassification adjustments:</b> |                              |                  |
| Foreign currency translation adjustments  | 5,015                        | 9,237            |
| Net unrealized gains on derivative financial instruments designated as hedges                   | 146                          | 1,742            |
| <b>Other comprehensive income, before provision for income taxes</b>                            | <b>16,791</b>                | <b>12,534</b>    |
| Provision for income taxes, related to items of other comprehensive income                      | 34                           | 42               |
| <b>Comprehensive income</b>   | <b>16,757</b>                | <b>12,492</b>    |
| Comprehensive income attributable to noncontrolling interest                                    | 1,699                        | 1,731            |
| <b>Comprehensive income attributable to Verint Systems Inc.</b>                                 | <b>\$ 15,058</b>             | <b>\$ 10,761</b> |

See notes to condensed consolidated financial statements.

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## VERINT SYSTEMS INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Stockholders Equity

Three Months Ended April 30, 2012 and 2011

(Unaudited)

| (in thousands)  | Verint Systems Inc. Stockholders Equity |                              |                                  |                   |                        |   | Total Verint<br>Systems Inc.<br>Equity | Noncontrolling<br>Interest | Total<br>Stockholders<br>Equity |
|---|---|------------------------------|----------------------------------|-------------------|------------------------|---|--|----------------------------|---------------------------------|
|   | Common Stock<br>Shares                  | Common Stock<br>Par<br>Value | Additional<br>Paid-in<br>Capital | Treasury<br>Stock | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss |  |                            |                                 |
| <b>Balances as of<br/>January 31, 2011</b>                      | <b>37,089</b>                           | <b>\$ 38</b>                 | <b>\$ 519,834</b>                | <b>\$ (6,639)</b> | <b>\$ (394,757)</b>    | <b>\$ (42,069)</b>                            | <b>\$ 76,407</b>                       | <b>\$ 1,280</b>            | <b>\$ 77,687</b>                |
| Net income (loss)   |   |                              |                                  |                   | (112)                  |   | (112)                                  | 1,667                      | 1,555                           |
| Unrealized gains on<br>derivative financial<br>instruments, net |   |                              |                                  |                   |                        | 1,700   | 1,700                                  |                            | 1,700                           |
| Currency translation<br>adjustments                             |   |                              |                                  |                   |                        | 9,173   | 9,173                                  | 64                         | 9,237                           |
| Stock-based<br>compensation expense                             |   |                              | 5,785                            |                   |                        |   | 5,785                                  |                            | 5,785                           |
| Exercises of stock<br>options                                   | 258                                     |                              | 5,230                            |                   |                        |   | 5,230                                  |                            | 5,230                           |
| Common stock issued<br>for stock awards                         | 972                                     | 1                            | (1)                              |                   |                        |   |  |                            |                                 |
| Purchases of treasury<br>stock                                  | (14)                                    |                              |                                  | (502)             |                        |   | (502)                                  |                            | (502)                           |
| Tax effects from stock<br>award plans                           |   |                              | 574                              |                   |                        |   | 574                                    |                            | 574                             |
| <b>Balances as of<br/>April 30, 2011</b>                        | <b>38,305</b>                           | <b>\$ 39</b>                 | <b>\$ 531,422</b>                | <b>\$ (7,141)</b> | <b>\$ (394,869)</b>    | <b>\$ (31,196)</b>                            | <b>\$ 98,255</b>                       | <b>\$ 3,011</b>            | <b>\$ 101,266</b>               |
| <b>Balances as of<br/>January 31, 2012</b>                      | <b>38,982</b>                           | <b>\$ 40</b>                 | <b>\$ 554,351</b>                | <b>\$ (7,466)</b> | <b>\$ (357,764)</b>    | <b>\$ (47,736)</b>                            | <b>\$ 141,425</b>                      | <b>\$ 2,870</b>            | <b>\$ 144,295</b>               |
| Net income  |   |                              |                                  |                   | 10,035                 |   | 10,035                                 | 1,595                      | 11,630                          |
| Unrealized gains on<br>derivative financial<br>instruments, net |   |                              |                                  |                   |                        | 112   | 112                                    |                            | 112                             |
| Currency translation<br>adjustments                             |   |                              |                                  |                   |                        | 4,911   | 4,911                                  | 104                        | 5,015                           |
| Stock-based<br>compensation expense                             |   |                              | 4,986                            |                   |                        |   | 4,986                                  |                            | 4,986                           |
| Exercises of stock<br>options                                   | 37                                      |                              | 688                              |                   |                        |   | 688                                    |                            | 688                             |
| Common stock issued<br>for stock awards                         | 121                                     |                              |                                  |                   |                        |   |  |                            |                                 |
| Purchases of treasury<br>stock                                  | (12)                                    |                              |                                  | (369)             |                        |   | (369)                                  |                            | (369)                           |
| Treasury stock retired  |   |                              | (68)                             | 68                |                        |   |  |                            |                                 |
| Tax effects from stock<br>award plans                           |   |                              | 52                               |                   |                        |   | 52                                     |                            | 52                              |
| <b>Balances as of<br/>April 30, 2012</b>                        | <b>39,128</b>                           | <b>\$ 40</b>                 | <b>\$ 560,009</b>                | <b>\$ (7,767)</b> | <b>\$ (347,729)</b>    | <b>\$ (42,713)</b>                            | <b>\$ 161,840</b>                      | <b>\$ 4,569</b>            | <b>\$ 166,409</b>               |

See notes to condensed consolidated financial statements.

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## VERINT SYSTEMS INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows

Three Months Ended April 30, 2012 and 2011

(Unaudited)

| (in thousands)  | Three Months Ended April 30, |                   |
|---|------------------------------|-------------------|
|   | 2012                         | 2011              |
| <b>Cash flows from operating activities:</b>  |                              |                   |
| Net income  | \$ 11,630                    | \$ 1,555          |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b>    |                              |                   |
| Depreciation and amortization   | 14,096                       | 12,954            |
| Stock-based compensation - equity portion   | 4,986                        | 5,785             |
| Non-cash losses on derivative financial instruments, net                                    | 140                          | 1,933             |
| Loss on extinguishment of debt  |                              | 8,136             |
| Other non-cash items, net   | 275                          | 3,132             |
| <b>Changes in operating assets and liabilities, net of effects of business combination:</b> |                              |                   |
| Accounts receivable   | 17,602                       | 14,164            |
| Inventories   | (825)                        | (3,421)           |
| Deferred cost of revenue  | 7,272                        | 2,516             |
| Prepaid expenses and other assets   | 536                          | 1,178             |
| Accounts payable and accrued expenses   | (5,435)                      | (22,568)          |
| Deferred revenue  | (719)                        | (4,201)           |
| Other, net  | (2,026)                      | (1,869)           |
| <b>Net cash provided by operating activities</b>  | <b>47,532</b>                | <b>19,294</b>     |
| <b>Cash flows from investing activities:</b>  |                              |                   |
| Cash paid for business combinations, including adjustments, net of cash acquired            | (660)                        | (11,958)          |
| Purchases of property and equipment   | (4,075)                      | (3,131)           |
| Settlements of derivative financial instruments not designated as hedges                    | (476)                        | (826)             |
| Cash paid for capitalized software development costs  | (1,127)                      | (1,076)           |
| Change in restricted cash and bank time deposits  | (102)                        | 1,543             |
| <b>Net cash used in investing activities</b>  | <b>(6,440)</b>               | <b>(15,448)</b>   |
| <b>Cash flows from financing activities:</b>  |                              |                   |
| Proceeds from borrowings, net of original issuance discount                                 |                              | 597,000           |
| Repayments of borrowings and other financing obligations                                    | (1,738)                      | (583,362)         |
| Payments of debt issuance and other debt-related costs                                      |                              | (13,952)          |
| Proceeds from exercises of stock options  | 1,024                        | 5,122             |
| Purchases of treasury stock   | (369)                        | (502)             |
| Other financing activities  | (1,424)                      | (1,804)           |
| <b>Net cash provided by (used in) financing activities</b>                                  | <b>(2,507)</b>               | <b>2,502</b>      |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>                         | <b>585</b>                   | <b>3,104</b>      |
| <b>Net increase in cash and cash equivalents</b>  | <b>39,170</b>                | <b>9,452</b>      |
| <b>Cash and cash equivalents, beginning of period</b>                                       | <b>150,662</b>               | <b>169,906</b>    |
| <b>Cash and cash equivalents, end of period</b>   | <b>\$ 189,832</b>            | <b>\$ 179,358</b> |

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 April 30, 2012 and 2011, and the condensed consolidated balance sheet as of April 30, 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.

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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 three months ended April 30, 2012.

***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

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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.

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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.

## 2. **NET INCOME (LOSS) PER COMMON SHARE ATTRIBUTABLE TO VERINT SYSTEMS INC.**

The following table summarizes the calculation of basic and diluted net income (loss) per common share attributable to Verint Systems Inc. for the three months ended April 30, 2012 and 2011:

| (in thousands, except per share amounts)  | <b>Three Months Ended April 30,</b> |               |             |                |
|---|-------------------------------------|---------------|-------------|----------------|
|   | <b>2012</b>                         |               | <b>2011</b> |                |
| Net income  | \$                                  | 11,630        | \$          | 1,555          |
| Net income attributable to noncontrolling interest  |                                     | 1,595         |             | 1,667          |
| Net income (loss) attributable to Verint Systems Inc.   |                                     | 10,035        |             | (112)          |
| Dividends on preferred stock  |                                     | (3,744)       |             | (3,549)        |
| <b>Net income (loss) attributable to Verint Systems Inc. for basic net income (loss) per common share</b>   |                                     | <b>6,291</b>  |             | <b>(3,661)</b> |
| Dilutive effect of dividends on preferred stock   |                                     |               |             |                |
| <b>Net income (loss) attributable to Verint Systems Inc. for diluted net income (loss) per common share</b> | <b>\$</b>                           | <b>6,291</b>  | <b>\$</b>   | <b>(3,661)</b> |
| <b>Weighted-average shares outstanding:</b>   |                                     |               |             |                |
| Basic   |                                     | <b>39,017</b> |             | <b>37,392</b>  |
| Dilutive effect of employee equity award plans  |                                     | 872           |             |                |
| Dilutive effect of assumed conversion of preferred stock  |                                     |               |             |                |
| Diluted   |                                     | <b>39,889</b> |             | <b>37,392</b>  |
| <b>Net income (loss) per common share attributable to Verint Systems Inc.</b>                               |                                     |               |             |                |
| Basic   | \$                                  | 0.16          | \$          | (0.10)         |
| Diluted   | \$                                  | 0.16          | \$          | (0.10)         |

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

| (in thousands)                                  | Three Months Ended April 30, |        |
|---|------------------------------|--------|
|   | 2012                         | 2011   |
| <b>Common shares excluded from calculation:</b> |                              |        |
| Stock options and restricted stock-based awards | 952                          | 3,704  |
| Convertible preferred stock                     | 10,882                       | 10,469 |

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**3. BUSINESS COMBINATIONS**

***Three Months Ended April 30, 2012***

We did not execute any business combinations during the three months ended April 30, 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, privately held 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, 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 months ended April 30, 2012, we recorded a charge of approximately \$0.3 million within selling, general and administrative expenses for the change in the fair value of the Vovici contingent consideration obligation from \$7.2 million at January 31, 2012 to \$7.5 million at April 30, 2012, which primarily reflected the impacts of revised expectations of achieving the performance targets. As of April 30, 2012, 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 three months ended April 30, 2012, and 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, privately held 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

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cash payments to the former GMT shareholders of up to approximately \$17.4 million, contingent upon the achievement of certain performance targets over the period from the acquisition date through January 31, 2014.



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For the three months ended April 30, 2012, we recorded a benefit of approximately \$3.6 million within selling, general and administrative expenses for the change in the fair value of the contingent consideration obligation from \$9.6 million at January 31, 2012 to \$6.0 million at April 30, 2012, which primarily reflected the impacts of revised expectations of achieving the performance targets. As of April 30, 2012, 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 \$0.2 million for the three months ended April 30, 2012, and 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, 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 months ended April 30, 2012, we recorded net charges of \$0.3 million within selling, general and administrative expenses for changes in the aggregate fair values of the contingent consideration obligations associated with these acquisitions from \$20.1 million at January 31, 2012 to \$20.4 million at April 30, 2012, 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 April 30, 2012, no payments had been made to the respective former shareholders or asset owners under these arrangements.

Transaction and related costs, consisting primarily of professional fees and integration expenses, directly related to these acquisitions, totaled \$0.3 million for the three months ended April 30, 2012, and 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 \$17.0 million at April 30, 2012, and we have concluded that \$6.9 million of this goodwill is tax deductible, and \$10.1 million is not tax deductible.

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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 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. The changes in these amounts during the three months ended April 30, 2012 reflect the derecognition of certain liabilities and corresponding indemnification assets and foreign currency exchange rate fluctuations. These changes did not impact our condensed consolidated statements of operations.

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, during the remainder of the measurement period, will be included in the purchase price allocation and, subsequently, 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.

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.

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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 three months ended April 30, 2012.

As of April 30, 2012, the purchase price allocation for our August 2, 2011 Communications Intelligence acquisition remains provisional. We are continuing to gather and review additional information necessary to finalize the values assigned to the acquired identified intangible assets, goodwill and income tax assets and liabilities for this acquisition. Therefore, the provisional fair value measurements of assets acquired and liabilities assumed for this acquisition are subject to change. We expect to finalize this purchase price allocation as soon as practicable but no later than one year from the acquisition date. Purchase price allocations for all other acquisitions executed during the year ended January 31, 2012 are complete as of April 30, 2012.

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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 April 30, 2012:

| (in thousands)                                | Vovici           | Other<br>Acquisitions |
|---|------------------|-----------------------|
| <b>Components of Purchase Price:</b>          |                  |                       |
| 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                   |
| <b>Total purchase price</b>                   | <b>\$ 66,103</b> | <b>\$ 55,155</b>      |
| <b>Allocation of Purchase Price:</b>          |                  |                       |
| Net tangible assets (liabilities):            |                  |                       |
| Accounts receivable                           | \$ 1,106         | \$ 842                |
| Other current assets                          | 5,398            | 15,650                |
| Other assets                                  | 913              | 5,579                 |
| Current and other liabilities                 | (2,931)          | (15,419)              |
| Deferred revenue                              | (2,264)          | (944)                 |
| Bank debt                                     |                  | (3,330)               |
| Deferred income taxes - current and long-term | (6,021)          | 186                   |
| Net tangible assets (liabilities)             | (3,799)          | 2,564                 |
| Identifiable intangible assets:               |                  |                       |
| Developed technology                          | 11,300           | 9,743                 |
| Customer relationships                        | 15,400           | 7,040                 |
| Trademarks and trade names                    | 1,700            | 1,350                 |
| In-process research and development assets    |                  | 2,500                 |
| Other identifiable intangible assets          |                  | 1,421                 |
| Total identifiable intangible assets          | 28,400           | 22,054                |
| Goodwill                                      | 41,502           | 30,537                |
| <b>Total purchase price</b>                   | <b>\$ 66,103</b> | <b>\$ 55,155</b>      |

*Year Ended January 31, 2011*

In February 2010, we acquired all of the outstanding shares of Iontas Limited ( Iontas ), a privately held provider of desktop analytics solutions. Consideration for the acquisition of Iontas included contingent milestone-based payments tied to certain performance targets being achieved over the two-year period following the acquisition date. As of January 31, 2012, the estimated fair value of the remaining contingent consideration obligation was \$1.7 million, which was subsequently paid to the former Iontas shareholders during the three months ended April 30, 2012. We have no further contingent consideration obligations for this business combination.

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For the three months ended April 30, 2011, a \$0.1 million increase in the fair value of this contingent consideration obligation was recorded as a charge to selling, general and administrative expenses.

In December 2010, we acquired certain technology and other assets in a transaction that qualified as a business combination. The fair value of our liability for contingent consideration related to this acquisition increased by \$1.9 million during the three months ended April 30, 2011, resulting in a corresponding charge recorded within selling, general and administrative expenses for that period.

***Pro Forma Information***

The following table provides unaudited pro forma financial information for the three months ended April 30, 2011, as if Vovici and GMT had been acquired on February 1, 2011. These unaudited pro forma results reflect certain adjustments related to these acquisitions, such as amortization expense on finite-lived intangible assets acquired from Vovici and GMT. The unaudited pro forma results do not include any operating efficiencies or potential cost savings which may result from these business combinations. Accordingly, such unaudited pro forma amounts are not necessarily indicative of the results that actually would have occurred had the acquisitions occurred on February 1, 2011, nor are they indicative of future operating results. The pro forma impact of the other business combinations completed during the year ended January 31, 2012 were not material to our historical consolidated operating results and is therefore not presented.

| (in thousands)   | <b>Three Months<br/>Ended<br/>April 30, 2011</b> |
|--|--|
| Revenue  | \$ 179,709                                       |
| Net loss attributable to Verint Systems Inc. common shares | \$ (10,793)                                      |

Table of Contents**4. INTANGIBLE ASSETS AND GOODWILL**

Acquisition-related intangible assets consisted of the following as of April 30, 2012 and January 31, 2012:

| (in thousands)   | Cost              | April 30, 2012<br>Accumulated<br>Amortization | Net               |
|--|-------------------|---|-------------------|
| <b>Intangible assets with finite lives:</b>                |                   |   |                   |
| Customer relationships                                     | \$ 226,484        | \$ (101,478)                                  | \$ 125,006        |
| Acquired technology  | 94,353            | (53,755)                                      | 40,598            |
| Trade names  | 12,865            | (10,062)                                      | 2,803             |
| Non-competition agreements                                 | 5,783             | (3,868)                                       | 1,915             |
| Distribution network                                       | 2,440             | (1,413)                                       | 1,027             |
| Backlog  | 843               | (33)  | 810               |
| <b>Total intangible assets with finite lives</b>           | <b>342,768</b>    | <b>(170,609)</b>                              | <b>172,159</b>    |
| In-process research and development, with indefinite lives | 2,500             |   | 2,500             |
| <b>Total</b>   | <b>\$ 345,268</b> | <b>\$ (170,609)</b>                           | <b>\$ 174,659</b> |

| (in thousands)   | Cost              | January 31, 2012<br>Accumulated<br>Amortization | Net               |
|--|-------------------|---|-------------------|
| <b>Intangible assets with finite lives:</b>                |                   |   |                   |
| Customer relationships                                     | \$ 225,554        | \$ (95,173)                                     | \$ 130,381        |
| Acquired technology  | 94,027            | (49,732)  | 44,295            |
| Trade names  | 12,824            | (9,805)   | 3,019             |
| Non-competition agreements                                 | 5,779             | (3,656)   | 2,123             |
| Distribution network                                       | 2,440             | (1,352)   | 1,088             |
| Backlog  | 843               | (19)  | 824               |
| <b>Total intangible assets with finite lives</b>           | <b>341,467</b>    | <b>(159,737)</b>                                | <b>181,730</b>    |
| In-process research and development, with indefinite lives | 2,500             |   | 2,500             |
| <b>Total</b>   | <b>\$ 343,967</b> | <b>\$ (159,737)</b>                             | <b>\$ 184,230</b> |

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The following table presents net acquisition-related intangible assets by reportable segment as of April 30, 2012 and January 31, 2012:

| (in thousands)              | April 30,<br>2012 | January 31,<br>2012 |
|-----------------------------|-------------------|---------------------|
| Enterprise Intelligence     | \$ 152,771        | \$ 160,258          |
| Video Intelligence          | 4,764             | 5,059               |
| Communications Intelligence | 17,124            | 18,913              |
| <b>Total</b>                | <b>\$ 174,659</b> | <b>\$ 184,230</b>   |

Intangible assets and goodwill have been retrospectively adjusted at January 31, 2012 to reflect measurement period adjustments to the purchase price allocations for several business combinations completed during the year ended January 31, 2012. These adjustments were identified during the three months ended April 30, 2012, and resulted from new information obtained about facts and circumstances that existed as of the respective acquisition dates. Intangible assets were changed to reduce acquired technology and customer relationships by \$0.3 million and \$0.4 million, respectively, entirely within our Communications Intelligence segment. Further details regarding these adjustments appear in Note 3, Business Combinations .

Total amortization expense recorded for acquisition-related intangible assets was \$10.0 million and \$8.2 million for the three months ended April 30, 2012 and 2011, respectively. The reported amount of net acquisition-related intangible assets can fluctuate from the impact of changes in foreign exchange rates on intangible assets not denominated in U.S. dollars.

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

| (in thousands)<br>Years Ending January 31, | Amount            |
|--|-------------------|
| 2013 (Remainder of year)                   | \$ 29,803         |
| 2014                                       | 34,547            |
| 2015                                       | 31,070            |
| 2016                                       | 29,717            |
| 2017                                       | 26,946            |
| 2018 and thereafter                        | 20,076            |
| <b>Total</b>                               | <b>\$ 172,159</b> |

No impairment indicators were identified for finite-lived intangible assets during the three months ended April 30, 2012 and 2011. Our in-process research and development assets were acquired during the three months ended January 31, 2012, and no impairment indicators were identified for these assets during the three months ended April 30, 2012.

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Goodwill activity for the three months ended April 30, 2012, in total and by reportable segment, was as follows:

| (in thousands)   | Total             | Enterprise<br>Intelligence | Reportable Segment<br>Video<br>Intelligence | Communications<br>Intelligence |
|--|-------------------|----------------------------|---|--------------------------------|
| Goodwill, gross, at January 31, 2012:  |                   |                            |   |                                |
| As previously reported   | \$ 898,552        | \$ 770,532                 | \$ 76,214                                   | \$ 51,806                      |
| Measurement period adjustments identified during the three months ended April 30, 2012 | (2,929)           | (234)                      |   | (2,695)                        |
| As retrospectively adjusted  | 895,623           | 770,298                    | 76,214                                      | 49,111                         |
| Accumulated impairment losses through January 31, 2012                                 | (66,865)          | (30,791)                   | (36,074)                                    |                                |
| Goodwill, net, at January 31, 2012   | 828,758           | 739,507                    | 40,140                                      | 49,111                         |
| Foreign currency translation and other   | 4,814             | 5,189                      | 191   | (566)                          |
| <b>Goodwill, net, at April 30, 2012</b>  | <b>\$ 833,572</b> | <b>\$ 744,696</b>          | <b>\$ 40,331</b>                            | <b>\$ 48,545</b>               |
| <b>Balance at April 30, 2012</b>   |                   |                            |   |                                |
| Goodwill, gross, at April 30, 2012   | \$ 900,437        | \$ 775,487                 | \$ 76,405                                   | \$ 48,545                      |
| Accumulated impairment losses through April 30, 2012                                   | (66,865)          | (30,791)                   | (36,074)                                    |                                |
| <b>Goodwill, net, at April 30, 2012</b>  | <b>\$ 833,572</b> | <b>\$ 744,696</b>          | <b>\$ 40,331</b>                            | <b>\$ 48,545</b>               |

As noted previously, goodwill balances at January 31, 2012 have been retrospectively adjusted to reflect measurement period adjustments to the purchase price allocations for several business combinations completed during the year ended January 31, 2012. These adjustments reduced goodwill by \$2.9 million, including \$2.7 million and \$0.2 million in our Communications Intelligence and Enterprise Intelligence segments, respectively. Further details regarding these adjustments appear in Note 3, Business Combinations.

At the acquisition date, goodwill resulting from a business combination is assigned to those reporting units expected to benefit from the synergies of the combination. Reporting units may either be at, or one level below, our operating segment level.

We test our goodwill for impairment at least annually as of November 1, or more frequently if an event occurs or circumstances exist indicating the potential for impairment. No events or circumstances indicating the potential for goodwill impairment were identified during either the three months ended April 30, 2012 or the three months ended April 30, 2011.



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The following table summarizes our long-term debt at April 30, 2012 and January 31, 2012:

| (in thousands)            | April 30,<br>2012 | January 31,<br>2012 |
|---------------------------|-------------------|---------------------|
| Term loan facility:       |                   |                     |
| Gross borrowings          | \$ 595,500        | \$ 597,000          |
| Unamortized debt discount | (2,581)           | (2,685)             |
| Other debt                | 2,712             | 3,064               |
| <b>Total debt</b>         | <b>595,631</b>    | <b>597,379</b>      |
| Less: current maturities  | 6,239             | 6,228               |
| <b>Long-term debt</b>     | <b>\$ 589,392</b> | <b>\$ 591,151</b>   |

In May 2007, we entered into a \$675.0 million secured credit agreement ( *Prior Credit Agreement* ) comprised of a \$650.0 million seven-year term loan facility and a \$25.0 million six-year revolving line of credit. The borrowing capacity under the revolving line of credit was increased to \$75.0 million in July 2010.

In April 2011, we entered into a new credit agreement ( *Credit Agreement* ) and concurrently terminated the *Prior Credit Agreement*. The *Credit Agreement* provides for \$770.0 million of secured credit facilities, comprised of a \$600.0 million term loan maturing in October 2017 and a \$170.0 million revolving credit facility maturing in April 2016, subject to increase (up to a maximum increase of \$300.0 million) and reduction from time to time according to the terms of the *Credit Agreement*.

The majority of the new term loan proceeds were used to repay all \$583.2 million of outstanding term loan borrowings under the *Prior Credit Agreement* at the closing date of the *Credit Agreement*. There were no outstanding borrowings under the prior revolving credit facility at the closing date.

The *Credit Agreement* included an original issuance term loan discount of 0.50%, or \$3.0 million, resulting in net term loan proceeds of \$597.0 million. This discount is being amortized as interest expense over the term of the term loan using the effective interest method.

Loans under the *Credit Agreement* bear interest, payable quarterly or, in the case of Eurodollar loans with an interest period of three months or shorter, at the end of any interest period, at a per annum rate of, at our election:

(a) in the case of Eurodollar loans, the Adjusted LIBO Rate plus 3.25% (or if our corporate ratings are at least BB- and Ba3 or better, 3.00%). The Adjusted LIBO Rate is the greater of (i) 1.25% per annum and (ii) the product of the LIBO Rate and Statutory Reserves (both as defined in the *Credit Agreement*), and



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(b) in the case of Base Rate loans, the Base Rate plus 2.25% (or if our corporate ratings are at least BB- and Ba3 or better, 2.00%). The Base Rate is the greatest of (i) the administrative agent's prime rate, (ii) the Federal Funds Effective Rate (as defined in the Credit Agreement) plus 0.50% and (iii) the Adjusted LIBO Rate for a one-month interest period plus 1.00%.

We incurred debt issuance costs of \$14.8 million associated with the Credit Agreement, which we deferred and are classified within other assets. We are amortizing these deferred costs as interest expense over the term of the Credit Agreement. Of these deferred costs, \$10.2 million were associated with the term loan and are being amortized using the effective interest rate method. Deferred costs associated with the revolving credit facility were \$4.6 million and are being amortized on a straight-line basis.

At the closing date of the Credit Agreement, there were \$9.0 million of unamortized deferred costs associated with the Prior Credit Agreement. Upon termination of the Prior Credit Agreement and repayment of the prior term loan, \$8.1 million of these fees were expensed as a loss on extinguishment of debt. The remaining \$0.9 million of these fees were associated with lenders that provided commitments under both the new and the prior revolving credit facilities, which remained deferred and are being amortized over the term of the Credit Agreement.

As of April 30, 2012 and January 31, 2012, the interest rate on the term loan was 4.50%. Including the impact of the 0.50% original issuance term loan discount and the deferred debt issuance costs, the effective interest rate on our term loan was approximately 4.91% as of April 30, 2012.

During the three months ended April 30, 2012 and 2011, we incurred \$6.6 million and \$7.5 million of interest expense, respectively, on borrowings under our credit facilities. We also recorded \$0.7 million during each of the three months ended April 30, 2012 and 2011, for amortization of our deferred debt issuance costs, which is reported within interest expense. During the three months ended April 30, 2012, we also recorded \$0.1 million for amortization of the original issuance term loan discount, which is reported within interest expense.

We are required to pay a commitment fee equal to 0.50% per annum on the undrawn portion of the revolving credit facility, payable quarterly, and customary administrative agent and letter of credit fees.

The Credit Agreement requires us to make term loan principal payments of \$1.5 million per quarter through August 2017, beginning in August 2011, with the remaining balance due in October 2017. Optional prepayments of the loans are permitted without premium or penalty, other than customary breakage costs associated with the prepayment of loans bearing interest based on LIBO Rates. The loans are also subject to mandatory prepayment requirements with respect to certain asset sales, excess cash flow (as defined in the Credit Agreement), and certain other events. Prepayments are applied first to the eight immediately following scheduled term loan principal payments, then pro rata to other remaining scheduled term loan principal payments, if any, and thereafter as otherwise provided in the Credit Agreement.

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Obligations under the Credit Agreement are guaranteed by substantially all of our domestic subsidiaries and certain foreign subsidiaries that have elected to be disregarded for U.S. tax purposes and are secured by security interests in substantially all of our and their assets, subject to certain exceptions detailed in the Credit Agreement and related ancillary documentation.

The Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type, and also contains a financial covenant that requires us to maintain a Consolidated Total Debt to Consolidated EBITDA (each as defined in the Credit Agreement) leverage ratio until July 31, 2013 of no greater than 5.00 to 1 and thereafter of no greater than 4.50 to 1.

The Credit Agreement provides for customary events of default with corresponding grace periods. Upon an event of default, all of our indebtedness under the Credit Agreement may be declared immediately due and payable, and the lenders' commitments to provide loans under the Credit Agreement may be terminated.

The following table summarizes future scheduled principal payments on our term loan as of April 30, 2012:

| (in thousands)                  |                   |
|---------------------------------|-------------------|
| <b>Years Ending January 31,</b> | <b>Amount</b>     |
| 2013 (Remainder of year)        | \$ 4,500          |
| 2014                            | 6,000             |
| 2015                            | 6,000             |
| 2016                            | 6,000             |
| 2017                            | 6,000             |
| 2018 and thereafter             | 567,000           |
| <b>Total</b>                    | <b>\$ 595,500</b> |

In connection with a business combination completed during the three months ended October 31, 2011, we assumed approximately \$3.3 million of development bank and government debt in the Americas region. This debt is payable in periods through February 2017 and bears interest at varying rates. As of April 30, 2012, the majority of this debt bears interest at an annual rate of 7.00%. The carrying value of this debt was approximately \$2.7 million at April 30, 2012.

Table of Contents**6. SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENT INFORMATION****Condensed Consolidated Balance Sheets**

Inventories consisted of the following as of April 30, 2012 and January 31, 2012:

| (in thousands)           | April 30,<br>2012 | January 31,<br>2012 |
|--------------------------|-------------------|---------------------|
| Raw materials            | \$ 4,550          | \$ 4,959            |
| Work-in-process          | 7,250             | 5,777               |
| Finished goods           | 3,365             | 3,678               |
| <b>Total inventories</b> | <b>\$ 15,165</b>  | <b>\$ 14,414</b>    |

**Condensed Consolidated Statements of Operations**

Other income, net consisted of the following for the three months ended April 30, 2012 and 2011:

| (in thousands)                                  | Three Months Ended April 30, |                 |
|---|------------------------------|-----------------|
|   | 2012                         | 2011            |
| Foreign currency gains, net                     | \$ 835                       | \$ 2,991        |
| Losses on derivative financial instruments, net | (140)                        | (1,933)         |
| Other, net                                      | (61)                         | (46)            |
| <b>Total other income, net</b>                  | <b>\$ 634</b>                | <b>\$ 1,012</b> |

Table of Contents**Condensed Consolidated Statements of Cash Flows**

The following table provides supplemental information regarding our condensed consolidated cash flows for the three months ended April 30, 2012 and 2011:

| (in thousands)  | <b>Three Months Ended April 30,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2012</b>                         | <b>2011</b> |
| Cash paid for interest  | \$ 6,839                            | \$ 13,027   |
| Cash paid for income taxes, net of refunds received                 | \$ 6,656                            | \$ 4,136    |
| <b>Non-cash investing and financing transactions:</b>               |                                     |             |
| Accrued but unpaid purchases of property and equipment              | \$ 623                              | \$ 1,435    |
| Inventory transfers to property and equipment                       | \$ 43                               | \$ 181      |
| Liabilities for contingent consideration in business combinations   | \$                                  | \$ 904      |
| Stock options exercised, proceeds received subsequent to period end | \$ 47                               | \$ 156      |
| Accrued but unpaid debt issuance and other debt related costs       | \$                                  | \$ 999      |
| Leasehold improvements funded by lease incentive                    | \$ 329                              | \$          |

**7. CONVERTIBLE PREFERRED STOCK**

On May 25, 2007, in connection with our acquisition of Witness Systems, Inc. ( 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 have the right to require us to repurchase the preferred stock for 100% of the liquidation preference then in effect. Therefore, the preferred stock has been classified as mezzanine equity on our condensed consolidated balance sheets as of April 30, 2012 and January 31, 2012, separate from permanent equity, because the occurrence of such a fundamental change, and thus a potential required repurchase 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 composition, and business reorganizations.

We concluded that, as of April 30, 2012, the occurrence of a fundamental change and the associated potential required repurchase of the preferred stock were not probable. We therefore did not adjust the carrying amount of the preferred stock to its redemption amount, which is its liquidation preference, at April 30, 2012. Through April 30, 2012, cumulative, undeclared dividends on the preferred stock were \$62.4 million and, as a result, the liquidation preference of the preferred stock was \$355.4 million at that date.

At April 30, 2012, the preferred stock was convertible into approximately 10.9 million shares of our common stock.



Table of Contents**8. STOCKHOLDERS EQUITY***Treasury Stock*

From time to time, our board of directors has approved limited programs to repurchase shares of our common stock from directors or officers in connection with the vesting of restricted stock or restricted stock units to facilitate required income tax withholding by us or the payment of required income taxes by such holders. In addition, the terms of some of our equity award agreements with all grantees provide for automatic repurchases by us for the same purpose if a vesting-related tax event occurs at a time when the holder is not permitted to sell shares in the market. Any such repurchases of common stock occur at prevailing market prices and are recorded as treasury stock.

During the three months ended April 30, 2012, we acquired approximately 9,700 shares of treasury stock from executive officers at a cost of \$0.3 million. During the three months ended April 30, 2011, we acquired approximately 14,000 shares of treasury stock from an executive officer at a cost of \$0.5 million.

As previously disclosed, in connection with the resumption of option exercises following the conclusion of our previous extended filing delay period and the vesting of restricted stock units after the relisting of our common stock on The NASDAQ Global Market, during the summer of 2010, we issued up to an aggregate of approximately 135,000 shares of common stock to certain current and former employees and a former director in transactions that did not involve public offerings and that were made in reliance on available exemptions from registration under the Securities Act of 1933. In April 2012, we repurchased 2,250 of these securities at a cost of less than \$0.1 million, all of which were retired. The cost of the retired shares was deducted from common stock at par value, which was negligible, and from additional paid-in capital for the excess over par value.

*Accumulated Other Comprehensive Loss*

The following table summarizes the components of our accumulated other comprehensive loss as of April 30, 2012 and January 31, 2012:

| (in thousands)  | <b>April 30,<br/>2012</b> | <b>January 31,<br/>2012</b> |
|---|---------------------------|-----------------------------|
| Foreign currency translation losses, net                  | \$ (43,491)               | \$ (48,402)                 |
| Unrealized gains on derivative financial instruments, net | 778                       | 666                         |
| <b>Total accumulated other comprehensive loss</b>         | <b>\$ (42,713)</b>        | <b>\$ (47,736)</b>          |



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Income tax effects on unrealized gains on derivative financial instruments were not significant. Foreign currency translation losses, net, primarily reflect the strengthening of the U.S. dollar against the British pound sterling since our acquisition of Witness in May 2007, which has resulted in lower U.S. dollar-translated balances of British pound sterling-denominated goodwill and intangible assets associated with that acquisition.

**9. INCOME TAXES**

Our interim provision for income taxes is measured using an estimated annual effective tax rate, adjusted for discrete items that occur within the periods presented. The comparison of our effective tax rate between periods is significantly impacted by the level and mix of earnings and losses by tax jurisdiction, foreign income tax rate differentials, amount of permanent book to tax differences, the impact of unrecognized tax benefits, and the effects of valuation allowances on certain loss jurisdictions.

For the three months ended April 30, 2012, we recorded a \$2.4 million provision for income taxes on pre-tax income of \$14.0 million, which represented an effective income tax rate of 17.1%. This effective income tax rate was lower than the 35% U.S. federal statutory rate primarily due to the mix and levels of income and losses among taxing jurisdictions. Although we did not recognize U.S. federal income tax benefits on losses incurred by certain domestic operations where we maintain valuation allowances, income from certain foreign subsidiaries was taxed at rates lower than the U.S. federal statutory rate.

For the three months ended April 30, 2011, we recorded a \$1.5 million provision for income taxes on pre-tax income of \$3.1 million, which represented an effective income tax rate of 49.2%, which is higher than the U.S. federal statutory rate of 35%. The effective income tax rate was significantly impacted by the mix and level of income and losses among taxing jurisdictions. We recorded income tax provisions on income from certain foreign subsidiaries, which are taxed at rates lower than the U.S. federal statutory rate, but we did not recognize U.S. federal income tax benefits on losses incurred by certain domestic operations where we maintain valuation allowances.

As required by the authoritative guidance on accounting for income taxes, we evaluate the realizability of deferred tax assets on a jurisdictional basis at each reporting date. Accounting for income taxes requires that a valuation allowance be established when it is more-likely-than-not that all or a portion of the deferred tax assets will not be realized. In circumstances where there is sufficient negative evidence indicating that the deferred tax assets are not more-likely-than-not realizable, we establish a valuation allowance. We determined that there is sufficient negative evidence to maintain the valuation allowances against our federal and certain state and foreign deferred tax assets as a result of historical losses in the most recent three-year period in the U.S. and in certain foreign jurisdictions. We intend to maintain valuation allowances until sufficient positive evidence exists to support a reversal.

We had unrecognized tax benefits of \$35.8 million and \$36.4 million (excluding interest and penalties) as of April 30, 2012 and January 31, 2012, respectively. The accrued liabilities for interest and penalties were \$7.2 million and \$8.2 million at April 30, 2012

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and January 31, 2012, respectively. Interest and penalties are recorded as a component of the provision for income taxes in our condensed consolidated statements of operations. As of April 30, 2012 and January 31, 2012, the total amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate were approximately \$30.1 million and \$30.7 million, respectively. We regularly assess the adequacy of our provisions for income tax contingencies in accordance with the applicable authoritative guidance on accounting for income taxes. As a result, we may adjust the reserves for unrecognized tax benefits for the impact of new facts and developments, such as changes to interpretations of relevant tax law, assessments from taxing authorities, settlements with taxing authorities, and lapses of statutes of limitation. Further, we believe that it is reasonably possible that the total amount of unrecognized tax benefits at April 30, 2012 could decrease by approximately \$3.5 million in the next twelve months as a result of settlement of certain tax audits or lapses of statutes of limitation. Such decreases may involve the payment of additional taxes, the adjustment of deferred taxes including the need for additional valuation allowances, and the recognition of tax benefits. Our income tax returns are subject to ongoing tax examinations in several jurisdictions in which we operate. We also believe that it is reasonably possible that new issues may be raised by tax authorities or developments in tax audits may occur which would require increases or decreases to the balance of reserves for unrecognized tax benefits; however, an estimate of such changes cannot reasonably be made.

**10. FAIR VALUE MEASUREMENTS**

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

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

- Level 1: quoted prices in active markets for identical assets or liabilities;
  
- Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
  
- Level 3: unobservable inputs that are supported by little or no market activity.

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Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. We review the fair value hierarchy classification of our applicable assets and liabilities on a quarterly basis. Changes in the observability of valuation inputs may result in transfers within the fair value measurement hierarchy. We did not identify any transfers between levels of the fair value measurement hierarchy during the three months ended April 30, 2012.

*Assets and Liabilities Measured at Fair Value on a Recurring Basis*

Our assets and liabilities measured at fair value on a recurring basis consisted of the following as of April 30, 2012 and January 31, 2012:

| (in thousands)                                   | April 30, 2012                |           |            |  |
|--|-------------------------------|-----------|------------|--|
|  | Fair Value Hierarchy Category |           |            |  |
|  | Level 1                       | Level 2   | Level 3    |  |
| <b>Assets:</b>                                   |                               |           |            |  |
| Money market funds                               | \$ 45,619                     | \$        | \$         |  |
| Foreign currency forward contracts               |                               |           | 971        |  |
| <b>Total assets</b>                              | <b>\$ 45,619</b>              | <b>\$</b> | <b>971</b> |  |
| <b>Liabilities:</b>                              |                               |           |            |  |
| Foreign currency forward contracts               | \$                            | \$        | 33         |  |
| Contingent consideration - business combinations |                               |           | 33,900     |  |
| <b>Total liabilities</b>                         | <b>\$</b>                     | <b>\$</b> | <b>33</b>  |  |

| (in thousands)                                   | January 31, 2012              |           |            |  |
|--|-------------------------------|-----------|------------|--|
|  | Fair Value Hierarchy Category |           |            |  |
|  | Level 1                       | Level 2   | Level 3    |  |
| <b>Assets:</b>                                   |                               |           |            |  |
| Money market funds                               | \$ 44,494                     | \$        | \$         |  |
| Foreign currency forward contracts               |                               |           | 978        |  |
| <b>Total assets</b>                              | <b>\$ 44,494</b>              | <b>\$</b> | <b>978</b> |  |
| <b>Liabilities:</b>                              |                               |           |            |  |
| Foreign currency forward contracts               | \$                            | \$        | 530        |  |
| Contingent consideration - business combinations |                               |           | 38,646     |  |
| <b>Total liabilities</b>                         | <b>\$</b>                     | <b>\$</b> | <b>530</b> |  |

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The following table presents the change in the estimated fair value of our liability for contingent consideration measured using significant unobservable inputs (Level 3) for the three months ended April 30, 2012 and 2011:

| (in thousands)  | <b>Three Months Ended April 30,</b> |                 |
|---|-------------------------------------|-----------------|
|   | <b>2012</b>                         | <b>2011</b>     |
| Fair value measurement at beginning of period                           | \$ 38,646                           | \$ 3,686        |
| Contingent consideration liabilities recorded for business combinations |                                     | 904             |
| Changes in fair values, recorded in operating expenses                  | (2,996)                             | 2,023           |
| Payments of contingent consideration                                    | (1,750)                             | (2,000)         |
| <b>Fair value measurement at end of period</b>                          | <b>\$ 33,900</b>                    | <b>\$ 4,613</b> |

Our estimated liability for contingent consideration represents potential payments of additional consideration for business combinations, payable if certain defined performance goals are achieved. Changes in fair value of contingent consideration are recorded in the condensed consolidated statements of operations within selling, general and administrative expenses.

***Fair Value Measurements***

*Money Market Funds* - We value our money market funds using quoted market prices for such funds.

*Foreign Currency Forward Contracts* - The estimated fair value of foreign currency forward contracts is based on quotes received from the counterparties thereto. These quotes are reviewed for reasonableness by discounting the future estimated cash flows under the contracts, considering the terms and maturities of the contracts and market exchange rates using readily observable market prices for similar contracts.

*Contingent Consideration - Business Combinations* - The fair value of the contingent consideration related to business combinations is estimated using a probability-adjusted discounted cash flow model. These fair value measurements are based on significant inputs not observable in the market. The key internally developed assumptions used in these models are discount rates and the probabilities assigned to the milestones to be achieved. We remeasure the fair value of the contingent consideration at each reporting period, and any changes in fair value resulting from either the passage of time or events occurring after the acquisition date, such as changes in discount rates, or in the expectations of achieving the performance targets, are recorded in earnings. Increases or decreases in discount rates would have inverse impacts on the related fair value measurements, while favorable or unfavorable changes in expectations of achieving performance targets would result in corresponding increases or decreases in the related fair value measurements. We utilized discount rates ranging from 4.1% to 17.5% in our calculations of the estimated fair values of our contingent consideration liabilities as of April 30, 2012.

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***Other Financial Instruments***

The carrying amounts of accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities.

At each of April 30, 2012 and January 31, 2012, the estimated fair value of our term loan borrowings was \$597.0 million. The estimated fair value of the term loan is based upon indicative bid and ask prices as determined by the agent responsible for the syndication of our term loan. We consider these inputs to be within Level 3 of the fair value hierarchy, because we cannot reasonably observe activity in the limited market in which participations in our term loan are traded. The indicative prices provided to us as at each of April 30, 2012 and January 31, 2012 were approximately at par value.

***Assets and Liabilities Not Measured at Fair Value on a Recurring Basis***

In addition to assets and liabilities that are measured at fair value on a recurring basis, we also measure certain assets and liabilities at fair value on a nonrecurring basis. Our non-financial assets, including goodwill, intangible assets and property, plant and equipment, are measured at fair value when there is an indication of impairment and the carrying amount exceeds the asset's projected undiscounted cash flows. These assets are recorded at fair value only when an impairment charge is recognized. No such impairment charges were recorded during the three months ended April 30, 2012 and 2011.

**11. DERIVATIVE FINANCIAL INSTRUMENTS**

Our primary objective for holding derivative financial instruments is to manage foreign currency exchange rate risk and interest rate risk, when deemed appropriate. We enter into these contracts in the normal course of business to mitigate risks and not for speculative purposes.

**Foreign Currency Forward Contracts**

Under our risk management strategy, we periodically use derivative financial instruments to manage our short-term exposures to fluctuations in foreign currency exchange rates. We utilize foreign exchange forward contracts to hedge certain operational cash flow exposures resulting from changes in foreign currency exchange rates. These cash flow exposures result from portions of our forecasted operating expenses, primarily compensation and related expenses, which are transacted in currencies other than the U.S. dollar, primarily the Israeli shekel and the Canadian dollar. We also periodically utilize foreign currency forward contracts to manage exposures resulting from forecasted customer collections to be remitted in currencies other than the applicable functional currency. Our joint venture, which has a Singapore dollar functional currency, also utilizes foreign exchange forward contracts to manage its exposure to exchange rate fluctuations related to settlements of liabilities denominated in U.S. dollars. These foreign currency forward contracts are reported at fair value on our condensed consolidated balance sheets and generally have maturities of no longer than twelve months, although occasionally we will execute a contract that extends beyond twelve months, depending upon the nature of the underlying risk.



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The counterparties to our derivative financial instruments consist of several major international financial institutions. We regularly monitor the financial strength of these institutions. While the counterparties to these contracts expose us to credit-related losses in the event of a counterparty's non-performance, the risk would be limited to the unrealized gains on such affected contracts. We do not anticipate any such losses.

Certain of these foreign currency forward contracts are not designated as hedging instruments under accounting guidance for derivatives, and gains and losses from changes in their fair values are therefore reported in other income (expense), net. Changes in the fair values of foreign currency forward contracts that are designated and effective as cash flow hedges are recorded net of related tax effects in accumulated other comprehensive income (loss), and are reclassified to the condensed consolidated statements of operations when the effects of the item being hedged are recognized in the condensed consolidated statements of operations.

**Notional Amounts of Derivative Financial Instruments**

Our outstanding derivative financial instruments consisted only of foreign currency forward contracts with notional amounts of \$84.6 million and \$94.1 million as of April 30, 2012 and January 31, 2012, respectively.

Table of Contents**Fair Values of Derivative Financial Instruments**

The fair values of our derivative financial instruments as of April 30, 2012 and January 31, 2012 were as follows:

| (in thousands)  | April 30, 2012                            |               |  |               |
|---|---|---------------|--|---------------|
|   | Assets                                    |               | Liabilities                            |               |
|   | Balance Sheet<br>Classification           | Fair Value    | Balance Sheet<br>Classification        | Fair Value    |
| <b>Derivative financial instruments designated as hedging instruments:</b>          |   |               |  |               |
| Foreign currency forward contracts  | Prepaid expenses and other current assets | \$ 926        | Accrued expenses and other liabilities | \$ 28         |
| <b>Total derivative financial instruments designated as hedging instruments</b>     |   | <b>\$ 926</b> |  | <b>\$ 28</b>  |
| <b>Derivative financial instruments not designated as hedging instruments:</b>      |   |               |  |               |
| Foreign currency forward contracts  | Prepaid expenses and other current assets | \$ 45         | Accrued expenses and other liabilities | \$ 5          |
| <b>Total derivative financial instruments not designated as hedging instruments</b> |   | <b>\$ 45</b>  |  | <b>\$ 5</b>   |
| <b>January 31, 2012</b>   |   |               |  |               |
| (in thousands)  | January 31, 2012                          |               |  |               |
|   | Assets                                    |               | Liabilities                            |               |
|   | Balance Sheet<br>Classification           | Fair Value    | Balance Sheet<br>Classification        | Fair Value    |
| <b>Derivative financial instruments designated as hedging instruments:</b>          |   |               |  |               |
| Foreign currency forward contracts  | Prepaid expenses and other current assets | \$ 978        | Accrued expenses and other liabilities | \$ 227        |
| <b>Total derivative financial instruments designated as hedging instruments</b>     |   | <b>\$ 978</b> |  | <b>\$ 227</b> |
| <b>Derivative financial instruments not designated as hedging instruments:</b>      |   |               |  |               |
| Foreign currency forward contracts  |   | \$            | Accrued expenses and other liabilities | \$ 303        |
| <b>Total derivative financial instruments not designated as hedging instruments</b> |   | <b>\$</b>     |  | <b>\$ 303</b> |





Table of Contents**Derivative Financial Instruments in Cash Flow Hedging Relationships**

The effects of derivative financial instruments designated as cash flow hedging instruments as of April 30, 2012 and January 31, 2012, and for the three months ended April 30, 2012 and 2011 were as follows:

| (in thousands)                     | Net Gains Recognized in Accumulated Other Comprehensive Loss |                  | Classification of Net Gains (Losses) Reclassified from Other Comprehensive Loss into the Condensed Consolidated Statements of Operations | Net Gains (Losses) Reclassified from Other Comprehensive Loss into the Condensed Consolidated Statements of Operations |                                   |
|------------------------------------|--|------------------|--|--|-----------------------------------|
|                                    | April 30, 2012   | January 31, 2012 |  | Three Months Ended April 30, 2012  | Three Months Ended April 30, 2011 |
| Foreign currency forward contracts | \$ 778   | \$ 666           | Operating Expenses   | \$ (206)   | \$ 807                            |

There were no gains or losses from ineffectiveness of these hedges recorded for the three months ended April 30, 2012 and 2011. All of the foreign currency forward contracts underlying the \$0.8 million of net gains recorded in our Accumulated Other Comprehensive Loss at April 30, 2012 mature within twelve months, and therefore we expect all such gains to be reclassified into earnings within the next twelve months.

**Derivative Financial Instruments Not Designated as Hedging Instruments**

Losses recognized on derivative financial instruments not designated as hedging instruments in our consolidated statements of operations for the three months ended April 30, 2012 and 2011 were as follows:

| (in thousands)                     | Classification in Condensed Consolidated Statements of Operations | Three Months Ended April 30, |                   |
|------------------------------------|---|------------------------------|-------------------|
|                                    |   | 2012                         | 2011              |
| Foreign currency forward contracts | Other income (expense), net                                       | \$ (140)                     | \$ (1,933)        |
| <b>Total</b>                       |   | <b>\$ (140)</b>              | <b>\$ (1,933)</b> |

Table of Contents**12. STOCK-BASED COMPENSATION**

We recognized stock-based compensation expense in the following line items on the condensed consolidated statements of operations for the three months ended April 30, 2012 and 2011:

| (in thousands)                                | <b>Three Months Ended April 30,</b> |                 |
|---|-------------------------------------|-----------------|
|   | <b>2012</b>                         | <b>2011</b>     |
| Cost of revenue - product                     | \$ 134                              | \$ 261          |
| Cost of revenue - service and support         | 590                                 | 708             |
| Research and development, net                 | 495                                 | 849             |
| Selling, general and administrative           | 4,492                               | 5,732           |
| <b>Total stock-based compensation expense</b> | <b>\$ 5,711</b>                     | <b>\$ 7,550</b> |

Total stock-based compensation expense by classification was as follows for the three months ended April 30, 2012 and 2011:

| (in thousands)                                | <b>Three Months Ended April 30,</b> |                 |
|---|-------------------------------------|-----------------|
|   | <b>2012</b>                         | <b>2011</b>     |
| Equity-classified awards                      | \$ 4,986                            | \$ 5,785        |
| Liability-classified awards                   | 725                                 | 1,765           |
| <b>Total stock-based compensation expense</b> | <b>\$ 5,711</b>                     | <b>\$ 7,550</b> |

Our liability-classified awards include our phantom stock awards, the values of which track the market price of our common stock and are therefore subject to volatility, and which are settled with cash payments equivalent to the market value of our common stock upon vesting. Awards under our stock bonus program, which are settled with a variable number of shares of common stock determined using a discounted average price of our common stock, as defined in the program, are also liability-classified awards. Upon settlement of liability-classified awards with equity, compensation expense associated with those awards is reported within equity-classified awards in the table above.

The decrease in stock-based compensation expense in the three months ended April 30, 2012, compared to the corresponding period in the prior year, resulted primarily from the impact of a shift in the mix of outstanding restricted stock units from awards with two-year vesting periods to awards with three-year vesting periods and a significant decrease in outstanding phantom stock awards.

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*Stock Options*

We have generally not granted stock options subsequent to January 31, 2006. However, in connection with our acquisition of Vovici on August 4, 2011, stock options to purchase shares of Vovici common stock were converted into stock options to purchase approximately 42,000 shares of our common stock. Additionally, in connection with our acquisition of Witness on May 25, 2007, stock options to purchase shares of Witness common stock were converted into stock options to purchase approximately 3.1 million shares of our common stock.

Stock option exercises had been suspended during our previous extended filing delay period. Following our completion of certain delayed SEC filings in June 2010, stock option holders were permitted to resume exercising vested stock options. During the three months ended April 30, 2012 and 2011, approximately 37,000 and 258,000 common shares were issued pursuant to stock option exercises, respectively, for total proceeds of \$0.7 million and \$5.2 million, respectively. As of April 30, 2012, we had approximately 1.0 million stock options outstanding, of which all but 27,000 were exercisable as of such date.

*Restricted Stock Units and Restricted Stock Awards*

We periodically award restricted stock units, as well as shares of restricted stock, to our directors, officers, and other employees. These awards contain various vesting conditions and are subject to certain restrictions and forfeiture provisions prior to vesting.

During the three months ended April 30, 2012 and 2011, we granted 1.1 million and 0.9 million restricted stock units, respectively. Forfeitures of restricted stock units in each period were not significant. As of April 30, 2012 and 2011, we had 2.4 million and 1.8 million of restricted stock units outstanding, respectively, with weighted-average grant date fair values of \$30.44 and \$29.17 per unit, respectively. We did not grant any restricted stock awards during the three months ended April 30, 2012 and 2011, and there were no unvested restricted stock awards outstanding at April 30, 2012.

Restricted stock units granted during the three months ended April 30, 2012 include a provision which allows these awards to be settled with cash payments upon vesting, rather than with delivery of common stock, at the discretion of our board of directors. As of April 30, 2012, settlement of these awards with cash payments was not considered probable, and therefore these awards have been accounted for as equity-classified awards.

As of April 30, 2012, there was approximately \$44.6 million of total unrecognized compensation expense, net of estimated forfeitures, related to unvested restricted stock units, which is expected to be recognized over a weighted-average period of 2.1 years.

*Phantom Stock Units*

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We have periodically issued phantom stock units to certain non-officer employees that settle, or are expected to settle, with cash payments upon vesting. Like equity-settled awards, phantom stock units are awarded with vesting conditions and are subject to certain forfeiture provisions prior to vesting.

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During the three months ended April 30, 2012 and 2011, grants and forfeitures of phantom stock units were not significant. Total cash payments made upon vesting of phantom stock units were negligible for the three months ended April 30, 2012 and were \$7.0 million for the three months ended April 30, 2011. The total accrued liabilities for phantom stock units were \$2.3 million and \$1.9 million as of April 30, 2012 and January 31, 2012, respectively.

*Stock Bonus Program*

In September 2011, our board of directors approved, and in December 2011 revised, a stock bonus program under which eligible employees may receive a portion of their bonus for the year or for the fourth quarter (depending on the employee's bonus plan) in the form of fully vested shares of our common stock. As of April 30, 2012, executive officers were not eligible to participate in this program. This program is subject to annual funding approval by our board of directors and an annual cap on the number of shares that can be issued. Subject to these limitations, the number of shares to be issued under the program for a given year is determined using a five-day trailing average price of our common stock when the awards are calculated, reduced by a discount to be determined by the board of directors each year. For the year ended January 31, 2012, our board of directors approved up to 150,000 shares of common stock for awards under this program and a discount of 20%. To the extent that this program is not funded in a given year or the number of shares of common stock needed to fully satisfy employee enrollment exceeds the annual cap, the applicable portion of the employee bonuses will generally revert to being paid in cash. Obligations under this program are accounted for as liabilities, because the obligations are based predominantly on fixed monetary amounts that are generally known at inception of the obligation.

Shares of common stock earned under this program for the year ended January 31, 2012 are expected to be issued during the three months ended July 31, 2012. The total accrued liabilities for the stock bonus program were \$3.5 million and \$3.2 million as of April 30, 2012 and January 31, 2012, respectively. As of April 30, 2012, funding for this program for the year ending January 31, 2013 has not yet been determined.

**13. RELATED PARTY TRANSACTIONS**

During the three months ended April 30, 2012, we paid \$0.3 million to Comverse for their assignment to us of user licenses for certain third-party internal-use software.

**14. LEGAL PROCEEDINGS**

On March 26, 2009, a motion to approve a class action lawsuit (the Labor Motion), and the class action lawsuit itself (the Labor Class Action) (Labor Case No. 4186/09), were filed against our subsidiary, Verint Systems Limited (VSL), by a former employee of VSL, Orit Deutsch, in the Tel Aviv Labor Court. Ms. Deutsch purports to represent a class of our employees and ex-employees who were granted options to buy shares of Verint and to whom allegedly damages were caused as a result of the blocking of the ability to



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exercise Verint options by our employees or ex-employees during our previous extended filing delay period. The Labor Class Action seeks compensatory damages for the entire class in an unspecified amount. On July 9, 2009, we filed a motion for summary dismissal and alternatively for the stay of the Labor Motion. On February 8, 2010, the Tel Aviv Labor Court dismissed the case for lack of material jurisdiction and ruled that it would be transferred to the District Court in Tel Aviv. On October 11, 2011, the District Court in Tel Aviv ordered a stay of proceedings until legal proceedings in the United States brought by stockholders of Comverse who have opted-out of Comverse's recent class action settlement are concluded. On December 7, 2011, Ms. Deutsch sought, unsuccessfully, to consolidate her action with a related action against Comverse filed by another plaintiff in Israel. In light of recent developments in the Comverse opt-out proceeding in the United States, Ms. Deutsch and the other Israeli plaintiff filed motions on March 23, 2012 and April 4, 2012, respectively, to (a) consolidate and amend their claims and (b) lift the stay on their proceedings before the District Court in Tel Aviv. We do not expect to contest this latest motion on procedural grounds and plan to continue to vigorously defend the action after the District Court in Tel Aviv rules on the motion.

From time to time we or our subsidiaries may be involved in legal proceedings and/or litigation arising in the ordinary course of our business. While the outcome of these matters cannot be predicted with certainty, we do not believe that the outcome of any current claims will have a material effect on our consolidated financial position, results of operations, or cash flows.

**15. SEGMENT INFORMATION**

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the enterprise's chief operating decision maker ( CODM ), or decision making group, in deciding how to allocate resources and in assessing performance. Our Chief Executive Officer is our CODM.

We conduct our business in three operating segments - Enterprise Intelligence Solutions ( Enterprise Intelligence ), Video and Situation Intelligence Solutions ( Video Intelligence ), and Communications and Cyber Intelligence Solutions ( Communications Intelligence ). Our Enterprise Intelligence segment was previously referred to as our Workforce Optimization segment.

We measure the performance of our operating segments based upon operating segment revenue and operating segment contribution. Operating segment contribution includes segment revenue and expenses incurred directly by the segment, including material costs, service costs, research and development and selling, marketing, and administrative expenses. We do not allocate certain expenses, which include the majority of general and administrative expenses, facilities and communication expenses, purchasing expenses, manufacturing support and logistic expenses, depreciation and amortization, amortization of capitalized software development costs, stock-based compensation, and special charges such as restructuring costs when calculating operating segment contribution. These expenses are included in the unallocated expenses section of the table presented below. Revenue from transactions between our operating segments is not material.



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Revenue adjustments for the three months ended April 30, 2012 and 2011 represent revenue of acquired companies which is included within segment revenue reviewed by the CODM, but not recognizable within GAAP revenue. These adjustments primarily relate to the acquisition-date excess of the historical carrying value over the fair value of acquired companies' future maintenance and service performance obligations. As the obligations are satisfied, we report our segment revenue using the historical carrying values of these obligations, which we believe better reflects our ongoing maintenance and service revenue streams, whereby GAAP revenue is reported using the obligations' acquisition-date fair values.

With the exception of goodwill and acquired intangible assets, we do not identify or allocate our assets by operating segment. Consequently, it is not practical to present assets by operating segment. There were no material changes in the allocation of goodwill and acquired intangible assets by operating segment during the three months ended April 30, 2012 and 2011. The allocations of goodwill and acquired intangible assets by operating segment appear in Note 4, Intangible Assets and Goodwill.

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Operating results by segment for the three months ended April 30, 2012 and 2011 were as follows:

| (in thousands)                                  | <b>Three Months Ended April 30,</b> |                   |
|---|-------------------------------------|-------------------|
|   | <b>2012</b>                         | <b>2011</b>       |
| <b>Revenue:</b>                                 |                                     |                   |
| Enterprise Intelligence                         |                                     |                   |
| Segment revenue                                 | \$ 111,780                          | \$ 97,271         |
| Revenue adjustments                             | (1,953)                             |                   |
|   | 109,827                             | 97,271            |
| Video Intelligence                              |                                     |                   |
| Segment revenue                                 | 29,458                              | 30,269            |
| Revenue adjustments                             | (780)                               | (235)             |
|   | 28,678                              | 30,034            |
| Communications Intelligence                     |                                     |                   |
| Segment revenue                                 | 59,001                              | 49,027            |
| Revenue adjustments                             | (871)                               |                   |
|   | 58,130                              | 49,027            |
| <b>Total revenue</b>                            | <b>\$ 196,635</b>                   | <b>\$ 176,332</b> |
| <b>Segment contribution:</b>                    |                                     |                   |
| Enterprise Intelligence                         | \$ 47,103                           | \$ 42,976         |
| Video Intelligence                              | 6,805                               | 7,571             |
| Communications Intelligence                     | 16,815                              | 19,245            |
| <b>Total segment contribution</b>               | <b>70,723</b>                       | <b>69,792</b>     |
| <b>Unallocated expenses, net:</b>               |                                     |                   |
| Amortization of acquired intangible assets      | 9,982                               | 8,196             |
| Stock-based compensation                        | 5,711                               | 7,550             |
| Other unallocated expenses                      | 34,047                              | 35,212            |
| Total unallocated expenses, net                 | 49,740                              | 50,958            |
| <b>Operating income</b>                         | <b>20,983</b>                       | <b>18,834</b>     |
| Other expense, net                              | (6,954)                             | (15,770)          |
| <b>Income before provision for income taxes</b> | <b>\$ 14,029</b>                    | <b>\$ 3,064</b>   |

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following management's discussion and analysis is provided to assist readers in understanding our financial condition, results of operations, and cash flows. This discussion should be read in conjunction with our audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended January 31, 2012 and our unaudited condensed consolidated financial statements and notes thereto contained in this report. This discussion contains a number of forward-looking statements, all of which are based on our current expectations and all of which could be affected by uncertainties and risks. Our actual results may differ materially from the results contemplated in these forward-looking statements as a result of many factors including, but not limited to, those described under "Cautionary Note on Forward-Looking Statements".

**Business Overview**

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.

More than 10,000 organizations in over 150 countries including over 85 percent of the Fortune 100 use Verint solutions 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.

Verint was founded in 1994 and is headquartered in Melville, New York.

**Critical Accounting Policies and Estimates**

Note 1, "Summary of Significant Accounting Policies" to the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended January 31, 2012 describes the significant accounting policies and methods used in the preparation of the condensed consolidated financial statements appearing in this report. The accounting policies that reflect our more significant estimates, judgments and assumptions in the preparation of our consolidated financial statements are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of our Annual Report on Form 10-K for the year ended January 31, 2012, and include the following:

- Revenue recognition;

- Accounting for business combinations;

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- Impairment of goodwill and other intangible assets;
- Accounting for income taxes;
- Contingencies;
- Accounting for stock-based compensation; and
- Allowance for doubtful accounts.

We did not identify any significant changes to our critical accounting policies and estimates during the three months ended April 30, 2012.

**Results of Operations**

*Seasonality and Cyclicity*

As is typical for many software and technology companies, our business is subject to seasonal and cyclical factors. Our revenue and operating income are typically highest in the fourth quarter and lowest in the first quarter. Moreover, revenue and operating income in the first quarter of a new year may be lower than in the fourth quarter of the preceding year, potentially by a significant margin. In addition, we generally receive a higher volume of orders in the last month of a quarter, with orders concentrated in the later part of that month. We believe that these seasonal and cyclical factors primarily reflects customer spending patterns and budget cycles, as well as the impact of incentive compensation plans for our sales personnel. While seasonal and cyclical factors such as these are common in the software and technology industry, this pattern should not be considered a reliable indicator of our future revenue or financial performance. Many other factors, including general economic conditions, may also have an impact on our business and financial results.

Table of Contents**Overview of Operating Results**

The following table sets forth a summary of certain key financial information for the three months ended April 30, 2012, and 2011:

| (in thousands, except per share data)                                   | <b>Three Months Ended April 30,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2012</b>                         | <b>2011</b> |
| Revenue   | \$ 196,635                          | \$ 176,332  |
| Operating income  | \$ 20,983                           | \$ 18,834   |
| Net income (loss) attributable to Verint Systems Inc. common shares     | \$ 6,291                            | \$ (3,661)  |
| <b>Net income (loss) per share attributable to Verint Systems Inc.:</b> |                                     |             |
| Basic   | \$ 0.16                             | \$ (0.10)   |
| Diluted   | \$ 0.16                             | \$ (0.10)   |

*Three Months Ended April 30, 2012 compared to Three Months Ended April 30, 2011.* Our revenue increased approximately 12%, or \$20.3 million, to \$196.6 million in the three months ended April 30, 2012 from \$176.3 million in three months ended April 30, 2011. In our Enterprise Intelligence segment, revenue increased approximately 13%, or \$12.5 million, to \$109.8 million in the three months ended April 30, 2012 from \$97.3 million in the three months ended April 30, 2011. The increase consisted of a \$9.1 million increase in service and support revenue and a \$3.4 million increase in product revenue. In our Communications Intelligence segment, revenue increased approximately 19%, or \$9.1 million, to \$58.1 million in the three months ended April 30, 2012 from \$49.0 million in the three months ended April 30, 2011. The increase consisted of a \$6.7 million increase in product revenue and a \$2.4 million increase in service and support revenue. In our Video Intelligence segment, revenue decreased approximately 5%, or \$1.3 million, to \$28.7 million in the three months ended April 30, 2012 from \$30.0 million in the three months ended April 30, 2011, due primarily to a decrease in product revenue. For more details on our revenue by segment, see Revenue by Operating Segment. Revenue in the Americas, EMEA, and the Asia-Pacific region ( APAC ) represented approximately 52%, 26%, and 22% of our total revenue, respectively, in the three months ended April 30, 2012, compared to approximately 50%, 27%, and 23%, respectively, in the three months ended April 30, 2011.

Operating income was \$21.0 million in the three months ended April 30, 2012 compared to \$18.8 million in the three months ended April 30, 2011. The increase in operating income was primarily due to an increase in gross profit of \$7.3 million to \$128.3 million, from \$121.0 million, partially offset by an increase in operating expenses of \$5.2 million to \$107.3 million, from \$102.1 million. The increase in gross profit was primarily due to increased gross profit in our Enterprise Intelligence segment. The increase in operating expenses was primarily due to a \$2.0 million increase in net research and development expenses due primarily to an increase in employee headcount, and an increase in selling, general and administrative expense due primarily to increased employee compensation and related expense, increased employee travel expense, and increased contractor costs. These increases were partially offset by decreases in the change in fair value of our contingent consideration arrangements and stock-based compensation expense. Further details of changes in operating income are provided below.

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Net income attributable to Verint Systems Inc. common shares was \$6.3 million, and diluted net income per common share was \$0.16, in the three months ended April 30, 2012 compared to a net loss attributable to Verint Systems Inc. common shares of \$3.7 million, and diluted net loss per common share of \$0.10, in the three months ended April 30, 2011. The increase in net income attributable to Verint Systems Inc. common shares and diluted net income per common share in the three months ended April 30, 2012 was primarily due to our increased operating income, as described above, and a decrease in total other expense, net, due primarily to an \$8.1 million loss upon termination of our Prior Credit Agreement and repayment of the prior term loan recognized during the three months ended April 30, 2011. There were no such losses recognized during the three months ended April 30, 2012.

A portion of our business is conducted in currencies other than the U.S. dollar, and therefore our revenue and operating expenses are affected by fluctuations in applicable foreign currency exchange rates. When comparing average exchange rates for the three months ended April 30, 2012 to average exchange rates for the three months ended April 30, 2011, the U.S. dollar strengthened relative to the British pound sterling, euro, Israeli shekel, and Brazilian real, which are the major foreign currencies in which we transacted business, resulting in decreases in our revenue, cost of revenue and operating expenses on a dollar-denominated basis. For the three months ended April 30, 2012, had foreign exchange rates remained unchanged from rates in effect for the three months ended April 30, 2011, our revenue would have been approximately \$2.4 million higher and our cost of revenue and operating expenses would have been approximately \$2.9 million higher, which would have resulted in a \$0.5 million decrease in operating income.

As of April 30, 2012, we employed approximately 3,200 employees, including part-time employees and certain contractors, as compared to approximately 2,800 employees as of April 30, 2011.

**Revenue by Operating Segment**

The following table sets forth revenue for each of our three operating segments for the three months ended April 30, 2012 and 2011:

| (in thousands)              | <b>Three Months Ended April 30,</b> |                   | <b>% Change</b>    |
|-----------------------------|-------------------------------------|-------------------|--------------------|
|                             | <b>2012</b>                         | <b>2011</b>       | <b>2012 - 2011</b> |
| Enterprise Intelligence     | \$ 109,827                          | \$ 97,271         | 13%                |
| Video Intelligence          | 28,678                              | 30,034            | (5%)               |
| Communications Intelligence | 58,130                              | 49,027            | 19%                |
| <b>Total revenue</b>        | <b>\$ 196,635</b>                   | <b>\$ 176,332</b> | <b>12%</b>         |

***Enterprise Intelligence Segment***

*Three Months Ended April 30, 2012 compared to Three Months Ended April 30, 2011.* Enterprise Intelligence revenue increased approximately 13%, or \$12.5 million, to \$109.8 million in the three months ended April 30, 2012 from \$97.3 million in the three months ended April 30, 2011. The increase consisted of a \$9.1 million increase in service and support revenue





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and a \$3.4 million increase in product revenue. The increase in service and support revenue is due primarily to an increase in our customer install base and the related support revenue generated from this customer base during the three months ended April 30, 2012 and, to a lesser extent, acquisitions in our Enterprise Intelligence segment (primarily Vovici) that were consummated subsequent to April 30, 2011. The increase in product revenue is due to continued growth of sales to existing and new customers.

***Video Intelligence Segment***

*Three Months Ended April 30, 2012 compared to Three Months Ended April 30, 2011.* Video Intelligence revenue decreased approximately 5%, or \$1.3 million, to \$28.7 million in the three months ended April 30, 2012 from \$30.0 million in the three months ended April 30, 2011. The decrease was primarily attributable to a \$1.4 million decrease in product revenue due primarily to a reduction in volume of product deliveries to a large existing customer, partially offset by an increase in product deliveries to other customers, in the three months ended April 30, 2012.

***Communications Intelligence Segment***

*Three Months Ended April 30, 2012 compared to Three Months Ended April 30, 2011.* Communications Intelligence revenue increased approximately 19%, or \$9.1 million, to \$58.1 million in the three months ended April 30, 2012 from \$49.0 million in the three months ended April 30, 2011. The increase consisted of a \$6.7 million increase in product revenue and a \$2.4 million increase in service and support revenue. The increase in product revenue was due to an increase in progress on projects being accounted for under the Percentage of Completion method, some of which commenced in the previous fiscal year. In addition, there was an increase in product deliveries to customers. The increase in service and support revenue is primarily attributable to the progress realized during the current-year period on projects recognized using the Percentage of Completion method, some of which commenced in the previous fiscal year.

***Volume and Price***

We sell products in multiple configurations, and the price of any particular product varies depending on the configuration of the product sold. Due to the variety of customized configurations for each product we sell, we are unable to quantify the amount of any revenue increases attributable to a change in the price of any particular product and/or a change in the number of products sold.

**Revenue by Product Revenue and Service and Support Revenue**

We derive and report our revenue in two categories: (a) product revenue, including sale of hardware products (which include software that works together with the hardware to deliver the product's essential functionality) and licensing of software products, and (b) service and support revenue, including revenue from installation services, post-contract customer support, project management, hosting services, software as a service, or SaaS, product warranties, and training services. For multiple-element arrangements for which we are unable to establish vendor-specific objective evidence, or VSOE, of one or more elements, we use various available indicators of fair value and apply our best judgment to reasonably classify the arrangement's revenue into product revenue and service and support revenue.



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The following table sets forth product revenue and service and support revenue for the three months ended April 30, 2012 and 2011:

| (in thousands)              | <b>Three Months Ended April 30,</b> |                   | <b>% Change</b>    |
|-----------------------------|-------------------------------------|-------------------|--------------------|
|                             | <b>2012</b>                         | <b>2011</b>       | <b>2012 - 2011</b> |
| Product revenue             | \$ 91,999                           | \$ 83,278         | 10%                |
| Service and support revenue | 104,636                             | 93,054            | 12%                |
| <b>Total revenue</b>        | <b>\$ 196,635</b>                   | <b>\$ 176,332</b> | <b>12%</b>         |

***Product Revenue***

*Three Months Ended April 30, 2012 compared to Three Months Ended April 30, 2011.* Product revenue increased approximately 10%, or \$8.7 million, to \$92.0 million for the three months ended April 30, 2012 from \$83.3 million for the three months ended April 30, 2011 due to increases in product revenue in our Enterprise Intelligence and Communications Intelligence segments of \$3.4 million and \$6.7 million, respectively, partially offset by a \$1.4 million decrease in our Video Intelligence segment. For additional information see Revenue by Operating Segment .

***Service and Support Revenue***

*Three Months Ended April 30, 2012 compared to Three Months Ended April 30, 2011.* Service and support revenue increased approximately 12%, or \$11.5 million, to \$104.6 million for the three months ended April 30, 2012 from \$93.1 million for the three months ended April 30, 2011. The increase was primarily attributable to increases of \$9.1 million and \$2.4 million in our Enterprise Intelligence and Communications Intelligence segments, respectively. For additional information see Revenue by Operating Segment .

Table of Contents**Cost of Revenue**

The following table sets forth cost of revenue by product and service and support, as well as amortization of acquired technology and backlog for the three months ended April 30, 2012 and 2011:

| (in thousands)                                  | <b>Three Months Ended April 30,</b> |                  | <b>% Change</b>    |
|---|-------------------------------------|------------------|--------------------|
|   | <b>2012</b>                         | <b>2011</b>      | <b>2012 - 2011</b> |
| Cost of product revenue                         | \$ 30,892                           | \$ 22,531        | 37%                |
| Cost of service and support revenue             | 33,652                              | 30,168           | 12%                |
| Amortization of acquired technology and backlog | 3,784                               | 2,650            | 43%                |
| <b>Total cost of revenue</b>                    | <b>\$ 68,328</b>                    | <b>\$ 55,349</b> | <b>23%</b>         |

***Cost of Product Revenue***

Cost of product revenue primarily consists of hardware material costs and royalties due to third parties for software components that are embedded in our software solutions. When revenue is deferred, we also defer hardware material costs and third-party software royalties and recognize those costs over the same period that the product revenue is recognized. Cost of product revenue also includes amortization of capitalized software development costs, employee compensation and related expenses associated with our global operations, facility costs, and other allocated overhead expenses. In our Communications Intelligence segment, cost of product revenue also includes employee compensation and related expenses, contractor and consulting expenses, and travel expenses, in each case for resources dedicated to project management and associated product delivery.

*Three Months Ended April 30, 2012 compared to Three Months Ended April 30, 2011.* Cost of product revenue increased approximately 37% to \$30.9 million in the three months ended April 30, 2012 from \$22.5 million in the three months ended April 30, 2011. Our overall product gross margins decreased to 66% in the three months ended April 30, 2012 from 73% in the three months ended April 30, 2011. Product gross margins in our Communications Intelligence segment decreased to 58% for the three months ended April 30, 2012 from 75% in the three months ended April 30, 2011 as a result of lower profit margins on projects recognized in the three months ended April 30, 2012 as compared to the three months ended April 30, 2011 due to an increase in projects requiring customized implementation services, which carry lower gross margins than our standard implementation services, as well as a change in product mix. Product gross margins in our Enterprise Intelligence segment decreased to 88% in the three months ended April 30, 2012 from 90% in the three months ended April 30, 2011 primarily as a result of a change in product mix. Product gross margins in our Video Intelligence segment were 60% in each of the three months ended April 30, 2012 and 2011.

***Cost of Service and Support Revenue***

Cost of service and support revenue primarily consists of employee compensation and related expenses, contractor costs, and travel expenses relating to installation, training, consulting, and maintenance services. Cost of service and support revenue also includes stock-based compensation expenses, facility costs, and other overhead expenses. In accordance with GAAP



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and our accounting policy, the cost of revenue associated with the services is generally expensed as incurred in the period in which the services are performed, with the exception of certain transactions accounted for under the Percentage of Completion Method.

*Three Months Ended April 30, 2012 compared to Three Months Ended April 30, 2011.* Cost of service and support revenue increased approximately 12% to \$33.7 million in the three months ended April 30, 2012 from \$30.2 million in the three months ended April 30, 2011. Employee compensation and related expenses increased \$3.6 million, primarily driven by a \$2.8 million increase in our Enterprise Intelligence segment and a \$0.4 million increase in our Communication Intelligence segment, reflecting an increase in employee headcount required to deliver the increased implementation services. Our overall service and support gross margins were consistent at 68% in each of the three months ended April 30, 2012 and 2011.

***Amortization of Acquired Technology and Backlog***

Amortization of acquired technology and backlog consists of amortization of technology assets and customer backlog acquired in connection with business combinations.

*Three Months Ended April 30, 2012 compared to Three Months Ended April 30, 2011.* Amortization of acquired technology and backlog increased approximately 43% to \$3.8 million in the three months ended April 30, 2012, from \$2.6 million in the three months ended April 30, 2011 primarily due to an increase in amortization expense of acquired technology-based intangible assets associated with business combinations that closed during the year ended January 31, 2012, subsequent to April 30, 2011. Further discussion regarding our business combinations appears in Note 3, *Business Combinations* of the Notes to Condensed Consolidated Financial Statements included under Part I, Item 1.

**Research and Development, Net**

Research and development expenses consist primarily of personnel and subcontracting expenses, facility costs, and other allocated overhead, net of certain software development costs that are capitalized as well as reimbursements under government programs. Software development costs are capitalized upon the establishment of technological feasibility and continue to be capitalized through the general release of the related software product.

The following table sets forth research and development, net for the three months ended April 30, 2012 and 2011:

| (in thousands)                | <b>Three Months Ended April 30,</b> |             | <b>% Change</b>    |
|-------------------------------|-------------------------------------|-------------|--------------------|
|                               | <b>2012</b>                         | <b>2011</b> | <b>2012 - 2011</b> |
| Research and development, net | \$ 28,403                           | \$ 26,368   | 8%                 |

*Three Months Ended April 30, 2012 compared to Three Months Ended April 30, 2011.* Research and development, net increased approximately 8%, or \$2.0 million, to \$28.4 million in the three months ended April 30, 2012 from \$26.4 million in the three months ended April 30, 2011.

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Employee compensation and related expenses increased \$2.8 million, which was attributable to an increase in employee headcount. This increase was partially offset by a \$0.7 million increase in research and development reimbursements from

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government programs due primarily to new programs approved by the Office of the Chief Scientist of Israel received during the three months ended April 30, 2012. We also recorded a \$0.4 million decrease in stock-based compensation resulting from a decrease in the number of outstanding stock based compensation arrangements accounted for as liability awards and lower average amounts of outstanding restricted stock units compared to the three months ended April 30, 2011, in each case associated with our research and development employees.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses consist primarily of personnel costs and related expenses, professional fees, sales and marketing expenses, including travel, sales commissions and sales referral fees, facility costs, communication expenses, and other administrative expenses.

The following table sets forth selling, general and administrative expenses for the three months ended April 30, 2012 and 2011:

| (in thousands)                      | <b>Three Months Ended April 30,</b> |             | <b>% Change</b>    |
|-------------------------------------|-------------------------------------|-------------|--------------------|
|                                     | <b>2012</b>                         | <b>2011</b> | <b>2012 - 2011</b> |
| Selling, general and administrative | \$ 72,723                           | \$ 70,235   | 4%                 |

*Three Months Ended April 30, 2012 compared to Three Months Ended April 30, 2011.* Selling, general and administrative expenses increased approximately 4%, or \$2.5 million, to \$72.7 million in the three months ended April 30, 2012 from \$70.2 million in the three months ended April 30, 2011. Employee compensation and related expenses and travel expenses increased \$5.8 million and \$1.0 million, respectively, primarily due to an increase in employee headcount. Contractor costs increased \$1.4 million primarily due to increased use of contractors resulting from prior-year acquisitions in our Communications Intelligence segment. These increases were partially offset by a net \$5.0 million decrease in the change in fair value of contingent consideration arrangements and a \$1.2 million decrease in stock-based compensation expense primarily due to a decrease in the number of outstanding stock-based compensation arrangements accounted for as liability awards and lower average amounts of outstanding restricted stock units compared to the three months ended April 30, 2011.

**Amortization of Other Acquired Intangible Assets**

Amortization of other acquired intangible assets consists of amortization of certain intangible assets acquired in connection with business combinations, including customer relationships, distribution networks, trade names and non-compete agreements.



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The following table sets forth amortization of other acquired intangible assets for the three months ended April 30, 2012 and 2011:

| (in thousands)                                   | <b>Three Months Ended April 30,</b> |             | <b>% Change</b>    |
|--|-------------------------------------|-------------|--------------------|
|  | <b>2012</b>                         | <b>2011</b> | <b>2012 - 2011</b> |
| Amortization of other acquired intangible assets | \$ 6,198                            | \$ 5,546    | 12%                |

*Three Months Ended April 30, 2012 compared to Three Months Ended April 30, 2011.* Amortization of other acquired intangible assets increased approximately 12% to \$6.2 million in the three months ended April 30, 2012 from \$5.5 million in the three months ended April 30, 2011 primarily due to an increase in amortization associated with business combinations that closed during the year ended January 31, 2012, subsequent to April 30, 2011. Further discussion regarding our business combinations appears in Note 3, Business Combinations of the Notes to Condensed Consolidated Financial Statements included under Part I, Item 1.

**Other Income (Expense), Net**

The following table sets forth total other expense, net for the three months ended April 30, 2012 and 2011:

| (in thousands)                  | <b>Three Months Ended April 30,</b> |                    | <b>% Change</b>    |
|---------------------------------|-------------------------------------|--------------------|--------------------|
|                                 | <b>2012</b>                         | <b>2011</b>        | <b>2012 - 2011</b> |
| Interest income                 | \$ 130                              | \$ 148             | (12%)              |
| Interest expense                | (7,718)                             | (8,794)            | (12%)              |
| Loss on extinguishment of debt  |                                     | (8,136)            | *                  |
| Other income (expense):         |                                     |                    |                    |
| Foreign currency gains (losses) | 835                                 | 2,991              | (72%)              |
| Losses on derivatives           | (140)                               | (1,933)            | (93%)              |
| Other, net                      | (61)                                | (46)               | 33%                |
| Total other income (expense)    | 634                                 | 1,012              | (37%)              |
| <b>Total other expense, net</b> | <b>\$ (6,954)</b>                   | <b>\$ (15,770)</b> | <b>(56%)</b>       |

\* Percentage is not meaningful.

*Three Months Ended April 30, 2012 compared to Three Months Ended April 30, 2011.* Total other expense, net, decreased by \$8.8 million, to \$7.0 million in the three months ended April 30, 2012 from \$15.8 million in the three months ended April 30, 2011. Interest expense decreased to \$7.7 million in the three months ended April 30, 2012 from \$8.8 million in the three months ended April 30, 2011 primarily due to lower interest rates on our borrowings associated with our new Credit Agreement, which was effective in April 2011, compared to interest incurred under our Prior Credit Agreement. We recorded a \$0.8 million gain on foreign currency in the three months ended April 30, 2012 compared to a \$3.0 million gain in the three months ended April 30, 2011. Foreign currency gains in the three months ended April 30, 2012 resulted primarily from the weakening of the U.S. dollar against the British pound



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sterling, euro, and Singapore dollar during such period, which resulted in gains on U.S. dollar-denominated net liabilities in certain entities which use those functional currencies.

In the three months ended April 30, 2012, there was a net loss on derivative financial instruments (not designated as hedging instruments) of \$0.1 million, compared to a loss of \$1.9 million on such instruments for the three months ended April 30, 2011. The losses in both periods were primarily attributable to losses on foreign currency forward contracts due to the weakening of the U.S. dollar against the Singapore dollar and euro during such periods, with a greater weakening occurring during the three months ended April 30, 2011.

During the three months ended April 30, 2011, we recorded an \$8.1 million loss upon termination of our Prior Credit Agreement and repayment of the prior term loan. There were no such losses recognized during the three months ended April 30, 2012. Further discussion regarding our credit agreements appears in Note 5, Long-term Debt of the Notes to Condensed Consolidated Financial Statements included under Part I, Item 1.

**Provision for Income Taxes**

The following table sets forth our provision for income taxes for the three months ended April 30, 2012 and 2011:

| (in thousands)             | <b>Three Months Ended April 30,</b> |             | <b>% Change</b>    |
|----------------------------|-------------------------------------|-------------|--------------------|
|                            | <b>2012</b>                         | <b>2011</b> | <b>2012 - 2011</b> |
| Provision for income taxes | \$ 2,399                            | \$ 1,509    | 59%                |

*Three Months Ended April 30, 2012 compared to Three Months Ended April 30, 2011.* Our effective tax rate was 17.1% for the three months ended April 30, 2012, compared to 49.2% for the three months ended April 30, 2011. The difference in the effective income tax rate resulted primarily from the mix and levels of income and losses by jurisdiction. For the three months ended April 30, 2012, the income generated in foreign jurisdictions, taxed at rates lower than the U.S. federal statutory rate, was higher than domestic losses where we maintain a valuation allowance and did not record a tax benefit. The result was an income tax provision of \$2.4 million on \$14.0 million of pre-tax income, an effective tax rate of 17.1%. For the three months ended April 30, 2011, foreign income was slightly higher than domestic losses. The result was an income tax provision of \$1.5 million on \$3.1 million of pre-tax income, which represents an effective rate of 49.2%. The comparison of our effective tax rates between periods is impacted by the level and mix of earnings and losses by tax jurisdiction, foreign income tax rate differentials, amount of permanent book to tax differences, the impact of unrecognized tax benefits, and the effects of valuation allowances on certain loss jurisdictions.

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**Backlog**

The delivery cycles of most of our products are generally very short, ranging from days to several months, with the exception of certain projects with multiple deliverables over longer periods of time. Therefore, we do not view backlog as a meaningful indicator of future business activity and do not consider it a meaningful financial metric for evaluating our business.

**Liquidity and Capital Resources**

*Overview*

Our primary source of cash is the collection of proceeds from the sale of products and services to our customers, including cash periodically collected in advance of delivery or performance.

In April 2011, we entered into our new Credit Agreement and terminated our Prior Credit Agreement. The new Credit Agreement includes a term loan facility, with an outstanding balance of \$595.5 million at April 30, 2012, and a \$170.0 million revolving line of credit, which was unused at April 30, 2012. Further discussion of our credit agreements appears below, under *Credit Agreements* .

Our primary recurring use of cash is payment of our operating costs, which consist primarily of employee-related expenses, such as compensation and benefits, as well as general operating expenses for marketing, facilities and overhead costs, and capital expenditures. We also utilize cash for debt service under our credit agreement and periodically for business acquisitions. Cash generated from operations is our primary source of operating liquidity, and we believe that internally generated cash flows are sufficient to support our current business operations, including debt service and capital expenditure requirements.

Although we did not execute any business acquisitions during the three months ended April 30, 2012, we have historically expanded our business in part by investing in strategic growth initiatives, including acquisitions of products, technologies, and businesses. We have used cash as consideration for substantially all of our historical business acquisitions, including \$109.8 million of net cash expended for business acquisitions during the year ended January 31, 2012. To the extent that we continue this strategy, our future cash requirements and liquidity may be impacted. We may utilize external capital sources, including debt and equity, to supplement our internally generated sources of liquidity as necessary and if available. We also may consider initiatives to modify the debt and equity components of our current capitalization, as we did in April 2011 by entering into our new Credit Agreement and terminating our Prior Credit Agreement.

A considerable portion of our operating income is earned outside the United States. Cash and cash equivalents held by our subsidiaries outside the United States are generally used to fund the subsidiaries' operating requirements and to invest in company growth initiatives, including business acquisitions. Other than for potential business acquisition transactions, we currently do not anticipate that we will need funds generated from foreign operations to fund our domestic operations for the next 12 months and for the foreseeable future.



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Should other circumstances arise whereby we require more capital in the United States than is generated by our domestic operations, or should we otherwise consider it in our best interests, we could repatriate future earnings from foreign jurisdictions, which could result in higher effective tax rates. We have not provided for deferred taxes on the excess of the amount for financial reporting over the tax basis of investments in our foreign subsidiaries because we currently plan to indefinitely reinvest such earnings outside the United States.

In the past, we have periodically reported a working capital deficit (current liabilities in excess of current assets), due largely to the impact of changes in our deferred revenue balances. Because deferred revenue is not a cash-settled liability, working capital in this case may not be a meaningful indicator of our liquidity. We believe our liquidity is better measured and assessed by our operating cash flow.

The following table sets forth, as of April 30, 2012 and January 31, 2012, cash and cash equivalents, preferred stock and long-term debt:

| (in thousands)                      | <b>April 30,<br/>2012</b> | <b>January 31,<br/>2012</b> |
|-------------------------------------|---------------------------|-----------------------------|
| Cash and cash equivalents           | \$ 189,832                | \$ 150,662                  |
| Preferred stock (at carrying value) | \$ 285,542                | \$ 285,542                  |
| Long-term debt                      | \$ 589,392                | \$ 591,151                  |

At April 30, 2012, our cash and cash equivalents totaled \$189.8 million, an increase of \$39.2 million from \$150.6 million at January 31, 2012. We generated \$47.5 million of operating cash flow during the three months ended April 30, 2012, which was partially offset by \$8.9 million of cash used in investing and financing activities during this period. Further discussion of these items appears below.

*Statements of Cash Flows*

The following table summarizes selected items from our statements of cash flows for the three months ended April 30, 2012 and 2011:

| (in thousands)   | <b>Three Months Ended April 30,</b> |                 |
|--|-------------------------------------|-----------------|
|  | <b>2012</b>                         | <b>2011</b>     |
| Net cash provided by operating activities                    | \$ 47,532                           | \$ 19,294       |
| Net cash used in investing activities                        | (6,440)                             | (15,448)        |
| Net cash provided by (used in) financing activities          | (2,507)                             | 2,502           |
| Effect of exchange rate changes on cash and cash equivalents | 585                                 | 3,104           |
| <b>Net increase in cash and cash equivalents</b>             | <b>\$ 39,170</b>                    | <b>\$ 9,452</b> |

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***Net Cash Provided by Operating Activities***

Net cash provided by operating activities is driven primarily by our net income or loss, adjusted for non-cash items, and working capital changes. Operating activities generated \$47.5 million of net cash during the three months ended April 30, 2012, compared to \$19.3 million generated during the three months ended April 30, 2011. The improved operating cash flow in the current-year period resulted primarily from higher accounts receivable collections and customer deposits, compared to the three months ended April 30, 2011. In addition, interest payments were \$6.8 million in the three months ended April 30, 2012, compared to \$13.0 million in the prior-year period, resulting from the timing of the periodic interest payments on our term loan.

***Net Cash Used in Investing Activities***

During the three months ended April 30, 2012, our investing activities used \$6.4 million of net cash, including \$5.2 million of payments for property, equipment, and capitalized software development costs. We also made a \$0.7 million payment during this period representing a post-closing adjustment to the purchase price of a January 2012 business acquisition. Investing activities for the three months ended April 30, 2011 used \$15.4 million of net cash, including \$12.0 million paid for a business combination and \$4.2 million of payments for property, equipment, and capitalized software development costs.

Currently, we have no significant commitments for capital expenditures.

***Net Cash Provided by (Used in) Financing Activities***

During the three months ended April 30, 2012, our financing activities used \$2.5 million of net cash. There were no significant financing activity transactions during this period.

During the three months ended April 30, 2011, our financing activities provided \$2.5 million of net cash. During this period, we borrowed \$597.0 million under our new Credit Agreement (consisting of gross borrowings of \$600.0 million, reduced by a \$3.0 million original issuance discount), repaid \$583.2 million of outstanding borrowings under our Prior Credit Agreement, and paid \$14.0 million of related debt issuance costs. The net impact of this activity on cash was therefore approximately neutral for this period. We also received \$5.1 million of proceeds from exercises of stock options during the three months ended April 30, 2011.

***Liquidity and Capital Resources Requirements***

Based on past performance and current expectations, we believe that our cash, cash equivalents, and cash generated from operations will be sufficient to meet anticipated operating costs, required payments of principal and interest, working capital needs, ordinary course capital

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expenditures, research and development spending, and other commitments for at least the next 12 months. Currently, we have no plans to pay any cash dividends on our preferred or common stock, which are not permitted under our credit agreement.

Our liquidity could be negatively impacted by a decrease in demand for our products and service and support, including the impact of changes in customer buying behavior due to the economic environment. If we determine to make acquisitions or otherwise require additional funds, we may need to raise additional capital, which could involve the issuance of equity or debt securities.



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*Credit Agreements*

In May 2007, 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. The borrowing capacity under the revolving line of credit was increased to \$75.0 million in July 2010.

In April 2011, we entered into our new Credit Agreement and concurrently terminated the Prior Credit Agreement. The Credit Agreement provides for \$770.0 million of secured credit facilities, comprised of a \$600.0 million term loan maturing in October 2017 and a \$170.0 million revolving credit facility maturing in April 2016, subject to increase (up to a maximum increase of \$300.0 million) and reduction from time to time according to the terms of the Credit Agreement.

The majority of the new term loan proceeds were used to repay all \$583.2 million of outstanding term loan borrowings under the Prior Credit Agreement at the closing date of the Credit Agreement. There were no outstanding borrowings under the prior revolving credit facility at the closing date.

The Credit Agreement included an original issuance term loan discount of 0.50%, or \$3.0 million, resulting in net term loan proceeds of \$597.0 million. This discount is being amortized as interest expense over the term of the term loan using the effective interest method.

Loans under the Credit Agreement bear interest, payable quarterly or, in the case of Eurodollar loans with an interest period of three months or shorter, at the end of any interest period, at a per annum rate of, at our election:

(a) in the case of Eurodollar loans, the Adjusted LIBO Rate plus 3.25% (or if our corporate ratings are at least BB- and Ba3 or better, 3.00%). The Adjusted LIBO Rate is the greater of (i) 1.25% per annum and (ii) the product of the LIBO Rate and Statutory Reserves (both as defined in the Credit Agreement), and

(b) in the case of Base Rate loans, the Base Rate plus 2.25% (or if our corporate ratings are at least BB- and Ba3 or better, 2.00%). The Base Rate is the greatest of (i) the administrative agent's prime rate, (ii) the Federal Funds Effective Rate (as defined in the Credit Agreement) plus 0.50% and (iii) the Adjusted LIBO Rate for a one-month interest period plus 1.00%.

We are required to pay a commitment fee equal to 0.50% per annum on the undrawn portion of the revolving credit facility, payable quarterly, and customary administrative agent and letter of credit fees.

The Credit Agreement requires us to make term loan principal payments of \$1.5 million per quarter through August 2017, beginning in August 2011, with the remaining balance due in October 2017. Optional prepayments of the loans are permitted without premium or penalty, other than customary breakage costs associated with the prepayment of loans bearing interest based on LIBO Rates. The loans are also subject

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to mandatory prepayment requirements with respect to certain asset sales, excess cash flow (as defined in the Credit Agreement), and certain other events. Prepayments are applied first to the eight immediately following scheduled term

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loan principal payments, then pro rata to other remaining scheduled term loan principal payments, if any, and thereafter as otherwise provided in the Credit Agreement.

Obligations under the Credit Agreement are guaranteed by substantially all of our domestic subsidiaries and certain foreign subsidiaries that have elected to be disregarded for U.S. tax purposes and are secured by security interests in substantially all of our and their assets, subject to certain exceptions detailed in the Credit Agreement and related ancillary documentation.

The Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type, and also contains a financial covenant that requires us to maintain a Consolidated Total Debt to Consolidated EBITDA (each as defined in the Credit Agreement) leverage ratio until July 31, 2013 of no greater than 5.00 to 1 and thereafter of no greater than 4.50 to 1. At April 30, 2012, our consolidated leverage ratio was approximately 2.7 to 1 compared to a permitted consolidated leverage ratio of 5.00 to 1, and our EBITDA for the twelve-month period then ended exceeded by at least \$80.0 million the minimum EBITDA required to satisfy the leverage ratio covenant given our outstanding debt as of such date.

The Credit Agreement provides for customary events of default with corresponding grace periods. Upon an event of default, all of our indebtedness under the Credit Agreement may be declared immediately due and payable, and the lenders' commitments to provide loans under the Credit Agreement may be terminated.

***Convertible Preferred Stock***

Our capitalization includes convertible preferred stock originally issued in May 2007 which, as of April 30, 2012, has a carrying value of \$285.5 million and a liquidation preference and redemption value of \$355.4 million. All of the convertible preferred stock was originally issued to, and continues to be held by, Converse.

Further details regarding the convertible preferred stock's various rights and preferences, including dividend and conversion rights, appear in Note 7, *Convertible Preferred Stock* of the Notes to Condensed Consolidated Financial Statements included under Part I, Item 1.

***Contractual Obligations***

Our Annual Report on Form 10-K for the year ended January 31, 2012 includes a table summarizing our contractual obligations of approximately \$877 million as of January 31, 2012, including approximately \$749 million for long-term debt obligations, including projected future interest. That table appears under Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* in that report. We believe that our contractual obligations and commercial commitments did not materially change during the three months ended April 30, 2012.

*Contingent Payments Associated with Business Combinations*

In connection with certain of our business combinations, we have agreed to make contingent cash payments to the former shareholders of the acquired companies based upon achievement of performance targets following the acquisition dates. Although we did not

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complete any business combinations during the three months ended April 30, 2012, we completed seven business combinations during the year ended January 31, 2012, all of which included contingent cash consideration arrangements. Please refer to Note 3, Business Combinations of the Notes to Condensed Consolidated Financial Statements included under Part I, Item 1 for information regarding our business combinations.

As of April 30, 2012, potential future cash payments under contingent consideration arrangements total \$73.3 million, the estimated fair value of which was \$33.9 million, of which \$21.9 million is included within accrued expenses and other current liabilities, and \$12.0 million is included within other liabilities. The performance periods associated with these potential payments extend through January 2015.

***Off Balance Sheet Arrangements***

As of April 30, 2012, we do not have any off-balance sheet arrangements that we believe have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

**Recent Accounting Pronouncements**

Refer to Note 1, Basis of Presentation and Significant Accounting Policies of the Notes to Condensed Consolidated Financial Statements included under Part I, Item 1 for information regarding recent accounting pronouncements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Market risk represents the risk of loss that may impact our financial condition due to adverse changes in financial market prices and rates. We are exposed to market risk related to changes in interest rates and foreign currency exchange rate fluctuations. To manage the volatility relating to interest rate and foreign currency risks, we periodically enter into derivative instruments including foreign currency forward exchange contracts and interest rate swap agreements. It is our policy to enter into derivative transactions only to the extent considered necessary to meet our risk management objectives. We use derivative instruments solely to reduce the financial impact of these risks and do not use derivative instruments for speculative purposes.

The section entitled Quantitative and Qualitative Disclosures About Market Risk under Part II, Item 7A of our Annual Report on Form 10-K for the year ended January 31, 2012 provides detailed quantitative and qualitative discussions of the market risks affecting our operations. We believe that our market risk profile did not materially change during the three months ended April 30, 2012.

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**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, are controls and other procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified by the rules and forms promulgated by the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In connection with the preparation of this Quarterly Report on Form 10-Q, we conducted an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of April 30, 2012, our disclosure controls and procedures were effective.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect every misstatement. An evaluation of effectiveness is subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may decrease over time.

**Changes in Internal Control over Financial Reporting**

Under applicable SEC rules (Exchange Act Rules 13a-15(c) and 15d-15(c)) management is required to evaluate any change in internal control over financial reporting that occurred during each fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. In evaluating whether there were any reportable changes in our internal control over financial reporting during the quarter ended April 30, 2012, we determined, with the participation of our Chief Executive Officer and Chief Financial Officer, that there were no changes in our internal control over financial reporting, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**Part II. OTHER INFORMATION****Item 1. Legal Proceedings**

See Note 14, *Legal Proceedings* of the Notes to Condensed Consolidated Financial Statements under Part I, Item 1 for information regarding our legal proceedings.

**Item 1A. Risk Factors**

In addition to the other information set forth in this Quarterly Report, you should carefully consider the risks discussed in Item 1A, *Risk Factors* in our Annual Report on Form 10-K for the year ended January 31, 2012, which could materially affect our business, financial condition, or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing us, however. Additional risks and uncertainties not currently known to us or that we currently deem to be insignificant also may materially and adversely affect our business, financial condition, or operating results in the future.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

| <b>Period</b>                   | <b>(a) Total Number of Shares (or Units) Purchased (1)</b> | <b>(b) Average Price Paid per Share(or Unit) (2)</b> | <b>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b> | <b>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b> |
|---------------------------------|--|--|--|--|
| February 1<br>February 29, 2012 |  |  |  |  |
| March 1 March 31,<br>2012       |  |  |  |  |
| April 1 April 30, 2012          | 11,911(3)  | \$ 30.98   |  |  |
| Total                           | 11,911   | \$ 30.98   |  |  |

(1) These shares were purchased in-open market transactions. None of these shares were purchased as a part of a publicly announced stock repurchase plan or program.

(2) Represents the approximate weighted-average price paid per share.

(3) As previously disclosed, in connection with the resumption of option exercises following the conclusion of our previous extended filing delay period and the vesting of restricted stock units after the relisting of our common stock on The NASDAQ Global Market,



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during the summer of 2010, we issued up to an aggregate of approximately 135,000 equity securities to certain current and former employees and a former director in transactions that did not involve public offerings and that were made in reliance on available exemptions from registration under the Securities Act of 1933. In April 2012, we repurchased 2,250 of these securities. The remaining 9,661 securities disclosed in the table were withheld from executive officers in satisfaction of their obligation to fund applicable tax withholding in connection with the delivery of shares under previously vested restricted stock units during a company-imposed trading blackout.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

Table of Contents**Item 6. Exhibits**

The following exhibit list includes exhibits that we entered into or that became effective during the three months ended April 30, 2012:

| <b>Number</b> | <b>Description</b>   | <b>Filed Herewith /<br/>Incorporated by<br/>Reference from</b> |
|---------------|--|--|
| 10.1          | Form of Performance-Based Restricted Stock Unit Award Agreement for Grants Subsequent to March 2012*                           | Form 10-K filed on April 2, 2012                               |
| 10.2          | Form of Time-Based Restricted Stock Unit Award Agreement for Grants Subsequent to March 2012*                                  | Form 10-K filed on April 2, 2012                               |
| 31.1          | Certification of Dan Bodner, Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                | Filed Herewith   |
| 31.2          | Certification of Douglas E. Robinson, Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.       | Filed Herewith   |
| 32.1          | Certification of the Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350 (1) | Filed Herewith   |
| 32.2          | Certification of the Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350 (1) | Filed Herewith   |
| 101.INS**     | XBRL Instance Document   | Filed Herewith   |
| 101.SCH**     | XBRL Taxonomy Extension Schema Document  | Filed Herewith   |
| 101.CAL**     | XBRL Taxonomy Extension Calculation Linkbase Document  | Filed Herewith   |
| 101.DEF**     | XBRL Taxonomy Extension Definition Linkbase Document   | Filed Herewith   |
| 101.LAB**     | XBRL Taxonomy Extension Label Linkbase Document  | Filed Herewith   |
| 101.PRE**     | XBRL Taxonomy Extension Presentation Linkbase Document   | Filed Herewith   |

(1) These exhibits are being furnished with this periodic report and are not deemed filed with the SEC and are not incorporated by reference in any filing of the company under the Securities Act of 1933, as amended or the Securities Exchange Act of 1934, as amended.

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\* Denotes a management contract or compensatory plan or arrangement required to be filed as an exhibit to this form pursuant to Item 6 of this report.

\*\*In accordance with Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VERINT SYSTEMS INC.

June 6, 2012

/s/ Dan Bodner  
Dan Bodner  
President and Chief Executive Officer

June 6, 2012

/s/ Douglas E. Robinson  
Douglas E. Robinson  
Chief Financial Officer (Principal Financial Officer and Principal  
Accounting Officer)