
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 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)

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

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Cautionary Note on Forward-Looking Statements

Certain statements discussed in this report constitute forward-looking statements, which include financial projections, statements of plans and objectives for future operations, statements of future economic performance, and statements of assumptions relating thereto. Forward-looking statements are often identified by future or conditional words such as “will”, “plans”, “expects”, “intends”, “believes”, “seeks”, “estimates”, or “anticipates”, or by variations of such words or by 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 the planned merger (the "Merger") with our controlling stockholder, Comverse Technology, Inc. ("CTI"), pursuant to the terms and conditions of the Agreement and Plan of Merger we executed on August 12, 2012 (the "Merger Agreement"), including risks associated with our and CTI's ability to satisfy the conditions and terms of the Merger, and to execute the Merger in the estimated timeframe, or at all, and the issuance of shares of our common stock in connection with the Merger;
- uncertainties regarding the expected benefits of the Merger;
- risks arising as a result of unknown or unexpected CTI obligations or liabilities assumed upon completion of the Merger, or as a result of parties obligated to provide us with indemnification being unwilling or unable to stand behind such obligations;
- risks associated with any litigation against us or our directors or officers that we may face, or any litigation against counterparties that we may inherit, in connection with the proposed Merger;
- uncertainties regarding the tax consequences of the Merger;
- risks associated with CTI's ability to control our board of directors and the outcome of matters submitted for stockholder action;
- risks associated with being a consolidated subsidiary of CTI and formerly part of CTI's consolidated tax group;
- risks due to aggressive competition in all of our markets, including with respect to maintaining margins and sufficient levels of investment in our business;
- risks created by the continued consolidation of our competitors or the introduction of large competitors in our markets with greater resources than we have;
- risks associated with our ability to successfully compete for, consummate, and implement mergers and acquisitions, including risks associated with capital constraints, costs and expenses, maintaining profitability levels, management distraction, post-acquisition integration activities, and potential asset impairments;
- risks that we may be unable to maintain and enhance relationships with key resellers, partners, and systems integrators;
- risks relating to our ability to effectively and efficiently execute on our growth strategy, including managing investments in our business and operations and enhancing and securing our internal and external operations;
- risks relating to our ability to successfully implement and maintain adequate systems and internal controls for our current and future operations and reporting needs and related risks of financial statement omissions, misstatements, restatements, or filing delays;
- risks associated with the mishandling or perceived mishandling of sensitive or confidential information, security

lapses, or with information technology system failures or disruptions;

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

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

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements.**

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

| (in thousands, except share and per share data) | July 31, 2012 | January 31, 2012 |
|--|---------------------|---------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 173,250 | \$ 150,662 |
| Restricted cash and bank time deposits | 10,750 | 12,863 |
| Accounts receivable, net | 167,616 | 154,753 |
| Inventories | 10,000 | 14,414 |
| Deferred cost of revenue | 4,454 | 11,951 |
| Prepaid expenses and other current assets | 52,072 | 56,047 |
| Total current assets | 418,142 | 400,690 |
| Property and equipment, net | 32,142 | 28,289 |
| Goodwill | 825,069 | 828,758 |
| Intangible assets, net | 162,898 | 184,230 |
| Capitalized software development costs, net | 6,217 | 5,846 |
| Long-term deferred cost of revenue | 8,252 | 13,285 |
| Other assets | 34,566 | 38,497 |
| Total assets | \$ 1,487,286 | \$ 1,499,595 |
| Liabilities, Preferred Stock, and Stockholders' Equity | | |
| Current Liabilities: | | |
| Accounts payable | \$ 49,231 | \$ 49,441 |
| Accrued expenses and other current liabilities | 165,935 | 168,947 |
| Current maturities of long-term debt | 6,292 | 6,228 |
| Deferred revenue | 146,163 | 156,772 |
| Liabilities to affiliates | 1,553 | 1,760 |
| Total current liabilities | 369,174 | 383,148 |
| Long-term debt | 587,675 | 591,151 |
| Long-term deferred revenue | 16,673 | 25,987 |
| Other liabilities | 51,768 | 69,472 |
| Total liabilities | 1,025,290 | 1,069,758 |
| Preferred Stock - \$0.001 par value; authorized 2,500,000 shares. Series A convertible preferred stock; 293,000 shares issued and outstanding; aggregate liquidation preference and redemption value of \$358,869 at July 31, 2012. | 285,542 | 285,542 |
| Commitments and Contingencies | | |
| Stockholders' Equity: | | |
| Common stock - \$0.001 par value; authorized 120,000,000 shares. Issued 40,074,000 and 39,265,000 shares; outstanding 39,772,000 and 38,982,000 shares as of July 31, 2012 and January 31, 2012, respectively. | 40 | 40 |
| Additional paid-in capital | 569,555 | 554,351 |
| Treasury stock, at cost - 302,000 and 283,000 shares as of July 31, 2012 and January 31, 2012, respectively. | (8,013) | (7,466) |
| Accumulated deficit | (335,122) | (357,764) |
| Accumulated other comprehensive loss | (55,178) | (47,736) |
| Total Verint Systems Inc. stockholders' equity | 171,282 | 141,425 |
| Noncontrolling interest | 5,172 | 2,870 |
| Total stockholders' equity | 176,454 | 144,295 |
| Total liabilities, preferred stock, and stockholders' equity | \$ 1,487,286 | \$ 1,499,595 |

See notes to condensed consolidated financial statements.

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

| (in thousands, except per share data) | Three Months Ended July 31, | | Six Months Ended July 31, | |
|--|-----------------------------|-----------------|---------------------------|-----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue: | | | | |
| Product | \$ 101,990 | \$ 100,423 | \$ 193,989 | \$ 183,701 |
| Service and support | 110,436 | 94,536 | 215,072 | 187,590 |
| Total revenue | 212,426 | 194,959 | 409,061 | 371,291 |
| Cost of revenue: | | | | |
| Product | 36,382 | 33,214 | 67,274 | 55,745 |
| Service and support | 35,954 | 33,210 | 69,606 | 63,378 |
| Amortization of acquired technology and backlog | 3,644 | 2,685 | 7,428 | 5,335 |
| Total cost of revenue | 75,980 | 69,109 | 144,308 | 124,458 |
| Gross profit | 136,446 | 125,850 | 264,753 | 246,833 |
| Operating expenses: | | | | |
| Research and development, net | 30,195 | 26,808 | 58,598 | 53,176 |
| Selling, general and administrative | 73,953 | 72,217 | 146,676 | 142,452 |
| Amortization of other acquired intangible assets | 6,035 | 5,415 | 12,233 | 10,961 |
| Total operating expenses | 110,183 | 104,440 | 217,507 | 206,589 |
| Operating income | 26,263 | 21,410 | 47,246 | 40,244 |
| Other income (expense), net: | | | | |
| Interest income | 124 | 146 | 254 | 294 |
| Interest expense | (7,867) | (7,857) | (15,585) | (16,651) |
| Loss on extinguishment of debt | — | — | — | (8,136) |
| Other income (expense), net | (483) | 738 | 151 | 1,750 |
| Total other expense, net | (8,226) | (6,973) | (15,180) | (22,743) |
| Income before provision for income taxes | 18,037 | 14,437 | 32,066 | 17,501 |
| Provision for income taxes | 4,772 | 3,163 | 7,171 | 4,672 |
| Net income | 13,265 | 11,274 | 24,895 | 12,829 |
| Net income attributable to noncontrolling interest | 658 | 799 | 2,253 | 2,466 |
| Net income attributable to Verint Systems Inc. | 12,607 | 10,475 | 22,642 | 10,363 |
| Dividends on preferred stock | (3,868) | (3,707) | (7,612) | (7,256) |
| Net income attributable to Verint Systems Inc. common shares | \$ 8,739 | \$ 6,768 | \$ 15,030 | \$ 3,107 |
| Net income per common share attributable to Verint Systems Inc. | | | | |
| Basic | \$ 0.22 | \$ 0.18 | \$ 0.38 | \$ 0.08 |
| Diluted | \$ 0.22 | \$ 0.17 | \$ 0.38 | \$ 0.08 |
| Weighted-average common shares outstanding | | | | |
| Basic | 39,712 | 38,557 | 39,392 | 37,984 |
| Diluted | 40,072 | 39,377 | 39,938 | 39,239 |

See notes to condensed consolidated financial statements.

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

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

See notes to condensed consolidated financial statements.

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

| Verint Systems Inc. Stockholders' Equity | | | | | | | | | |
|--|---------------|--------------|----------------------------------|-------------------|------------------------|---|---|---------------------------------|----------------------------------|
| (in thousands) | Common Stock | | Additional Paid-in Capital | Treasury Stock | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Verint Systems Inc. Stockholders' Equity | Non- controlling Interest | Total Stockholders' Equity |
| | Shares | Par Value | | | | | | | |
| Balances as of January 31, 2011 | 37,089 | \$ 38 | \$ 519,834 | \$ (6,639) | \$ (394,757) | \$ (42,069) | \$ 76,407 | \$ 1,280 | \$ 77,687 |
| Net income | — | — | — | — | 10,363 | — | 10,363 | 2,466 | 12,829 |
| Other comprehensive income | — | — | — | — | — | 5,705 | 5,705 | 171 | 5,876 |
| Stock-based compensation expense | — | — | 11,640 | — | — | — | 11,640 | — | 11,640 |
| Exercises of stock options | 432 | — | 8,685 | — | — | — | 8,685 | — | 8,685 |
| Common stock issued for stock awards | 1,289 | 1 | (1) | — | — | — | — | — | — |
| Purchases of treasury stock | (23) | — | — | (827) | — | — | (827) | — | (827) |
| Tax effects from stock award plans | — | — | 586 | — | — | — | 586 | — | 586 |
| Balances as of July 31, 2011 | 38,787 | \$ 39 | \$ 540,744 | \$ (7,466) | \$ (384,394) | \$ (36,364) | \$ 112,559 | \$ 3,917 | \$ 116,476 |
| Balances as of January 31, 2012 | 38,982 | \$ 40 | \$ 554,351 | \$ (7,466) | \$ (357,764) | \$ (47,736) | \$ 141,425 | \$ 2,870 | \$ 144,295 |
| Net income | — | — | — | — | 22,642 | — | 22,642 | 2,253 | 24,895 |
| Other comprehensive loss | — | — | — | — | — | (7,442) | (7,442) | 49 | (7,393) |
| Stock-based compensation expense | — | — | 10,472 | — | — | — | 10,472 | — | 10,472 |
| Exercises of stock options | 59 | — | 1,013 | — | — | — | 1,013 | — | 1,013 |
| Common stock issued for stock awards and stock bonuses | 752 | — | 3,764 | — | — | — | 3,764 | — | 3,764 |
| Purchases of treasury stock | (21) | — | — | (615) | — | — | (615) | — | (615) |
| Treasury stock retired | — | — | (68) | 68 | — | — | — | — | — |
| Tax effects from stock award plans | — | — | 23 | — | — | — | 23 | — | 23 |
| Balances as of July 31, 2012 | 39,772 | \$ 40 | \$ 569,555 | \$ (8,013) | \$ (335,122) | \$ (55,178) | \$ 171,282 | \$ 5,172 | \$ 176,454 |

See notes to condensed consolidated financial statements.

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

| (in thousands) | Six Months Ended July 31, | |
|---|----------------------------------|-------------------|
| | 2012 | 2011 |
| Cash flows from operating activities: | | |
| Net income | \$ 24,895 | \$ 12,829 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 28,265 | 25,539 |
| Stock-based compensation - equity portion | 10,994 | 11,640 |
| Non-cash (gains) losses on derivative financial instruments, net | (131) | 1,907 |
| Loss on extinguishment of debt | — | 8,136 |
| Other non-cash items, net | (6,123) | 3,294 |
| Changes in operating assets and liabilities, net of effects of business combination: | | |
| Accounts receivable | (13,295) | (4,491) |
| Inventories | 3,599 | (2,860) |
| Deferred cost of revenue | 12,292 | 5,692 |
| Prepaid expenses and other assets | 5,022 | (3,417) |
| Accounts payable and accrued expenses | (7,528) | (16,207) |
| Deferred revenue | (18,315) | (10,432) |
| Other, net | (424) | (3,792) |
| Net cash provided by operating activities | 39,251 | 27,838 |
| Cash flows from investing activities: | | |
| Cash paid for business combinations, including adjustments, net of cash acquired | (660) | (11,958) |
| Purchases of property and equipment | (6,180) | (6,715) |
| Settlements of derivative financial instruments not designated as hedges | (266) | (1,178) |
| Cash paid for capitalized software development costs | (2,298) | (1,662) |
| Change in restricted cash and bank time deposits | 1,811 | (1,883) |
| Other investing activities | — | (1,230) |
| Net cash used in investing activities | (7,593) | (24,626) |
| Cash flows from financing activities: | | |
| Proceeds from borrowings, net of original issuance discount | — | 597,000 |
| Repayments of borrowings and other financing obligations | (3,486) | (583,786) |
| Payments of debt issuance and other debt-related costs | (159) | (15,034) |
| Proceeds from exercises of stock options | 1,395 | 8,716 |
| Purchases of treasury stock | (615) | (827) |
| Payments of contingent consideration for business combinations (financing portion) | (5,140) | (2,004) |
| Net cash provided by (used in) financing activities | (8,005) | 4,065 |
| Effect of exchange rate changes on cash and cash equivalents | (1,065) | 1,964 |
| Net increase in cash and cash equivalents | 22,588 | 9,241 |
| Cash and cash equivalents, beginning of period | 150,662 | 169,906 |
| Cash and cash equivalents, end of period | \$ 173,250 | \$ 179,147 |

See notes to condensed consolidated financial statements.

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

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

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

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

Condensed Consolidated Financial Statements Preparation

The condensed consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and on the same basis as the audited consolidated financial statements included in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (“SEC”) for the year ended January 31, 2012. The condensed consolidated statements of operations, comprehensive income, stockholders’ equity, and cash flows for the periods ended July 31, 2012 and 2011, and the condensed consolidated balance sheet as of July 31, 2012, are not audited but reflect all adjustments that are of a normal recurring nature and that are considered necessary for a fair presentation of the results for the periods shown. The condensed consolidated balance sheet as of January 31, 2012 is derived from the audited consolidated financial statements presented in our Annual Report on Form 10-K for the year ended January 31, 2012. Certain information and disclosures normally included in annual consolidated financial statements have been omitted pursuant to the rules and regulations of the SEC. Because the condensed consolidated interim financial statements do not include all of the information and disclosures required by GAAP for a complete set of financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in our Annual Report on Form 10-K filed with the SEC for the year ended January 31, 2012. The results for interim periods are not necessarily indicative of a full year’s results.

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

Principles of Consolidation

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

Use of Estimates

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

Significant Accounting Policies

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

Net Income Per Common Share Attributable to Verint Systems Inc.

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

Recent Accounting Pronouncements

New Accounting Pronouncements Implemented:

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

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

New Accounting Pronouncements To Be Implemented:

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

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

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

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

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

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

3. BUSINESS COMBINATIONS

Six Months Ended July 31, 2012

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

Year Ended January 31, 2012

Vovici Corporation

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

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

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

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

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

Global Management Technologies

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

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

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

Other Business Combinations

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

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

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

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

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

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

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

Purchase Price Allocations

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

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

- For the Vovici purchase price allocation, we reduced certain liabilities by \$0.2 million and recorded a corresponding reduction of goodwill.
- For the purchase price allocation associated with our August 2, 2011 Communications Intelligence acquisition, we adjusted certain acquisition-date deferred income taxes, which also required us to change several assumptions in the discounted cash flow models used to estimate the fair values of certain identified intangible assets. As a result, the estimated acquisition-date fair values of the developed technology and customer relationship intangible assets identified in this acquisition decreased by \$0.3 million and \$0.4 million, respectively, net deferred income tax liabilities decreased by \$3.8 million, and goodwill decreased by \$3.1 million. For the purchase price allocation associated with our January 5, 2012 Communications Intelligence acquisition, we recorded minor refinements to the purchase price and to certain liabilities, which resulted in a \$0.1 million increase in goodwill.

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

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

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

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

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

| (in thousands) | Vovici | Other Acquisitions |
|---|------------------|--------------------|
| Components of Purchase Price: | | |
| Cash | \$ 55,708 | \$ 33,835 |
| Fair value of contingent consideration | 9,900 | 20,504 |
| Fair value of stock options | 60 | — |
| Bank debt, repaid at closing | 435 | — |
| Other purchase price adjustments | — | 816 |
| Total purchase price | \$ 66,103 | \$ 55,155 |
| Allocation of Purchase Price: | | |
| Net tangible assets (liabilities): | | |
| Accounts receivable | \$ 1,106 | \$ 842 |
| Other current assets | 5,398 | 15,650 |
| Other assets | 913 | 5,579 |
| 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 |
| Total purchase price | \$ 66,103 | \$ 55,155 |

Year Ended January 31, 2011

In February 2010, we acquired all of the outstanding shares of Iontas Limited (“Iontas”), a 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.

For the three and six months ended July 31, 2011, increases of \$0.1 million and \$0.2 million, respectively, in the fair value of this contingent consideration obligation were recorded as charges 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 six months ended July 31, 2011, resulting in a corresponding charge recorded within selling, general and administrative expenses for that period. Substantially all of the increase occurred during the three months ended April 30, 2011. The earned contingent consideration related to this acquisition was paid to the sellers during the three months ended July 31, 2011.

Pro Forma Information

The following table provides unaudited pro forma financial information for the three and six months ended July 31, 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) | Three Months Ended | Six Months Ended |
|---|--------------------|------------------|
| | July 31, 2011 | |
| Revenue | \$ 199,803 | \$ 379,512 |
| Net income (loss) attributable to Verint Systems Inc. common shares | \$ 1,875 | \$ (8,918) |

4. INTANGIBLE ASSETS AND GOODWILL

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

| (in thousands) | July 31, 2012 | | |
|--|-------------------|--------------------------|-------------------|
| | Cost | Accumulated Amortization | Net |
| Intangible assets with finite lives: | | | |
| Customer relationships | \$ 224,687 | \$ (106,300) | \$ 118,387 |
| Acquired technology | 92,862 | (56,840) | 36,022 |
| Trade names | 12,667 | (10,144) | 2,523 |
| Non-competition agreements | 5,762 | (4,057) | 1,705 |
| Distribution network | 2,440 | (1,474) | 966 |
| Backlog | 843 | (48) | 795 |
| Total intangible assets with finite lives | 339,261 | (178,863) | 160,398 |
| In-process research and development, with indefinite lives | 2,500 | — | 2,500 |
| Total | \$ 341,761 | \$ (178,863) | \$ 162,898 |

| (in thousands) | January 31, 2012 | | |
|--|-------------------|--------------------------|-------------------|
| | Cost | Accumulated Amortization | Net |
| Intangible assets with finite lives: | | | |
| 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 |
| Total intangible assets with finite lives | 341,467 | (159,737) | 181,730 |
| In-process research and development, with indefinite lives | 2,500 | — | 2,500 |
| Total | \$ 343,967 | \$ (159,737) | \$ 184,230 |

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

| (in thousands) | July 31, 2012 | January 31, 2012 |
|-----------------------------|-------------------|-------------------|
| Enterprise Intelligence | \$ 142,761 | \$ 160,258 |
| Video Intelligence | 4,469 | 5,059 |
| Communications Intelligence | 15,668 | 18,913 |
| Total | \$ 162,898 | \$ 184,230 |

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 \$9.7 million and \$19.7 million for the three and six months ended July 31, 2012, respectively, and \$8.1 million and \$16.3 million for the three and six months ended July 31, 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) | |
|---------------------------------|-------------------|
| Years Ending January 31, | Amount |
| 2013 (Remainder of year) | \$ 19,661 |
| 2014 | 34,183 |
| 2015 | 30,696 |
| 2016 | 29,321 |
| 2017 | 26,650 |
| 2018 and thereafter | 19,887 |
| Total | \$ 160,398 |

No impairment indicators were identified for finite-lived intangible assets during the six months ended July 31, 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 six months ended July 31, 2012.

Goodwill activity for the six months ended July 31, 2012, in total and by reportable segment, was as follows:

| (in thousands) | Total | Reportable Segment | | |
|--|-------------------|--------------------------------|---------------------------|------------------------------------|
| | | Enterprise Intelligence | Video Intelligence | Communications 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 | (3,689) | (1,715) | (911) | (1,063) |
| Goodwill, net, at July 31, 2012 | \$ 825,069 | \$ 737,792 | \$ 39,229 | \$ 48,048 |
| Balance at July 31, 2012 | | | | |
| Goodwill, gross, at July 31, 2012 | \$ 891,934 | \$ 768,583 | \$ 75,303 | \$ 48,048 |
| Accumulated impairment losses through July 31, 2012 | (66,865) | (30,791) | (36,074) | — |
| Goodwill, net, at July 31, 2012 | \$ 825,069 | \$ 737,792 | \$ 39,229 | \$ 48,048 |

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 six months ended July 31, 2012 or the six months ended July 31, 2011.

5. LONG-TERM DEBT

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

| (in thousands) | July 31, 2012 | January 31, 2012 |
|---------------------------|-------------------|---------------------|
| Term loan facility: | | |
| Gross borrowings | \$ 594,000 | \$ 597,000 |
| Unamortized debt discount | (2,474) | (2,685) |
| Other debt | 2,441 | 3,064 |
| Total debt | 593,967 | 597,379 |
| Less: current maturities | 6,292 | 6,228 |
| Long-term debt | \$ 587,675 | \$ 591,151 |

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
- (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 July 31, 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 July 31, 2012.

We incurred interest expense on borrowing under our credit facilities of \$6.9 million and \$13.5 million during the three and six months ended July 31, 2012, respectively, and \$6.9 million and \$14.4 million during the three and six months ended July 31, 2011, respectively. We also recorded \$0.7 million and \$1.4 million, respectively, during each of the three and six months ended July 31, 2012 and July 31, 2011, for amortization of our deferred debt issuance costs, which is reported within interest expense. During the three and six months ended July 31, 2012, we also recorded \$0.1 million and \$0.2 million, respectively, for amortization of the original issuance term loan discount, which is reported within interest expense. During the six months ended July 31, 2011, we recorded \$0.1 million for amortization of the original issuance term loan discount, all of which was recorded during the three months ended July 31, 2011.

We are required to pay a commitment fee equal to 0.50% per annum on the unused 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.

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 July 31, 2012:

| (in thousands) | |
|---------------------------------|-------------------|
| Years Ending January 31, | Amount |
| 2013 (Remainder of year) | \$ 3,000 |
| 2014 | 6,000 |
| 2015 | 6,000 |
| 2016 | 6,000 |
| 2017 | 6,000 |
| 2018 and thereafter | 567,000 |
| Total | \$ 594,000 |

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 July 31, 2012, the majority of this debt bears interest at an annual rate of 7.00%. The carrying value of this debt was approximately \$2.4 million at July 31, 2012.

6. SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENT INFORMATION

Condensed Consolidated Balance Sheets

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

| (in thousands) | July 31, 2012 | January 31, 2012 |
|--------------------------|------------------|---------------------|
| Raw materials | \$ 4,658 | \$ 4,959 |
| Work-in-process | 2,102 | 5,777 |
| Finished goods | 3,240 | 3,678 |
| Total inventories | \$ 10,000 | \$ 14,414 |

Condensed Consolidated Statements of Operations

Other income (expense), net consisted of the following for the three and six months ended July 31, 2012 and 2011:

| (in thousands) | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|--------------------------------|---------------|------------------------------|-----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Foreign currency gains (losses), net | \$ (711) | \$ 796 | \$ 123 | \$ 3,787 |
| Gains (losses) on derivative financial instruments, net | 271 | 26 | 131 | (1,907) |
| Other, net | (43) | (84) | (103) | (130) |
| Total other income (expense), net | \$ (483) | \$ 738 | \$ 151 | \$ 1,750 |

Condensed Consolidated Statements of Cash Flows

The following table provides supplemental information regarding our condensed consolidated cash flows for the six months ended July 31, 2012 and 2011:

| (in thousands) | Six Months Ended July 31, | |
|---|------------------------------|-----------|
| | 2012 | 2011 |
| Cash paid for interest | \$ 13,659 | \$ 15,427 |
| Cash paid for income taxes, net of refunds received | \$ 11,360 | \$ 7,780 |
| Non-cash investing and financing transactions: | | |
| Accrued but unpaid purchases of property and equipment | \$ 1,858 | \$ 659 |
| Inventory transfers to property and equipment | \$ 326 | \$ 332 |
| Liabilities for contingent consideration in business combinations | \$ — | \$ 904 |
| Stock options exercised, proceeds received subsequent to period end | \$ 1 | \$ 17 |
| Accrued but unpaid debt issuance and other debt related costs | \$ 58 | \$ — |
| Leasehold improvements funded by lease incentive | \$ 2,406 | \$ — |

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 Technology, Inc. ("CTI"), whereby CTI 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 July 31, 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.

On August 12, 2012, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with CTI providing for the merger of CTI with and into a new, wholly-owned subsidiary of Verint (the "Merger"), which, if completed as contemplated in the Merger Agreement, would eliminate CTI's majority ownership in and control of Verint. Under the terms of the Merger Agreement, each holder of CTI common shares at the effective time of the Merger would receive, among other consideration, the right to receive its pro rata portion of new shares of our common stock issuable upon conversion of the Preferred Stock held by CTI at the effective time of the Merger at a conversion price of \$32.66. Each outstanding share of the Preferred Stock held by CTI will be canceled at the completion of the Merger, and each outstanding share of Preferred Stock not held by CTI will be converted into shares of our common stock.

Under the Merger Agreement, CTI has agreed that the Merger and other transactions contemplated by the Merger Agreement will not constitute fundamental change events under the terms of the Preferred Stock.

Further details regarding the Merger Agreement appear in Note 16, "Subsequent Event".

We concluded that, as of July 31, 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 July 31, 2012. Through July 31, 2012, cumulative, undeclared dividends on the Preferred Stock were \$65.9 million and, as a result, the liquidation preference of the Preferred Stock was \$358.9 million at that date.

At July 31, 2012, the Preferred Stock was convertible into approximately 11.0 million shares of our common stock.

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 six months ended July 31, 2012, we acquired approximately 18,000 shares of treasury stock from directors, executive officers, and other employees at a cost of \$0.5 million. During the six months ended July 31, 2011, we acquired approximately 23,000 shares of treasury stock from certain executive officers and directors at a cost of \$0.8 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 July 31, 2012 and January 31, 2012:

| (in thousands) | July 31, 2012 | January 31, 2012 |
|--|--------------------|---------------------|
| Foreign currency translation losses, net | \$ (52,832) | \$ (48,402) |
| Unrealized gains (losses) on derivative financial instruments, net | (2,346) | 666 |
| Total accumulated other comprehensive loss | \$ (55,178) | \$ (47,736) |

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 July 31, 2012, we recorded a \$4.8 million provision for income taxes on pre-tax income of \$18.0 million, which represented an effective income tax rate of 26.5%. 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 July 31, 2011, we recorded a \$3.2 million provision for income taxes on pre-tax income of \$14.4 million, which represented an effective income tax rate of 21.9%, which was lower than the U.S. federal statutory rate of 35%. The effective income tax rate was significantly impacted by the mix and levels 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 against deferred tax assets, including those assets related to loss carry forwards.

For the six months ended July 31, 2012, we recorded a \$7.2 million provision for income taxes on pre-tax income of \$32.1 million, which represented an effective tax rate of 22.4%. The effective tax rate was lower than the U.S. federal statutory rate of 35% primarily due to the mix and levels of income and losses by jurisdiction. We recorded an income tax provision on income from certain foreign subsidiaries taxed at rates lower than the U.S. federal statutory rate, but we did not recognize a U.S. federal income tax benefit on losses incurred by certain domestic operations because we maintain valuation allowances against the deferred tax assets, including those assets related to loss carry forwards.

For the six months ended July 31, 2011, we recorded an income tax provision of \$4.7 million on pre-tax income of \$17.5 million, which represented an effective tax rate of 26.7%. The effective tax rate was lower than the U.S. federal statutory rate of 35% primarily due to the mix and levels of income and losses by jurisdiction. 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.

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 guidance 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 July 31, 2012 and January 31, 2012, respectively. The accrued liability for interest and penalties was \$7.1 million and \$8.2 million at July 31, 2012 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 July 31, 2012 and January 31, 2012, the total amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate were approximately \$30.3 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 July 31, 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.

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 six months ended July 31, 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 July 31, 2012 and January 31, 2012:

| (in thousands) | July 31, 2012 | | |
|--|-------------------------------|-----------------|------------------|
| | Fair Value Hierarchy Category | | |
| | Level 1 | Level 2 | Level 3 |
| Assets: | | | |
| Money market funds | \$ 34,619 | \$ — | \$ — |
| Foreign currency forward contracts | — | 241 | — |
| Total assets | \$ 34,619 | \$ 241 | \$ — |
| Liabilities: | | | |
| Foreign currency forward contracts | \$ — | \$ 2,732 | \$ — |
| Contingent consideration - business combinations | — | — | 25,204 |
| Total liabilities | \$ — | \$ 2,732 | \$ 25,204 |

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

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 six months ended July 31, 2012 and 2011:

| (in thousands) | Six Months Ended July 31, | |
|---|------------------------------|-----------------|
| | 2012 | 2011 |
| 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 | (7,540) | 1,881 |
| Payments of contingent consideration | (5,902) | (4,107) |
| Fair value measurement at end of period | \$ 25,204 | \$ 2,364 |

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 3.7% to 17.5% in our calculations of the estimated fair values of our contingent consideration liabilities as of July 31, 2012.

Other Financial Instruments

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

The estimated fair value of our term loan borrowings was \$591.0 million and \$597.0 million at July 31, 2012 and January 31, 2012, respectively. The estimated fair values of the term loan are 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 July 31, 2012 and January 31, 2012 were approximately at or slightly below 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 six months ended July 31, 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.

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 \$93.4 million and \$94.1 million as of July 31, 2012 and January 31, 2012, respectively.

Fair Values of Derivative Financial Instruments

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

| July 31, 2012 | | | | |
|---|---|---------------|--|-----------------|
| (in thousands) | Assets | | Liabilities | |
| | Balance Sheet Classification | Fair Value | Balance Sheet Classification | Fair Value |
| Derivative financial instruments designated as hedging instruments: | | | | |
| Foreign currency forward contracts | Prepaid expenses and other current assets | \$ 144 | Accrued expenses and other liabilities | \$ 2,732 |
| Total derivative financial instruments designated as hedging instruments | | \$ 144 | | \$ 2,732 |
| Derivative financial instruments not designated as hedging instruments: | | | | |
| Foreign currency forward contracts | Prepaid expenses and other current assets | \$ 97 | Accrued expenses and other liabilities | \$ — |
| Total derivative financial instruments not designated as hedging instruments | | \$ 97 | | \$ — |

| January 31, 2012 | | | | |
|---|---|---------------|--|---------------|
| (in thousands) | Assets | | Liabilities | |
| | Balance Sheet Classification | Fair Value | Balance Sheet Classification | Fair Value |
| Derivative financial instruments designated as hedging instruments: | | | | |
| Foreign currency forward contracts | Prepaid expenses and other current assets | \$ 978 | Accrued expenses and other liabilities | \$ 227 |
| Total derivative financial instruments designated as hedging instruments | | \$ 978 | | \$ 227 |
| Derivative financial instruments not designated as hedging instruments: | | | | |
| Foreign currency forward contracts | — | \$ — | Accrued expenses and other liabilities | \$ 303 |
| Total derivative financial instruments not designated as hedging instruments | | \$ — | | \$ 303 |

Derivative Financial Instruments in Cash Flow Hedging Relationships

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

| (in thousands) | Net Gains (Losses) 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 | | | |
|------------------------------------|---|-------------|--|--|--------|---------------------------|----------|
| | July 31, | January 31, | | Three Months Ended July 31, | | Six Months Ended July 31, | |
| | 2012 | 2012 | | 2012 | 2011 | 2012 | 2011 |
| Foreign currency forward contracts | \$ (2,346) | \$ 666 | Operating Expenses | \$ (559) | \$ 979 | \$ (765) | \$ 1,786 |

There were no gains or losses from ineffectiveness of these hedges recorded for the three and six months ended July 31, 2012 and 2011. All of the foreign currency forward contracts underlying the \$2.3 million of net losses recorded in our Accumulated Other Comprehensive Loss at July 31, 2012 mature within twelve months, and therefore we expect all such losses to be reclassified into earnings within the next twelve months.

Derivative Financial Instruments Not Designated as Hedging Instruments

Gains (losses) recognized on derivative financial instruments not designated as hedging instruments in our consolidated statements of operations for the three and six months ended July 31, 2012 and 2011 were as follows:

| (in thousands) | Classification in Condensed Consolidated Statements of Operations | Three Months Ended | | Six Months Ended | |
|------------------------------------|--|--------------------|--------------|------------------|-------------------|
| | | July 31, | | July 31, | |
| | | 2012 | 2011 | 2012 | 2011 |
| Foreign currency forward contracts | Other income (expense), net | \$ 271 | \$ 26 | \$ 131 | \$ (1,907) |
| Total | | \$ 271 | \$ 26 | \$ 131 | \$ (1,907) |

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 and six months ended July 31, 2012 and 2011:

| (in thousands) | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|------------------|------------------|
| | July 31, | | July 31, | |
| | 2012 | 2011 | 2012 | 2011 |
| Cost of revenue - product | \$ 192 | \$ 179 | \$ 326 | \$ 440 |
| Cost of revenue - service and support | 377 | 448 | 967 | 1,156 |
| Research and development, net | 642 | 737 | 1,137 | 1,586 |
| Selling, general and administrative | 4,711 | 5,277 | 9,203 | 11,009 |
| Total stock-based compensation expense | \$ 5,922 | \$ 6,641 | \$ 11,633 | \$ 14,191 |

Total stock-based compensation expense by classification was as follows for the three and six months ended July 31, 2012 and 2011:

| (in thousands) | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------|------------------|------------------|
| | July 31, | | July 31, | |
| | 2012 | 2011 | 2012 | 2011 |
| Equity-classified awards | \$ 5,486 | \$ 5,855 | \$ 10,472 | \$ 11,640 |
| Stock bonus program | 246 | — | 522 | — |
| Total equity-settled awards | 5,732 | 5,855 | 10,994 | 11,640 |
| Other liability-classified awards | 190 | 786 | 639 | 2,551 |
| Total stock-based compensation expense | \$ 5,922 | \$ 6,641 | \$ 11,633 | \$ 14,191 |

Awards under our stock bonus program are accounted for as liability-classified awards, because the obligations are based predominantly on fixed monetary amounts that are generally known at inception of the obligation, to be settled with a variable number of shares of our common stock. Our other 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. Upon settlement of other 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 and six months ended July 31, 2012, compared to the corresponding periods 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 decrease in outstanding phantom stock awards.

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.

During the three and six months ended July 31, 2012, approximately 22,000 and 59,000 common shares were issued pursuant to stock option exercises, respectively, for total proceeds of \$0.3 million and \$1.0 million, respectively. During the three and six months ended July 31, 2011, approximately 174,000 and 432,000 common shares were issued pursuant to stock option exercises, respectively, for total proceeds of \$3.5 million and \$8.7 million, respectively. As of July 31, 2012, we had approximately 1.0 million stock options outstanding, of which all but 22,000 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 six months ended July 31, 2012 and 2011, we granted 1.2 million and 0.9 million restricted stock units, respectively, substantially all of which were granted during the three months ended April 30, 2012 and 2011, respectively. Forfeitures of restricted stock units in each period were not significant. As of July 31, 2012 and 2011, we had 1.9 million and 1.5 million of restricted stock units outstanding, respectively, with weighted-average grant date fair values of \$30.72 and \$30.24 per unit, respectively. We did not grant any restricted stock awards during the six months ended July 31, 2012 and 2011, and there were no unvested restricted stock awards outstanding at July 31, 2012.

Substantially all of the restricted stock units granted during the six months ended July 31, 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 July 31, 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 July 31, 2012, there was approximately \$39.6 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 2.3 years.

Phantom Stock Units

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.

During the six months ended July 31, 2012 and 2011, grants and forfeitures of phantom stock units were not significant. Total cash payments made upon vesting of phantom stock units were \$2.3 million for the six months ended July 31, 2012, substantially all of which occurred during the three months ended July 31, 2012. Total cash payments made upon vesting of phantom stock units were \$3.4 million and \$10.3 million for the three and six months ended July 31, 2011, respectively. Total accrued liabilities for phantom stock units were \$0.2 million and \$1.9 million as of July 31, 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 July 31, 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, to be settled with a variable number of shares of common stock

determined using a discounted average price of our common stock, as described above.

The total accrued liability for the stock bonus program was \$3.2 million as of January 31, 2012. Approximately 132,000 shares of common stock earned under this program for the year ended January 31, 2012 were issued during the three months ended July 31, 2012, which, along with \$0.1 million of awards settled with cash payments, settled our January 31, 2012 obligations under this program.

Please see Note 16, “Subsequent Events” for information regarding this program for the year ending January 31, 2013.

13. RELATED PARTY TRANSACTIONS

During the three months ended April 30, 2012, we paid \$0.3 million to a subsidiary of CTI for its assignment to us of user licenses for certain third-party internal-use software. There were no transactions with subsidiaries of CTI during the three months ended July 31, 2012.

On August 12, 2012, we entered into several agreements with CTI, including an agreement for the Merger of CTI with and into our new, wholly-owned subsidiary, subject to the conditions set forth in the Merger Agreement. Further details regarding these agreements appear in Note 16, “Subsequent Events”.

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 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 CTI who had opted-out of CTI’s class action settlement were concluded. On December 7, 2011, Ms. Deutsch sought, unsuccessfully, to consolidate her action with a related action against CTI filed by another plaintiff in Israel. Following the settlement of the CTI 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 did not contest this motion but plan to continue to vigorously defend the action on the merits. On July 12, 2012, the plaintiffs filed a motion requesting that the District Court order CTI to set aside up to \$150 million in assets to secure any future judgment. The District Court ruled that it would not rule on this motion until the Labor Motion is heard. On August 16, 2012, in light of the announcement of the signing of the Merger Agreement, the plaintiffs filed a motion for leave to appeal the District Court ruling to the Israeli Supreme Court. We and the other defendants are obligated to respond to this latest motion by September 6, 2012. We and the other defendants are obligated to respond to the Labor Motion and the Labor Class Action by October 24, 2012. A pre-trial hearing for the case has been scheduled for late December 2012.

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.

Revenue adjustments for the three and six months ended July 31, 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 six months ended July 31, 2012 and 2011. The allocations of goodwill and acquired intangible assets by operating segment appear in Note 4, "Intangible Assets and Goodwill".

Operating results by segment for the three and six months ended July 31, 2012 and 2011 were as follows:

| (in thousands) | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|--------------------------------|--------------------------|------------------------------|--------------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue: | | | | |
| Enterprise Intelligence | | | | |
| Segment revenue | \$ 117,634 | \$ 105,654 | \$ 229,414 | \$ 202,923 |
| Revenue adjustments | (1,259) | — | (3,212) | — |
| | <u>116,375</u> | <u>105,654</u> | <u>226,202</u> | <u>202,923</u> |
| Video Intelligence | | | | |
| Segment revenue | 38,871 | 40,666 | 68,329 | 70,936 |
| Revenue adjustments | (712) | (727) | (1,492) | (962) |
| | <u>38,159</u> | <u>39,939</u> | <u>66,837</u> | <u>69,974</u> |
| Communications Intelligence | | | | |
| Segment revenue | 58,563 | 49,366 | 117,564 | 98,394 |
| Revenue adjustments | (671) | — | (1,542) | — |
| | <u>57,892</u> | <u>49,366</u> | <u>116,022</u> | <u>98,394</u> |
| Total revenue | <u>\$ 212,426</u> | <u>\$ 194,959</u> | <u>\$ 409,061</u> | <u>\$ 371,291</u> |
| Segment contribution: | | | | |
| Enterprise Intelligence | \$ 47,860 | \$ 46,159 | \$ 94,963 | \$ 89,135 |
| Video Intelligence | 12,230 | 10,779 | 19,035 | 18,350 |
| Communications Intelligence | 14,318 | 14,218 | 31,133 | 33,463 |
| Total segment contribution | <u>74,408</u> | <u>71,156</u> | <u>145,131</u> | <u>140,948</u> |
| Unallocated expenses, net: | | | | |
| Amortization of acquired intangible assets | 9,679 | 8,100 | 19,661 | 16,296 |
| Stock-based compensation | 5,922 | 6,641 | 11,633 | 14,191 |
| Other unallocated expenses | 32,544 | 35,005 | 66,591 | 70,217 |
| Total unallocated expenses, net | <u>48,145</u> | <u>49,746</u> | <u>97,885</u> | <u>100,704</u> |
| Operating income | <u>26,263</u> | <u>21,410</u> | <u>47,246</u> | <u>40,244</u> |
| Other expense, net | (8,226) | (6,973) | (15,180) | (22,743) |
| Income before provision for income taxes | <u>\$ 18,037</u> | <u>\$ 14,437</u> | <u>\$ 32,066</u> | <u>\$ 17,501</u> |

16. SUBSEQUENT EVENTS

Verint and CTI Merger Agreement

Overview

On August 12, 2012, we entered into the Merger Agreement with CTI providing for the Merger of CTI with and into a new, wholly-owned subsidiary of Verint, upon the terms and subject to the conditions set forth in the Merger Agreement. At the completion of the Merger, each share of CTI common stock outstanding immediately prior to the effective time of the Merger will be converted into the right to receive new shares of our common stock at a specified exchange ratio, as described below. The Merger, if completed as contemplated in the Merger Agreement, would eliminate CTI's majority ownership in and control of Verint.

Completion of the Merger is contingent upon, among other things, completion of CTI's previously announced distribution to its shareholders of substantially all of its assets other than its interest in Verint, including its interest in Comverse, Inc. ("CNS") (the "CNS share distribution"), or other sale or disposition by CTI of those assets (a "CNS disposition").

The share exchange provision of the Merger Agreement provides that each holder of CTI common shares will receive new shares of our common stock representing such holder's pro rata portion of an aggregate number of shares of our common stock equal to the sum of (1) the shares of our common stock held by CTI immediately prior to the completion of the Merger (including the shares of our common stock issuable upon conversion of the shares of Preferred Stock held by CTI at a

conversion price of \$32.66), plus (2) additional shares of our common stock, the number of which is equal to the dollar value described below (the “Target Amount”) divided by the average of the daily volume weighted average of the trading prices of our common stock during the 20 consecutive trading days ending on the second trading day prior to the closing date of the Merger, plus (3) additional shares of our common stock based on the positive net worth of CTI (as determined in accordance with the Merger Agreement) immediately prior to the completion of the Merger, up to a maximum dollar value of \$10.0 million. The Target Amount will be \$25.0 million if the CNS share distribution or a CNS disposition occurs on or prior to October 31, 2012 and will be reduced (a) to \$15.0 million if the CNS share distribution or a CNS disposition occurs after October 31, 2012 but on or prior to January 31, 2013, (b) to \$5.0 million if the CNS share distribution or a CNS disposition occurs after January 31, 2013 but on or prior to April 30, 2013 and (c) to zero if the CNS share distribution or a CNS disposition occurs after April 30, 2013 or, if as of the completion of the Merger, CTI beneficially owns less than 50% of the outstanding shares of our common stock (on an as-exercised and fully diluted basis), unless such level of ownership results from our issuance of new shares of voting securities after the date of the Merger Agreement.

Holders of shares of our common stock immediately prior to the completion of the Merger, other than CTI, will continue to own their existing shares, which will not be affected by the Merger. Outstanding shares of our common stock and Preferred Stock held by CTI at the completion of the Merger will be canceled, and each outstanding share of Preferred Stock not held by CTI will be converted into shares of our common stock.

The Merger is intended to qualify as a tax-free reorganization for U.S. federal income tax purposes.

The Merger Agreement restricts CTI from amending or modifying the terms of the CNS share distribution agreements without our consent if those amendments or modifications would adversely affect our rights or CTI's rights under those agreements in any material respect, including CTI's right to be indemnified for specified losses related to CNS. The Merger Agreement also makes it a condition to closing that if a CNS disposition occurs, the agreements relating to such disposition must incorporate the material terms, conditions, rights and privileges set forth in the CNS share distribution agreements that are for the benefit of CTI, including any right of indemnity.

During the three and six months ended July 31, 2012, we incurred expenses of \$2.4 million and \$3.3 million, respectively, consisting primarily of legal and other professional fees, associated with this matter, which have been expensed as incurred. We expect to continue to incur such expenses through, and possibly beyond, the completion of the Merger, including certain professional fees which were contingent upon execution of the Merger Agreement in August 2012.

Conditions of and Timing of the Merger

The completion of the Merger is subject to several conditions including, among others, (1) that the CNS share distribution or a CNS disposition be completed at least one day prior to the closing date of the Merger, (2) the adoption of the Merger Agreement by the requisite votes of our stockholders and CTI's shareholders as well as, in our case, by the affirmative vote of holders representing a majority of shares of our common stock present, in person or by proxy, at the meeting of stockholders that are not held by CTI or its subsidiaries and (3) our filing and effectiveness of a Form S-4 registration statement with SEC. The Merger is also subject to the other conditions specified in the Merger Agreement.

We currently expect to file the Form S-4 registration statement in our third quarter or early in our fourth quarter and to close the Merger in the first quarter of our next fiscal year. However, there can be no assurance as to when or if the transactions contemplated by the Merger Agreement will be consummated.

Termination Rights

The Merger Agreement provides certain termination rights to both parties, including in the event that the CNS share distribution or a CNS disposition does not occur by April 30, 2013, and further provides that in connection with the termination of the Merger Agreement under specified circumstances, we may be required to pay CTI, or CTI may be required to pay us, a fee of \$10.0 million and/or such party's out-of-pocket expenses. Furthermore, upon termination of the Merger Agreement under certain circumstances, the parties would be entitled to certain rights and subject to certain obligations set forth in a Governance and Repurchase Rights Agreement, as further described below.

Voting Agreement

In connection entering into the Merger Agreement, we entered into a Voting Agreement with CTI pursuant to which CTI agreed, among other things, to vote the shares of our common stock and Preferred Stock beneficially owned by CTI in favor of the adoption of the Merger Agreement. CTI also agreed to comply with certain restrictions on the disposition of such shares,

including requiring any transferee of CTI's voting securities to be bound by the terms of the Voting Agreement. The Voting Agreement will terminate upon the earlier of the completion of the Merger or the termination of the Merger Agreement in accordance with its terms.

Governance and Repurchase Rights Agreement

Also in connection with entering into the Merger Agreement, we entered into a Governance and Repurchase Rights Agreement with CTI, which provides certain rights for, and imposes certain obligations upon, the parties for a period of up to 18 months following the termination of the Merger Agreement under certain conditions, including the failure, following CTI shareholder approval, of the CNS share distribution or a CNS disposition to occur by April 30, 2013, or a knowing or deliberate breach of the Merger Agreement by CTI that is not timely cured, subject to earlier termination of the Governance and Repurchase Rights Agreement in accordance with its terms, including in the event of certain types of changes in control of CTI (such 18 month or shorter period, the "Term").

The Governance and Repurchase Rights Agreement provides for the following rights and obligations, among other things, during the Term:

- Specifics regarding the composition of our board of directors, including the requirement that certain CTI nominees to our board of directors (as designated by Cadian Capital Management, LLC under the Cadian Letter Agreement (as defined below)) qualify as independent;
- Certain restrictions upon CTI acquiring additional beneficial ownership of any of our outstanding voting securities, other than shares of our common stock pursuant to CTI's conversion of its Preferred Stock holdings (the "Standstill");
- Obligations on how CTI will vote its holdings of our voting securities on certain matters at any time that our board of directors is not comprised of a majority of independent directors;
- The right (which right may only be exercised once) for us to purchase shares (the "Option Shares") of Preferred Stock (or, if necessary, shares of our common stock) owned by CTI to reduce CTI's beneficial ownership of our voting securities to less than 50% but not less than 49.5% (on an as-exercised and fully diluted basis) (the "Call Option"). The purchase price of the Option Shares upon our exercise of the Call Option would equal the sum of (1) the liquidation preference of the Preferred Stock to be purchased, plus (2) the market value (as defined in the agreement) of any of our common stock to be purchased, plus (3) a pro rata portion of \$5.0 million based on the number of Option Shares to be purchased relative to the total number of outstanding shares of the Preferred Stock, and
- The right (which right may only be exercised once) for CTI to cause us to purchase the Option Shares (the "Put Option" and, together with the Call Option, the "Options") in the event the Merger Agreement is terminated because of the failure, following CTI shareholder approval, of the CNS share distribution or a CNS disposition to occur by April 30, 2013. The purchase price of the Option Shares upon CTI's exercise of the Put Option would be equal to the lesser of (1) the sum of (a) the liquidation preference of the Preferred Stock to be purchased plus (b) the market value (as defined in the agreement) of our common stock to be purchased, if any, and (2) the sum of (a) the aggregate market value (as defined in the agreement) for the Option Shares (on an as-converted basis) plus (b) \$25.0 million.

Each Option will automatically terminate in the event CTI beneficially owns less than 50% of our outstanding voting securities (on an as-exercised and fully diluted basis), with several exceptions, as defined in the agreement. Under the agreement, we may also refuse to accept CTI's exercise of the Put Option and CTI's sole remedies would be our forfeiture of the Call Option and termination of the Standstill.

The foregoing descriptions of the Merger Agreement, the Voting Agreement, and the Governance and Repurchase Rights Agreement are qualified in their entirety by reference to the terms of such agreements, copies of which have been filed as exhibits to our Current Report on Form 8-K filed on August 13, 2012 and incorporated herein by reference.

Stock Bonus Program

On August 30, 2012, our board of directors approved up to 150,000 shares of common stock, and a discount of 15%, for awards under our stock bonus program for the year ending January 31, 2013.

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.

Recent Developments

On August 12, 2012, we entered into the Merger Agreement with CTI providing for the Merger of CTI with and into a new, wholly-owned subsidiary of Verint, which, if completed as contemplated in the Merger Agreement, would eliminate CTI's majority ownership in and control of Verint. Under the Merger Agreement, following the completion of CTI's previously announced distribution to its shareholders or other disposition of its telecom business and substantially all of its other assets, other than its holdings in us, and the satisfaction or waiver of other conditions set forth in the Merger Agreement, each issued and outstanding common share of CTI would be converted into the right to receive new shares of our common stock at an exchange ratio specified in the Merger Agreement. Each outstanding share of our common stock and Preferred Stock held by CTI would be canceled at the completion of the Merger and each outstanding share of Preferred Stock not held by CTI will be converted into shares of our common stock. Holders of our common stock immediately prior to the completion of the Merger, other than CTI, would continue to own their existing shares.

Further details regarding the Merger Agreement appear in Note 16, "Subsequent Event" of the Notes to Condensed Consolidated Financial Statements under Part I, Item 1.

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;
- 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 six months ended July 31, 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.

Overview of Operating Results

The following table sets forth a summary of certain key financial information for the three and six months ended July 31, 2012, and 2011:

| (in thousands, except per share data) | Three Months Ended July 31, | | Six Months Ended July 31, | |
|--|--|-------------|--------------------------------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue | \$ 212,426 | \$ 194,959 | \$ 409,061 | \$ 371,291 |
| Operating income | \$ 26,263 | \$ 21,410 | \$ 47,246 | \$ 40,244 |
| Net income attributable to Verint Systems Inc. common shares | \$ 8,739 | \$ 6,768 | \$ 15,030 | \$ 3,107 |
| Net income per share attributable to Verint Systems Inc.: | | | | |
| Basic | \$ 0.22 | \$ 0.18 | \$ 0.38 | \$ 0.08 |
| Diluted | \$ 0.22 | \$ 0.17 | \$ 0.38 | \$ 0.08 |

Three Months Ended July 31, 2012 compared to Three Months Ended July 31, 2011. Our revenue increased approximately 9%, or \$17.4 million, to \$212.4 million in the three months ended July 31, 2012 from \$195.0 million in three months ended July 31, 2011. In our Enterprise Intelligence segment, revenue increased approximately 10%, or \$10.7 million, to \$116.4 million in the three months ended July 31, 2012 from \$105.7 million in the three months ended July 31, 2011. The increase consisted of a \$12.1 million increase in service and support revenue and a \$1.4 million decrease in product revenue. In our Communications Intelligence segment, revenue increased approximately 17%, or \$8.5 million, to \$57.9 million in the three months ended July 31, 2012 from \$49.4 million in the three months ended July 31, 2011. The increase consisted of a \$4.8 million increase in product revenue and a \$3.7 million increase in service and support revenue. In our Video Intelligence segment, revenue decreased approximately 4%, or \$1.7 million, to \$38.2 million in the three months ended July 31, 2012 from \$39.9 million in the three months ended July 31, 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, Europe, the Middle East, and Africa (“EMEA”), and the Asia-Pacific region (“APAC”) represented approximately 57%, 24%, and 19% of our total revenue, respectively, in the three months ended July 31, 2012, compared to approximately 54%, 27%, and 19%, respectively, in the three months ended July 31, 2011.

Operating income was \$26.3 million in the three months ended July 31, 2012 compared to \$21.4 million in the three months ended July 31, 2011. The increase in operating income was primarily due to a \$10.5 million increase in gross profit to \$136.4 million, from \$125.9 million, partially offset by an increase in operating expenses of \$5.8 million to \$110.2 million, from \$104.4 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 \$3.4 million increase in net research and development expenses due primarily to an increase in employee headcount and merit increases to employee salaries, and an increase in selling, general and administrative expenses resulting primarily from increased employee compensation and related expenses, increased contractor

costs, and higher professional fees. These increases were partially offset by a decrease in the change in fair value of obligations under our contingent consideration arrangements. Further details of changes in operating income are provided below.

Net income attributable to Verint Systems Inc. common shares was \$8.7 million, and diluted net income per common share was \$0.22, in the three months ended July 31, 2012 compared to net income attributable to Verint Systems Inc. common shares of \$6.8 million, and diluted net income per common share of \$0.17, in the three months ended July 31, 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 July 31, 2012 was primarily due to our increased operating income, as described above, partially offset by a \$1.3 million increase in total other expense, net, due primarily to foreign currency losses during the three months ended July 31, 2012. Further details of changes in total other expense, net, are provided below.

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 July 31, 2012 to average exchange rates for the three months ended July 31, 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 July 31, 2012, had foreign exchange rates remained unchanged from rates in effect for the three months ended July 31, 2011, our revenue would have been approximately \$6.4 million higher and our cost of revenue and operating expenses would have been approximately \$7.2 million higher, which would have resulted in a \$0.8 million decrease in operating income.

As of July 31, 2012, we employed approximately 3,200 employees, including part-time employees and certain contractors, as compared to approximately 2,900 employees as of July 31, 2011.

Six Months Ended July 31, 2012 compared to Six Months Ended July 31, 2011. Our revenue increased approximately 10%, or \$37.8 million, to \$409.1 million in the six months ended July 31, 2012 from \$371.3 million in six months ended July 31, 2011. In our Enterprise Intelligence segment, revenue increased approximately 11%, or \$23.3 million, to \$226.2 million in the six months ended July 31, 2012 from \$202.9 million in the six months ended July 31, 2011. The increase consisted of a \$21.3 million increase in service and support revenue and a \$2.0 million increase in product revenue. In our Communications Intelligence segment, revenue increased approximately 18%, or \$17.6 million, to \$116.0 million in the six months ended July 31, 2012 from \$98.4 million in the six months ended July 31, 2011. The increase consisted of a \$11.5 million increase in product revenue and a \$6.1 million increase in service and support revenue. In our Video Intelligence segment, revenue decreased approximately 5%, or \$3.2 million, to \$66.8 million in the six months ended July 31, 2012 from 70.0 million in the six months ended July 31, 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 APAC represented approximately 54%, 25%, and 21% of our total revenue, respectively, in the six months ended July 31, 2012, compared to approximately 52%, 27%, and 21%, respectively, in the six months ended July 31, 2011.

Operating income was \$47.2 million in the six months ended July 31, 2012 compared to \$40.2 million in the six months ended July 31, 2011. The increase in operating income was primarily due to an \$18.0 million increase in gross profit to \$264.8 million, from \$246.8 million, partially offset by an increase in operating expenses of \$10.9 million to \$217.5 million, from \$206.6 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 \$5.4 million increase in net research and development expenses due primarily to an increase in employee headcount and merit increases to employee salaries, and an increase in selling, general and administrative expense due primarily to increased employee compensation and related expenses, increased contractor costs, and higher professional fees. These increases were partially offset by decreases in the change in fair value of obligations under our contingent consideration arrangements and stock-based compensation expense. Further details of changes in operating income are provided below.

Net income attributable to Verint Systems Inc. common shares was \$15.0 million, and diluted net income per common share was \$0.38, in the six months ended July 31, 2012 compared to net income attributable to Verint Systems Inc. common shares of \$3.1 million, and diluted net income per common share of \$0.08, in the six months ended July 31, 2011. The increase in net income attributable to Verint Systems Inc. common shares and diluted net income per common share in the six months ended July 31, 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 six months ended July 31, 2011. There were no such losses recognized during the six months ended July 31, 2012.

When comparing average exchange rates for the six months ended July 31, 2012 to average exchange rates for the six months

ended July 31, 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 six months ended July 31, 2012, had foreign exchange rates remained unchanged from rates in effect for the six months ended July 31, 2011, our revenue would have been approximately \$8.6 million higher and our cost of revenue and operating expenses would have been approximately \$9.9 million higher, which would have resulted in a \$1.3 million decrease in operating income.

Revenue by Operating Segment

The following table sets forth revenue for each of our three operating segments for the three and six months ended July 31, 2012 and 2011:

| (in thousands) | Three Months Ended July 31, | | % Change 2012 - 2011 | Six Months Ended July 31, | | % Change 2012 - 2011 |
|-----------------------------|--------------------------------|-------------------|-------------------------|------------------------------|-------------------|-------------------------|
| | 2012 | 2011 | | 2012 | 2011 | |
| Enterprise Intelligence | \$ 116,375 | \$ 105,654 | 10% | \$ 226,202 | \$ 202,923 | 11% |
| Video Intelligence | 38,159 | 39,939 | (4)% | 66,837 | 69,974 | (4)% |
| Communications Intelligence | 57,892 | 49,366 | 17% | 116,022 | 98,394 | 18% |
| Total revenue | \$ 212,426 | \$ 194,959 | 9% | \$ 409,061 | \$ 371,291 | 10% |

Enterprise Intelligence Segment

Three Months Ended July 31, 2012 compared to Three Months Ended July 31, 2011. Enterprise Intelligence revenue increased approximately 10%, or \$10.7 million, to \$116.4 million in the three months ended July 31, 2012 from \$105.7 million in the three months ended July 31, 2011. The increase consisted of a \$12.1 million increase in service and support revenue, partially offset by a \$1.4 million decrease in product revenue. The increase in service and support revenue was 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 July 31, 2012 and the inclusion of service and support revenue from acquisitions in our Enterprise Intelligence segment (primarily Vovici) that were consummated subsequent to July 31, 2011. The decrease in product revenue was primarily due to a slight decrease of sales to existing and new customers during the three months ended July 31, 2012 compared to the three months ended July 31, 2011.

Six Months Ended July 31, 2012 compared to Six Months Ended July 31, 2011. Enterprise Intelligence revenue increased approximately 11%, or \$23.3 million, to \$226.2 million in the three months ended July 31, 2012 from \$202.9 million in the three months ended July 31, 2011. The increase consisted of a \$21.3 million increase in service and support revenue and a \$2.0 million increase in product revenue. The increase in service and support revenue was due primarily to an increase in our customer install base and the related support revenue generated from this customer base during the six months ended July 31, 2012 and the inclusion of service and support revenue from acquisitions in our Enterprise Intelligence segment (primarily Vovici) that were consummated subsequent to July 31, 2011. The increase in product revenue was due to growth of sales to existing and new customers during the six months ended July 31, 2012 compared to the six months ended July 31, 2011.

Video Intelligence Segment

Three Months Ended July 31, 2012 compared to Three Months Ended July 31, 2011. Video Intelligence revenue decreased approximately 4%, or \$1.7 million, to \$38.2 million in the three months ended July 31, 2012 from \$39.9 million in the three months ended July 31, 2011. The decrease was primarily attributable to a \$1.9 million decrease in product revenue resulting primarily from a reduction in volume of product deliveries associated with a few large transactions, partially offset by an increase in product deliveries to other customers, in the three months ended July 31, 2012.

Six Months Ended July 31, 2012 compared to Six Months Ended July 31, 2011. Video Intelligence revenue decreased approximately 4%, or \$3.2 million, to \$66.8 million in the six months ended July 31, 2012 from \$70.0 million in the six months ended July 31, 2011. The decrease was primarily attributable to a \$3.3 million decrease in product revenue due primarily to a reduction in volume of product deliveries associated with a few large transactions, partially offset by an increase in product deliveries to other customers, in the six months ended July 31, 2012.

Communications Intelligence Segment

Three Months Ended July 31, 2012 compared to Three Months Ended July 31, 2011. Communications Intelligence revenue increased approximately 17%, or \$8.5 million, to \$57.9 million in the three months ended July 31, 2012 from \$49.4 million in the three months ended July 31, 2011. The increase consisted of a \$4.8 million increase in product revenue and a \$3.7 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, and to a lesser extent, the inclusion of product revenue from an acquisition in our Communications Intelligence segment that was consummated subsequent to July 31, 2011. In addition, there was an increase in product deliveries to customers. The increase in service and support revenue was 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, and an increase in the customer install base.

Six Months Ended July 31, 2012 compared to Six Months Ended July 31, 2011. Communications Intelligence revenue increased approximately 18%, or \$17.6 million, to \$116.0 million in the six months ended July 31, 2012 from \$98.4 million in the six months ended July 31, 2011. The increase consisted of a \$11.5 million increase in product revenue and a \$6.1 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, and to a lesser extent, the inclusion of product revenue from an acquisition in our Communications Intelligence segment that was consummated subsequent to July 31, 2011. In addition, there was an increase in product deliveries to customers. The increase in service and support revenue was 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, and an increase in the customer install base.

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.

The following table sets forth product revenue and service and support revenue for the three and six months ended July 31, 2012 and 2011:

| (in thousands) | Three Months Ended | | % Change | Six Months Ended | | % Change |
|-----------------------------|---------------------------|-------------------|--------------------|-------------------------|-------------------|--------------------|
| | July 31, | July 31, | | July 31, | July 31, | |
| | 2012 | 2011 | 2012 - 2011 | 2012 | 2011 | 2012 - 2011 |
| Product revenue | \$ 101,990 | \$ 100,423 | 2% | \$ 193,989 | \$ 183,701 | 6% |
| Service and support revenue | 110,436 | 94,536 | 17% | 215,072 | 187,590 | 15% |
| Total revenue | \$ 212,426 | \$ 194,959 | 9% | \$ 409,061 | \$ 371,291 | 10% |

Product Revenue

Three Months Ended July 31, 2012 compared to Three Months Ended July 31, 2011. Product revenue increased approximately 2%, or \$1.6 million, to \$102.0 million for the three months ended July 31, 2012 from \$100.4 million for the three months ended July 31, 2011 due to a \$4.8 million increase in product revenue in our Communications Intelligence segment, partially offset by decreases of \$1.4 million and \$1.9 million in our Enterprise Intelligence and Video Intelligence segments, respectively. For additional information see "— Revenue by Operating Segment".

Six Months Ended July 31, 2012 compared to Six Months Ended July 31, 2011. Product revenue increased approximately 6%,

or \$10.3 million, to \$194.0 million for the six months ended July 31, 2012 from \$183.7 million for the six months ended July 31, 2011 due to increases in product revenue in our Enterprise Intelligence and Communications Intelligence segments of \$2.0 million and \$11.5 million, respectively, partially offset by a \$3.3 million decrease in our Video Intelligence segment. For additional information see “— Revenue by Operating Segment”.

Service and Support Revenue

Three Months Ended July 31, 2012 compared to Three Months Ended July 31, 2011. Service and support revenue increased approximately 17%, or \$15.9 million, to \$110.4 million for the three months ended July 31, 2012 from \$94.5 million for the three months ended July 31, 2011. The increase was primarily attributable to increases of \$12.1 million and \$3.7 million in our Enterprise Intelligence and Communications Intelligence segments, respectively. For additional information see “— Revenue by Operating Segment”.

Six Months Ended July 31, 2012 compared to Six Months Ended July 31, 2011. Service and support revenue increased approximately 15%, or \$27.5 million, to \$215.1 million for the six months ended July 31, 2012 from \$187.6 million for the six months ended July 31, 2011. The increase was primarily attributable to increases of \$21.3 million and \$6.1 million in our Enterprise Intelligence and Communications Intelligence segments, respectively. For additional information see “— Revenue by Operating Segment”.

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 and six months ended July 31, 2012 and 2011:

| (in thousands) | Three Months Ended | | % Change | Six Months Ended | | % Change |
|---|---------------------------|------------------|--------------------|-------------------------|-------------------|--------------------|
| | July 31, | July 31, | | July 31, | July 31, | |
| | 2012 | 2011 | 2012 - 2011 | 2012 | 2011 | 2012 - 2011 |
| Cost of product revenue | \$ 36,382 | \$ 33,214 | 10% | \$ 67,274 | \$ 55,745 | 21% |
| Cost of service and support revenue | 35,954 | 33,210 | 8% | 69,606 | 63,378 | 10% |
| Amortization of acquired technology and backlog | 3,644 | 2,685 | 36% | 7,428 | 5,335 | 39% |
| Total cost of revenue | \$ 75,980 | \$ 69,109 | 10% | \$ 144,308 | \$ 124,458 | 16% |

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 July 31, 2012 compared to Three Months Ended July 31, 2011. Cost of product revenue increased approximately 10% to \$36.4 million in the three months ended July 31, 2012 from \$33.2 million in the three months ended July 31, 2011. Our overall product gross margins decreased to 64% in the three months ended July 31, 2012 from 67% in the three months ended July 31, 2011. Product gross margins in our Communications Intelligence segment decreased to 52% for the three months ended July 31, 2012 from 60% in the three months ended July 31, 2011 resulting from a change in product mix. Product gross margins in our Enterprise Intelligence segment decreased to 88% in the three months ended July 31, 2012 from 89% in the three months ended July 31, 2011 primarily as a result of higher royalty expense in connection with a large transaction during the three months ended July 31, 2012, which adversely impacted product margins during this period. Product gross margins in our Video Intelligence segment increased to 60% in the three months ended July 31, 2012, compared to 56% in the three months ended July 31, 2011 due to a change in product mix.

Six Months Ended July 31, 2012 compared to Six Months Ended July 31, 2011. Cost of product revenue increased approximately 21% to \$67.3 million in the six months ended July 31, 2012 from \$55.7 million in the six months ended July 31, 2011. Our overall product gross margins decreased to 65% in the six months ended July 31, 2012 from 70% in the six months

ended July 31, 2011. Product gross margins in our Communications Intelligence segment decreased to 55% for the six months ended July 31, 2012 from 67% in the six months ended July 31, 2011 resulting from a change in product mix. Product gross margins in our Enterprise Intelligence segment decreased to 88% in the six months ended July 31, 2012 from 89% in the six months ended July 31, 2011 primarily as a result of higher royalty expense in connection with a large transaction, which adversely impacted product margins during the three months ended July 31, 2012. Product gross margins in our Video Intelligence segment increased to 60% in the six months ended July 31, 2012 compared to 58% in the six months ended July 31, 2011 due to a change in product mix.

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 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 July 31, 2012 compared to Three Months Ended July 31, 2011. Cost of service and support revenue increased approximately 8% to \$36.0 million in the three months ended July 31, 2012 from \$33.2 million in the three months ended July 31, 2011. Employee compensation and related expenses increased \$1.6 million, due primarily to an increase in our Enterprise Intelligence segment, reflecting an increase in employee headcount required to deliver the increased implementation services. Contractor costs increased \$1.4 million, of which \$0.8 million was due to increased use of contractors resulting from product mix and geographical locations of implementation services in our Communications Intelligence segment. The remaining increase in contractor costs was due to increase use of contractors in our Enterprise Intelligence segment. Our overall service and support gross margins increased to 67% in the three months ended July 31, 2012 compared to 65% in the three months ended July 31, 2011.

Six Months Ended July 31, 2012 compared to Six Months Ended July 31, 2011. Cost of service and support revenue increased approximately 10% to \$69.6 million in the six months ended July 31, 2012 from \$63.4 million in the six months ended July 31, 2011. Employee compensation and related expenses increased \$5.2 million, primarily driven by a \$4.8 million increase in our Enterprise Intelligence segment, reflecting an increase in employee headcount required to deliver the increased implementation services. Contractor costs increased \$2.0 million primarily due to increased use of contractors resulting from product mix and geographical locations of implementation services in our Communications Intelligence segment. Our overall service and support gross margins increased to 68% in the six months ended July 31, 2012 compared to 66% in the six months ended July 31, 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 July 31, 2012 compared to Three Months Ended July 31, 2011. Amortization of acquired technology and backlog increased approximately 36% to \$3.6 million in the three months ended July 31, 2012, from \$2.7 million in the three months ended July 31, 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 July 31, 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.

Six Months Ended July 31, 2012 compared to Six Months Ended July 31, 2011. Amortization of acquired technology and backlog increased approximately 39% to \$7.4 million in the six months ended July 31, 2012, from \$5.3 million in the six months ended July 31, 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 July 31, 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 and six months ended July 31, 2012 and 2011:

| | Three Months Ended | | | Six Months Ended | | |
|-------------------------------|--------------------|-----------|-------------|------------------|-----------|-------------|
| | July 31, | | % Change | July 31, | | % Change |
| (in thousands) | 2012 | 2011 | 2012 - 2011 | 2012 | 2011 | 2012 - 2011 |
| Research and development, net | \$ 30,195 | \$ 26,808 | 13% | \$ 58,598 | \$ 53,176 | 10% |

Three Months Ended July 31, 2012 compared to Three Months Ended July 31, 2011. Research and development, net increased approximately 13%, or \$3.4 million, to \$30.2 million in the three months ended July 31, 2012 from \$26.8 million in the three months ended July 31, 2011. The increase was attributable to a \$2.8 million increase in employee compensation and related expenses, which was attributable to an increase in employee headcount and merit increases to employee salaries, and a \$0.9 million decrease in research and development reimbursements from government programs approved by the Office of the Chief Scientist of Israel that were received during the three months ended July 31, 2012.

Six Months Ended July 31, 2012 compared to Six Months Ended July 31, 2011. Research and development, net increased approximately 10%, or \$5.4 million, to \$58.6 million in the six months ended July 31, 2012 from \$53.2 million in the six months ended July 31, 2011. The increase was primarily attributable to a \$5.6 million increase in employee compensation and related expenses, which was attributable to an increase in employee headcount and merit increases to employee salaries. 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 six months ended July 31, 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 and six months ended July 31, 2012 and 2011:

| (in thousands) | Three Months Ended | | % Change 2012 - 2011 | Six Months Ended | | % Change 2012 - 2011 |
|-------------------------------------|--------------------|-----------|-------------------------|------------------|------------|-------------------------|
| | July 31, | | | July 31, | | |
| | 2012 | 2011 | | 2012 | 2011 | |
| Selling, general and administrative | \$ 73,953 | \$ 72,217 | 2% | \$ 146,676 | \$ 142,452 | 3% |

Three Months Ended July 31, 2012 compared to Three Months Ended July 31, 2011. Selling, general and administrative expenses increased approximately 2%, or \$1.8 million, to \$74.0 million in the three months ended July 31, 2012 from \$72.2 million in the three months ended July 31, 2011. Employee compensation and related expenses increased \$3.2 million, primarily due to an increase in employee headcount and merit increases to employee salaries. Contractor costs increased \$1.7 million primarily due to increased use of contractors for internal support activities, and to a lesser extent, increased use of contractors resulting from prior-year acquisitions in our Communications Intelligence segment. Professional fees increased \$2.4 million primarily due to professional fees incurred in connection with the Merger. These increases were partially offset by a net \$4.4 million decrease in the change in fair value of our obligations under contingent consideration arrangements.

Six Months Ended July 31, 2012 compared to Six Months Ended July 31, 2011. Selling, general and administrative expenses increased approximately 3%, or \$4.2 million, to \$146.7 million in the six months ended July 31, 2012 from \$142.5 million in the six months ended July 31, 2011. Employee compensation and related expenses increased \$9.1 million, primarily due to an increase in employee headcount and merit increases. Contractor costs increased \$3.1 million primarily due to increased use of contractors for internal support activities, and to a lesser extent, increased use of contractors resulting from prior-year acquisitions in our Communications Intelligence segment. Professional fees increased \$2.3 million primarily due to professional fees incurred in connection with the Merger. Sales commission expense increased \$1.3 million attributable to increased revenue in our Enterprise Intelligence segment. These increases were partially offset by a net \$9.4 million decrease in the change in fair value of our obligations under contingent consideration arrangements and a \$1.8 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 six months ended July 31, 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. The following table sets forth amortization of other acquired intangible assets for the three and six months ended July 31, 2012 and 2011:

| (in thousands) | Three Months Ended | | | % Change 2012 - 2011 | Six Months Ended | | |
|--|--------------------|----------|------|-------------------------|------------------|------|-------------|
| | July 31, | | 2012 | | July 31, | | 2012 - 2011 |
| | 2012 | 2011 | | | 2012 | 2011 | |
| Amortization of other acquired intangible assets | \$ 6,035 | \$ 5,415 | 11% | \$ 12,233 | \$ 10,961 | 12% | |

Three Months Ended July 31, 2012 compared to Three Months Ended July 31, 2011. Amortization of other acquired intangible assets increased approximately 11% to \$6.0 million in the three months ended July 31, 2012 from \$5.4 million in the three months ended July 31, 2011 primarily due to an increase in amortization associated with business combinations that closed during the year ended January 31, 2012, subsequent to July 31, 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.

Six Months Ended July 31, 2012 compared to Six Months Ended July 31, 2011. Amortization of other acquired intangible assets increased approximately 12% to \$12.2 million in the six months ended July 31, 2012 from \$11.0 million in the six months ended July 31, 2011 primarily due to an increase in amortization associated with business combinations that closed during the year ended January 31, 2012, subsequent to July 31, 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 and six months ended July 31, 2012 and 2011:

| | Three Months Ended | | | Six Months Ended | | |
|---------------------------------|--------------------|-------------------|-------------|--------------------|--------------------|-------------|
| | July 31, | | % Change | July 31, | | % Change |
| (in thousands) | 2012 | 2011 | 2012 - 2011 | 2012 | 2011 | 2012 - 2011 |
| Interest income | \$ 124 | \$ 146 | (15)% | \$ 254 | \$ 294 | (14)% |
| Interest expense | (7,867) | (7,857) | —% | (15,585) | (16,651) | (6)% |
| Loss on extinguishment of debt | — | — | * | — | (8,136) | * |
| Other income (expense): | | | | | | |
| Foreign currency gains (losses) | (711) | 796 | (189)% | 123 | 3,787 | (97)% |
| Gains (losses) on derivatives | 271 | 26 | 942% | 131 | (1,907) | (107)% |
| Other, net | (43) | (84) | (49)% | (103) | (130) | (21)% |
| Total other income (expense) | (483) | 738 | (165)% | 151 | 1,750 | (91)% |
| Total other expense, net | \$ (8,226) | \$ (6,973) | 18% | \$ (15,180) | \$ (22,743) | (33)% |

* Percentage is not meaningful.

Three Months Ended July 31, 2012 compared to Three Months Ended July 31, 2011. Total other expense, net, increased by \$1.2 million, to \$8.2 million in the three months ended July 31, 2012 from \$7.0 million in the three months ended July 31, 2011. We recorded \$0.7 million of foreign currency losses in the three months ended July 31, 2012 compared to \$0.8 million of gains in the three months ended July 31, 2011. Foreign currency losses in the three months ended July 31, 2012 resulted primarily from the strengthening of the U.S. dollar against the British pound sterling, euro, and Singapore dollar during such period, which resulted in losses on U.S. dollar-denominated net liabilities in certain entities which use those functional currencies.

In the three months ended July 31, 2012, there was a net gain on derivative financial instruments (not designated as hedging

instruments) of \$0.3 million, compared to a nominal gain on such instruments for the three months ended July 31, 2011. The gains in both periods were primarily attributable to gains on foreign currency forward contracts due to the strengthening of the U.S. dollar against the Singapore dollar and euro during such periods.

Six Months Ended July 31, 2012 compared to Six Months Ended July 31, 2011. Total other expense, net, decreased by \$7.5 million, to \$15.2 million in the six months ended July 31, 2012 from \$22.7 million in the six months ended July 31, 2011. Interest expense decreased to \$15.6 million in the six months ended July 31, 2012 from \$16.7 million in the six months ended July 31, 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 \$0.1 million of net foreign currency gains in the six months ended July 31, 2012 compared to a \$3.8 million of net gains in the six months ended July 31, 2011. The decrease in foreign currency gains in the six months ended July 31, 2012 resulted primarily from the strengthening of the U.S. dollar against the British pound sterling, euro, and Singapore dollar during such period, which resulted in smaller gains on U.S. dollar-denominated net liabilities in certain entities which use those functional currencies during the six months ended July 31, 2012 compared to the six months ended July 31, 2011.

In the six months ended July 31, 2012, there were net gains on derivative financial instruments (not designated as hedging instruments) of \$0.1 million, compared to net losses of \$1.9 million on such instruments for the six months ended July 31, 2011. The higher net losses in the prior year resulted from weakening of the hedged currencies against the functional currencies, primarily the U.S. dollar against the Singapore dollar, during that period. Movements of hedged currencies against functional currencies were generally not significant during the six months ended July 31, 2012.

During the six months ended July 31, 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 six months ended July 31, 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 and six months ended July 31, 2012 and 2011:

| (in thousands) | Three Months Ended | | % Change 2012 - 2011 | Six Months Ended | | % Change 2012 - 2011 |
|----------------------------|--------------------|----------|-------------------------|------------------|----------|-------------------------|
| | July 31, 2012 | 2011 | | July 31, 2012 | 2011 | |
| Provision for income taxes | \$ 4,772 | \$ 3,163 | 51% | \$ 7,171 | \$ 4,672 | 53% |

Three Months Ended July 31, 2012 compared to Three Months Ended July 31, 2011. Our effective tax rate was 26.5% for the three months ended July 31, 2012, compared to 21.9% for the three months ended July 31, 2011. The difference in the effective income tax rate resulted primarily from the mix and levels of income and losses by jurisdiction, tax rate changes in certain foreign jurisdictions and the amount of permanent book to tax differences related primarily to return to provision adjustments. For the three months ended July 31, 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 \$4.8 million on \$18.0 million of pre-tax income, an effective tax rate of 26.5%. For the three months ended July 31, 2011, foreign income was also higher than domestic losses. The result was an income tax provision of \$3.2 million on \$14.4 million of pre-tax income, which represents an effective tax rate of 21.9%.

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.

Six Months Ended July 31, 2012 compared to Six Months Ended July 31, 2011. Our effective tax rate was 22.4% for the six months ended July 31, 2012, compared to 26.7% for the six months ended July 31, 2011. The difference in the effective income tax rate resulted primarily from the mix and levels of income and losses by jurisdiction offset in part by the amount of permanent book to tax differences related primarily to return to provision adjustments and uncertain tax benefits. For the six months ended July 31, 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 \$7.2 million on \$32.1 million of pre-tax income, an effective tax rate of 22.4%. For the six months ended July 31, 2011, foreign income was also higher than domestic losses. The result was an income tax provision of \$4.7 million on \$17.5 million of pre-tax income, which represents an effective tax rate of 26.7%.

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 \$594.0 million at July 31, 2012, and a \$170.0 million revolving line of credit, which was unused at July 31, 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.

As discussed earlier under "Recent Developments", on August 12, 2012, we entered into a Merger Agreement with CTI providing for the Merger of CTI with and into a new, wholly-owned subsidiary of Verint, which, if completed as contemplated in the Merger Agreement, would eliminate CTI's majority ownership in and control of Verint. Other than the payment of professional fees and other transaction expenses, no cash would be used in the Merger. In connection with the termination of the Merger Agreement under specified circumstances, we may be required to pay CTI, or CTI may be required to pay us, a fee of \$10.0 million and/or such party's out-of-pocket expenses.

Although we did not execute any business acquisitions during the six months ended July 31, 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 or as contemplated by the Merger 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 were \$148.4 million and \$133.4 million as of July 31, 2012 and January 31, 2012, respectively, and 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.

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 July 31, 2012 and January 31, 2012, cash and cash equivalents, Preferred Stock and long-term debt:

| (in thousands) | July 31, 2012 | January 31, 2012 |
|-------------------------------------|------------------|---------------------|
| Cash and cash equivalents | \$ 173,250 | \$ 150,662 |
| Preferred Stock (at carrying value) | \$ 285,542 | \$ 285,542 |
| Long-term debt | \$ 587,675 | \$ 591,151 |

At July 31, 2012, our cash and cash equivalents totaled \$173.3 million, an increase of \$22.6 million from \$150.7 million at January 31, 2012. We generated \$39.3 million of operating cash flow during the six months ended July 31, 2012, which was partially offset by \$15.6 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 six months ended July 31, 2012 and 2011:

| (in thousands) | Six Months Ended July 31, | |
|--|------------------------------|-----------------|
| | 2012 | 2011 |
| Net cash provided by operating activities | \$ 39,251 | \$ 27,838 |
| Net cash used in investing activities | (7,593) | (24,626) |
| Net cash provided by (used in) financing activities | (8,005) | 4,065 |
| Effect of exchange rate changes on cash and cash equivalents | (1,065) | 1,964 |
| Net increase in cash and cash equivalents | \$ 22,588 | \$ 9,241 |

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 \$39.3 million of net cash during the six months ended July 31, 2012, compared to \$27.8 million generated during the six months ended July 31, 2011. The improved operating cash flow in the current-year period resulted primarily from our improved operating results in the six months ended July 31, 2012, which contributed to higher accounts receivable collections and customer deposits, compared to the six months ended July 31, 2011. In addition, interest payments were \$13.7 million in the six months ended July 31, 2012, compared to \$15.4 million in the prior-year period, resulting from a lower average interest rate on our term loan.

Net Cash Used in Investing Activities

During the six months ended July 31, 2012, our investing activities used \$7.6 million of net cash, including \$8.5 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 six months ended July 31, 2011 used \$24.6 million of net cash, including \$12.0 million paid for a business combination and \$8.4 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 six months ended July 31, 2012, our financing activities used \$8.0 million of net cash, including \$5.1 million for the financing portion of payments under contingent consideration arrangements related to prior business combinations, and \$3.5 million of repayments of borrowings and other financing obligations.

During the six months ended July 31, 2011, our financing activities provided \$4.1 million of net cash, which included \$8.7 million of proceeds from exercises of stock options, partially offset by cash used in several other financing activities. 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 \$15.0 million of related debt issuance costs. The net impact of this activity on cash was a use of \$1.2 million for the six-month period. We also made payments of \$2.0 million for the financing portion of payments under contingent consideration arrangements related to prior business combinations during this period.

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 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.

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.

As of July 31, 2012, the term loan had a gross outstanding balance of \$594.0 million, and there were no outstanding borrowings under the revolving credit facility, all of which was available at that date.

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 unused 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.

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 July 31, 2012, our consolidated leverage ratio was approximately 2.6 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 Series A Convertible Preferred Stock originally issued in May 2007 which, as of July 31, 2012, has a carrying value of \$285.5 million and a liquidation preference and redemption value of \$358.9 million. All of the Preferred Stock was originally issued to, and continues to be held by, CTI.

On August 12, 2012, we entered into the Merger Agreement with CTI which provides for the Merger of CTI with and into a new, wholly-owned subsidiary of Verint, which, if completed as contemplated in the Merger Agreement, would eliminate CTI's majority ownership in and control of Verint. Under the terms of the Merger Agreement, each holder of CTI common shares at the effective time of the Merger would receive, among other consideration, the right to receive its pro rata portion of new shares of our common stock issuable upon conversion of the Preferred Stock held by CTI at the effective time of the Merger at a conversion price of \$32.66. Each outstanding share of our common stock and Preferred Stock held by CTI would be canceled at the completion of the Merger, and each outstanding share of Preferred Stock not held by CTI will be converted into shares of our common stock.

Further details regarding the Preferred Stock's various rights and preferences, including dividend and conversion rights, appear in Note 7, "Convertible Preferred Stock", and further details regarding the Merger Agreement appear in Note 16, "Subsequent Event", 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 six months ended July 31, 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 complete any business combinations during the six months ended July 31, 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 July 31, 2012, potential future cash payments under contingent consideration arrangements total \$69.1 million, the estimated fair value of which was \$25.2 million, of which \$13.0 million is included within accrued expenses and other current liabilities, and \$12.2 million is included within other liabilities. The performance periods associated with these potential

payments extend through January 2015.

Off Balance Sheet Arrangements

As of July 31, 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 and six months ended July 31, 2012.

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 July 31, 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 July 31, 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.

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

Except as set forth below, there have been no material changes to the Risk Factors described in Part 1 “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended January 31, 2012. You should carefully consider the risks discussed below and in our Annual Report on Form 10-K, which could materially affect our business, financial condition, or operating results. The risks described below and 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.

We cannot assure you that the proposed Merger will be completed or what the impact on us or our stock price will be if it is not completed.

The proposed Merger is subject to the completion of the CNS share distribution or CNS disposition. The CNS share distribution (or any CNS disposition) is subject to various conditions, including approval by CTI's shareholders, which may not be satisfied. The proposed Merger is also subject to conditions to closing, including the receipt of approvals of our stockholders and CTI's shareholders. If any condition to the proposed Merger is not satisfied or, if permissible, waived, the proposed Merger will not be completed. We cannot predict what the effect on our business or the market price of our common stock will be if the proposed Merger is not completed. Uncertainty regarding whether the proposed Merger will be completed (including uncertainty regarding whether the conditions to closing will be met), may result in a negative impact on our business or the market price of our common stock even in advance of a determination on whether or not the proposed Merger will be consummated.

Completion of the proposed Merger would result in a substantial increase in the number of shares of our common stock available for trading, which could negatively impact the price of such stock and/or increase the volatility of the price of such stock, both before and after completion of the proposed Merger.

Completion of the proposed Merger would greatly increase the number of shares of our common stock available for sale in the public markets. As of August 15, 2012, approximately 39.8 million shares of our common stock were outstanding, but 16.3 million of these shares of common stock were held by CTI. This amount does not include the approximately 11.0 million shares of our common stock issuable upon conversion of our Preferred Stock currently held by CTI. Upon completion of the proposed Merger, the shares of our common stock and Preferred Stock held by CTI would be canceled, but we expect that approximately 28.2 million new shares of our common stock would be issued to holders of CTI common stock and become immediately available for sale, including up to \$25 million in shares of our common stock issuable to holders of CTI common stock depending on the timing of the closing of the CNS share distribution or a CNS disposition, and excluding shares of our common stock issuable to holders of CTI common stock in respect of excess cash remaining in CTI at the time of the Merger in accordance with the terms of the Merger Agreement.

Sales of large amounts of our common stock could negatively impact the market price of our common stock. In addition, the potential that such sales may occur could negatively impact prices even in advance of such sales. We cannot predict the effect that the proposed Merger would have on the price of our common stock, both before and after completion of the proposed Merger.

If CTI's liabilities are greater than expected, or if there are unknown CTI obligations, our business could be materially and adversely affected.

As a result of the proposed Merger, CTI will merge with and into a subsidiary of Verint and CTI's liabilities, including contingent liabilities, will be consolidated into our financial statements. We may learn additional information about CTI's financial condition or pre-Merger business that adversely affects us, including, among others, unknown or underestimated liabilities, additional tax liabilities, issues relating to internal controls over financial reporting, or legal compliance issues. If CTI's liabilities are greater than expected, or if there are obligations of CTI of which we are not aware at the time of completion of the proposed Merger, our business or financial condition could be materially and adversely affected.

Following the completion of the Merger, Verint (as an affiliate of CTI) will have certain indemnification rights in connection with the transactions contemplated by the Merger Agreement. If we become responsible for liabilities not covered by indemnification or substantially in excess of amounts covered by indemnification, or if the parties providing us with such indemnification (including CNS) are unwilling or unable to stand behind such protections, our financial condition and results of operations could be materially and adversely affected.

We may be subject to litigation in connection with the proposed Merger.

In connection with the proposed Merger, lawsuits may be filed against Verint, CTI, our subsidiaries, and/or the directors or officers of one or more of the foregoing companies. If any such lawsuit is filed, it could result in substantial costs and diversion of management's attention and resources, which could adversely affect our business, financial condition, or results of operations, whether or not a settlement or other resolution is achieved.

In addition, one of the conditions to the closing of the Merger is that no order, injunction, decree or other legal restraint or prohibition shall be in effect that prevents completion of the Merger. Consequently, if a lawsuit is filed and the plaintiffs secure injunctive or other relief prohibiting, delaying or otherwise adversely affecting the defendants' ability to complete the Merger, then such injunctive or other relief may prevent the Merger from becoming effective within the expected time frame or at all.

We expect the Merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and to receive an opinion from our counsel that it should so qualify. If prior to the completion of the Merger the Merger is determined not to qualify as a reorganization under Section 368(a), or there is substantial doubt as to its qualification, the completion of the Merger might not occur. If following completion of the Merger the Merger is determined not to qualify as a reorganization under Section 368(a), CTI may recognize a gain for U.S. federal income tax purposes that could produce a substantial income tax liability to CTI, which we would assume by virtue of the Merger.

We expect the Merger to qualify for U.S. federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Completion of the Merger is conditioned upon the receipt by us and CTI of tax opinions from our and CTI's respective counsel that the Merger should qualify as a reorganization under Section 368(a). These opinions will be based on the accuracy of certain factual representations and covenants made by us and CTI and on customary factual assumptions, limitations and qualifications. The tax opinions do not bind the Internal Revenue Service ("IRS"), and do not prevent the IRS from asserting a contrary view.

Prior to completion of the Merger, we may seek to obtain a private letter ruling from the IRS to the effect that the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Code; however, there can be no assurance that we will seek to obtain a ruling from the IRS or that the IRS will grant such a ruling. If the IRS were to determine, prior to completion of the Merger, that the Merger does not qualify as a reorganization under Section 368(a) of the Code, or there is substantial doubt that a favorable ruling would eventually be obtained, it is unlikely that our and CTI's respective counsel would deliver the required opinions and the completion of the Merger might not occur.

If following completion of the Merger and despite the receipt by us and CTI of tax opinions from our and CTI's respective counsel referenced above, the IRS were to successfully challenge the tax-free treatment of the Merger and the Merger fails to qualify as a reorganization under Section 368(a), the receipt of our common stock in the Merger would be taxable to CTI's shareholders for U.S. federal income tax purposes. Additionally, CTI would recognize taxable gain or loss equal to the difference between the fair market value of the shares of our common stock received by CTI's shareholders in the Merger and CTI's tax basis in its assets, including the shares of our common stock and Preferred Stock held by CTI immediately prior to completion of the Merger. This could produce a substantial income tax liability to CTI, which we would assume by virtue of the Merger. See "Risk Factors-If CTI's liabilities are greater than expected, or if there are unknown CTI obligations, our business could be materially and adversely affected."

The rights of the holders of shares of our common stock are subject to, and may be adversely affected by, the rights of holders of the Preferred Stock.

In connection with our 2007 acquisition of Witness Systems, Inc., we issued 293,000 shares of Series A Convertible Preferred Stock to CTI at an aggregate purchase price of \$293.0 million. The issuance of shares of common stock upon conversion of the Preferred Stock would result in substantial dilution to the other common stockholders. As of July 31, 2012, inclusive of accrued dividends, the Preferred Stock was convertible into approximately 11.0 million shares of our common stock. In addition, the terms of the Preferred Stock include liquidation, dividend, and other rights that are senior to and more favorable than the rights of the holders of our common stock. Pursuant to the Merger Agreement, all of the outstanding shares of the Preferred Stock held by CTI upon completion of the Merger would be canceled (and each outstanding share of the Preferred Stock not held by

CTI will be converted into shares of Verint common stock) and new shares of our common stock representing the number of shares of our common stock underlying the Preferred Stock held by CTI at the effective time of the Merger would be issued directly to the shareholders of CTI.

CTI currently can control our business and affairs, including our board of directors.

Because CTI currently beneficially owns a majority of our common stock (assuming conversion of our Preferred Stock) and holds a majority of the voting power for the election of our board of directors, CTI can effectively control the outcome of all matters submitted for stockholder action, other than as provided under the Merger Agreement and related agreements. The terms of our Preferred Stock, all of which is currently held by CTI, entitle CTI to further control over significant corporate transactions. As of July 31, 2012, the Preferred Stock was convertible into approximately 11.0 million shares of our common stock, giving CTI beneficial ownership of 53.7% of our common stock assuming conversion of such Preferred Stock. In addition, as of July 31, 2012, CTI's Preferred Stock and common stock holdings in Verint collectively entitled it to 51.8% of the voting power for the election of our board of directors and for any other matters submitted to a vote of our common stockholders (assuming no conversion of the Preferred Stock).

By virtue of its controlling stake, CTI also has the ability, acting alone, to remove existing directors and/or to elect new directors to our board of directors to fill vacancies. CTI is currently party to a letter agreement, dated as of May 30, 2012 (the "Cadian Letter Agreement") among CTI, Cadian Capital Management, LLC ("Cadian Capital"), and certain affiliates of Cadian Capital. Under the Cadian Letter Agreement, CTI agreed to replace three of the directors it had designated to our board of directors (as of the date of such agreement) with three independent directors (as determined by reference to NASDAQ Stock Market listing standards) to be designated by Cadian Capital, subject to the approval of such designees by our board of directors and the board of directors of CTI in accordance with their respective fiduciary duties and, in the case of CTI's board of directors, under standards set forth in the Cadian Letter Agreement. To date, CTI has replaced two of the three designees it is required to replace under the Cadian Letter Agreement. We are not a party or a third party beneficiary to the Cadian Letter Agreement and cannot assure you that the terms of such agreement will be implemented in full or that such agreement will not be amended or terminated in the future.

As a result, at present, CTI has designated individuals who are officers, executives, or directors of CTI as three of our nine directors (i.e., excluding the independent directors designated by CTI pursuant to the Cadian Letter Agreement). These directors have fiduciary duties to both us and CTI and may become subject to conflicts of interest on certain matters where CTI's interest as majority stockholder may not be aligned with the interests of our minority stockholders. In addition, if we fail to repurchase the Preferred Stock as required upon a fundamental change, then the number of directors constituting the board of directors will be increased by two and CTI will have the right to designate the two directors to fill such vacancies.

As a consequence of CTI's current ability to control the composition of our board of directors, CTI can, if it were to exercise such control, also exert a controlling influence on our management, direction and policies, including the ability to appoint and remove our officers, engage in certain corporate transactions, including debt financings and mergers or acquisitions, or, subject to the terms of our credit agreement, declare and pay dividends.

We have been adversely affected as a result of being a consolidated, controlled subsidiary of CTI and could be adversely affected in the future.

We have been adversely affected by events at CTI in the past and may be adversely affected by events at CTI or other members of its consolidated group in the future.

CTI's previous extended filing delay and the circumstances underlying it materially and adversely affected us in a number of ways, including by contributing to our own previous extended filing delay and related concerns on the part of employees, customers, partners, service providers, and regulatory authorities, among others. If CTI were in the future to experience further filing delays or to discover further accounting issues, it could have an adverse impact on us and our business.

Prior to our IPO in May 2002, we were included in CTI's U.S. federal income tax return and we remain party to a tax-sharing agreement with CTI for periods prior to our IPO. As a result, CTI may unilaterally make decisions that could impact our liability for income taxes for periods prior to the IPO. Under applicable federal and state laws, we could also be liable, under certain circumstances, for taxes of other members of the CTI consolidated group for such pre-IPO periods. Adjustments to the consolidated group's tax liability for periods prior to our IPO could also affect the net operating losses ("NOLs") allocated to us by CTI and cause us to incur additional tax liability in future periods. This will continue to be true even after the CNS share distribution or CNS disposition.

In connection with the CNS share distribution, CTI and CNS are expected to enter into a tax disaffiliation agreement for periods prior to the distribution date. Under applicable federal and state laws, CTI could also be liable, under certain circumstances, for taxes of other members of the consolidated group for such pre-distribution periods. Adjustments to the consolidated group's tax liability after the Merger date (assuming that the Merger occurs) for periods prior to the CNS distribution could also affect the NOLs allocated to CTI, and ultimately available to us after the Merger, and cause us to incur additional tax liability in future periods.

For as long as we remain a majority owned subsidiary of CTI, CTI's strategic plans, and related speculation and announcements regarding its ownership interest in our stock, may also adversely affect us and our business. As previously disclosed, the transactions contemplated by the Merger Agreement are subject to a number of significant conditions and there can be no assurance as to when or if these transactions will be consummated. See “ - We cannot assure you that the proposed Merger will be completed or what the impact on us or our stock price will be if it is not completed.” above.

Our stockholders do not currently have the same protections generally available to stockholders of other NASDAQ-listed companies because we are currently a “controlled company” within the meaning of the NASDAQ Listing Rules.

Because CTI currently holds a majority of the voting power for the election of our board of directors, we are a “controlled company” within the meaning of NASDAQ Listing Rule 5615(c). As a controlled company, we have historically relied on exemptions from several of NASDAQ's corporate governance requirements, including requirements that:

- a majority of the board of directors consist of independent directors;
- compensation of officers be determined or recommended to the board of directors by a majority of its independent directors or by a compensation committee comprised solely of independent directors; and
- director nominees be selected or recommended to the board of directors by a majority of its independent directors or by a nominating committee that is composed entirely of independent directors.

At present, we do not have a compensation committee or a nominating committee composed entirely of independent directors. Accordingly, our stockholders are not and will not be afforded the same protections generally as stockholders of other NASDAQ-listed companies for so long as CTI holds the majority of the voting power for the election of our board of directors and we continue to rely upon such exemption.

Our business could be materially adversely affected as a result of the risks associated with acquisitions and investments.

As part of our growth strategy, we have made a number of acquisitions and investments and expect to continue to make acquisitions and investments in the future, subject to the terms of our credit agreement and other restrictions resulting from our capital structure.

In some areas, we have seen the market for acquisitions become more competitive and valuations increase. In recent periods, several of our competitors have also completed acquisitions of companies in or adjacent to our markets. As a result, it may be more difficult for us to identify suitable acquisition targets or to consummate acquisitions once identified on reasonable terms or at all. If we are not able to execute on our acquisition strategy, we may not be able to achieve our growth strategy, may lose market share, or may lose our leadership position in one or more of our markets.

Future acquisitions or investments (such as the Merger contemplated by the Merger Agreement) could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities, and amortization expenses related to intangible assets, any of which could have a material adverse effect on our operating results and financial condition. In addition, investments in immature businesses with unproven track records and technologies have a high degree of risk, with the possibility that we may lose the value of our entire investments and potentially incur additional unexpected liabilities. For example, under the Merger Agreement, we have agreed to assume certain liabilities, including unknown liabilities, which may or may not be subject to indemnification. Acquisitions or investments that are not immediately accretive to earnings may also make it more difficult for us to maintain satisfactory profitability levels and compliance with the maximum leverage ratio covenant under our credit agreement.

The process of integrating an acquired company's business into our operations and investing in new technologies is challenging and may result in expected or unexpected operating or compliance challenges, which may require a significant amount of our management's attention that would otherwise be focused on the ongoing operation of our business, as well as significant expenditures. Other risks we may encounter with acquisitions include the effect of the acquisition on our financial and strategic

positions and our reputation, the inability to obtain the anticipated benefits of the acquisition, including synergies or economies of scale on a timely basis or at all, or challenges in reconciling business practices, particularly in foreign geographies, combining systems, retaining key employees, and maintaining and integrating product development. Due to rapidly changing market conditions, we may also find the value of our acquired technologies and related intangible assets, such as goodwill, as recorded in our financial statements, to be impaired, resulting in charges to operations.

There can be no assurance that we will be successful in making additional acquisitions or that we will be able to effectively integrate any acquisitions we do make or realize the expected benefits of such transactions.

Changes in our tax rates, the adoption of new U.S. or international tax legislation, inability to realize value from our NOLs, or exposure to additional tax liabilities could affect our future results.

We are subject to taxes in the United States and numerous foreign jurisdictions. Our future effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in valuation allowance on deferred tax assets (including our NOL carryforwards), changes in unrecognized tax benefits or changes in tax laws or their interpretation. Any of these changes could have a material adverse effect on our profitability. In addition, the tax authorities in the jurisdictions in which we operate, including the United States, may from time to time review the pricing arrangements between us and our foreign subsidiaries. An adverse determination by one or more tax authorities in this regard may have a material adverse effect on our financial results. In Israel, we continue to work towards becoming compliant with our statutory accounting and tax filings as a result of our prior financial restatement. If we are delayed further in our Israeli filings, we could be subject to certain penalties, including imposition of withholding taxes and inability to contract with Israeli government entities.

We have significant deferred tax assets which can provide us with significant future cash tax savings if we are able to use them. In addition, CTI is expected to be allocated significant NOLs as a result of the CNS distribution that would become available for use on our consolidated U.S. tax returns after the Merger. However, the extent to which we will be able to use these tax benefits may be impacted, restricted, or eliminated by a number of factors, including whether we generate sufficient future net income, adjustments to the tax liability of CTI or its non-Verint subsidiaries for periods prior to our IPO, or following the CNS share distribution or CNS disposition, for periods prior to such disposition, changes in tax rates, laws, or regulations that could have retroactive effect, or an “ownership change” under Section 382 of the Internal Revenue Code. If an ownership change were to occur, it would impose an annual limit on the amount of pre-change NOLs and other losses available to reduce our taxable income and could result in a reduction in the value of our NOL carryforwards or the realizability of other deferred tax assets. In connection with the proposed Merger, if Verint or CTI were to be deemed to have undergone an ownership change, such limits on the availability or value of NOLs of Verint and CTI, respectively, may be applicable. To the extent that we are unable to utilize our NOLs or other losses, our results of operations, liquidity, and financial condition could be adversely affected in a significant manner. When we cease to have NOLs available to us in a particular tax jurisdiction, either through their expiration, disallowance, or utilization, our cash tax liability will increase in that jurisdiction.

Our stock price has been volatile and your investment could lose value.

All of the risk factors discussed in this section could affect our stock price. The timing of announcements in the public market regarding new products, product enhancements or technological advances by our competitors or us, and any announcements by us or our competitors of acquisitions, major transactions, or management changes could also affect our stock price. Our stock price is subject to speculation in the press and the analyst community, including with respect to the closing of the proposed Merger or CTI's strategic plans generally, changes in recommendations or earnings estimates by financial analysts, changes in investors' or analysts' valuation measures for our stock, our credit ratings and market trends unrelated to our performance. Stock sales by CTI or our directors, officers, or other significant holders may also affect our stock price. A significant drop in our stock price could also expose us to the risk of securities class actions lawsuits, which could result in substantial costs and divert management's attention and resources, which could adversely affect our business.

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

| Period | (a) Total Number of Shares (or Units) Purchased (1) | (b) Average Price Paid per Share(or Unit) (2) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|---------------------------|--|--|--|--|
| May 1 – May 31, 2012 | — | — | — | — |
| June 1 – June 30, 2012 | 8,729 (3) | \$ 28.27 | — | — |
| July 1 – July 31, 2012 | — | — | — | — |
| Total | 8,729 | \$ 28.27 | — | — |

- (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) The securities disclosed in the table were withheld from directors and executives in connection with the vesting of restricted stock units during a company-imposed trading blackout to facilitate required income tax withholding by us or the payment of required income taxes by such holders.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

In June 2011, the Financial Accounting Standards Board issued guidance on the presentation of comprehensive income in financial statements. Entities are required to present total comprehensive income either in a single, continuous statement of comprehensive income or in two separate, but consecutive, statements. We adopted this standard as of February 1, 2012, and now present net income and other comprehensive income in two separate, consecutive statements in our consolidated financial statements. The table below reflects the retrospective application of this guidance for the years ended January 31, 2012, 2011 and 2010. The retrospective application of this guidance had no impact on our consolidated financial condition or results of operations.

| | Year Ended January 31, | | |
|---|------------------------|------------------|------------------|
| | 2012 | 2011 | 2010 |
| Net income | \$ 40,625 | \$ 28,585 | \$ 17,100 |
| Other comprehensive income, before income taxes and net of reclassification adjustments: | | | |
| Foreign currency translation adjustments | (6,685) | 1,684 | 15,277 |
| Net unrealized gains (losses) on derivative financial instruments designated as hedges, and other | 1,055 | (410) | (11) |
| Other comprehensive income, before provision for income taxes | 34,995 | 29,859 | 32,366 |
| Provision for (benefit from) income taxes, related to items of other comprehensive income | 149 | (59) | (50) |
| Comprehensive income | 34,846 | 29,918 | 32,416 |
| Comprehensive income attributable to noncontrolling interest | 3,520 | 3,272 | 1,529 |
| Comprehensive income attributable to Verint Systems Inc. | \$ 31,326 | \$ 26,646 | \$ 30,887 |

Item 6. Exhibits

The following exhibit list includes agreements that we entered into or that became effective during the three months ended July 31, 2012:

| Number | Description | Filed Herewith / Incorporated by Reference from |
|---------------|---|--|
| 3.1 | Amended and Restated Certificate of Designation, Preferences and Rights of the Series A Perpetual Preferred Stock of Verint Systems Inc. | Filed Herewith |
| 10.1 | Agreement and Plan of Merger, dated August 12, 2012, by and among Comverse Technology, Inc., Verint Systems Inc. and Victory Acquisition I LLC. | Form 8-K filed on August 13, 2012 |
| 10.2 | Voting Agreement, dated August 12, 2012, among Comverse Technology, Inc., Verint Systems Inc. and Victory Acquisition I LLC. | Form 8-K filed on August 13, 2012 |
| 10.3 | Governance and Repurchase Rights Agreement, dated August 12, 2012, by and between Comverse Technology, Inc. and Verint Systems Inc. | Form 8-K filed on August 13, 2012 |
| 10.4 * | Amendment No. 1 to Verint Systems Inc. 2010 Long Term Stock Incentive Plan. | Form 8-K filed on June 19, 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.

* 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.

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.

September 5, 2012

/s/ Dan Bodner

Dan Bodner

President and Chief Executive Officer

September 5, 2012

/s/ Douglas E. Robinson

Douglas E. Robinson

Chief Financial Officer (Principal Financial Officer and
Principal Accounting Officer)

**AMENDED AND RESTATED CERTIFICATE OF DESIGNATION, PREFERENCES AND RIGHTS
OF THE
SERIES A CONVERTIBLE PERPETUAL PREFERRED STOCK
OF
VERINT SYSTEMS INC.**

**(Pursuant to Section 242 of the
General Corporation Law of the State of Delaware)**

The undersigned, being the Chief Legal Officer of Verint Systems Inc. (the “Company”), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the “DGCL”), in accordance with Section 242 of the DGCL, does hereby certify as follows:

FIRST: That a Certificate of Designation, Preferences and Rights of the Series A Convertible Perpetual Preferred Stock was originally filed by the Company with the Secretary of State of the State of Delaware on May 25, 2007 (the “Original Certificate of Designation”).

SECOND: The Board of Directors of the Company, on August 30, 2012, duly adopted resolutions authorizing the amendment of the Original Certificate of Designations to add a new Section 5.8 at the end of Section 5 of the Original Certificate of Designation.

THIRD: That the Original Certificate of Designation is amended and restated as follows:

Section 1. Series A Convertible Preferred Stock

1.1 Designation. The series of Preferred Stock is designated and known as “Series A Convertible Perpetual Preferred Stock” (the “Series A Convertible Preferred Stock”) and shall consist of 293,000 shares.

1.2 Rank. The Series A Convertible Preferred Stock shall rank, with respect to payment of dividends and distribution of assets upon the liquidation, winding-up or dissolution of the Company, (i) senior to the common stock of the Company, par value \$0.001 per share (the “Common Stock”), whether now outstanding or hereafter issued, and to each other class or series of stock of the Company established after the Issue Date by the Board of Directors, the terms of which do not expressly provide that such class or series ranks senior to or *pari passu* with the Series A Convertible Preferred Stock as to payment of dividends and distribution of assets upon the liquidation, winding-up or dissolution of the Company (collectively referred to as “Junior Stock”); (ii) *pari passu* with each class or series of stock of the Company (including any series of preferred stock established after the Issue Date by the Board of Directors), the terms of which expressly provide that such class or series ranks *pari passu* with the Series A Convertible Preferred Stock as to payment of dividends and distribution of assets upon the liquidation, winding-up or dissolution of the Company (collectively referred to as “Parity Stock”); and (iii) junior to each other class or series of stock of the Company (including any series of preferred stock established after the Issue Date by the Board of Directors with the approval or consent of the holders of Series A Convertible Preferred Stock pursuant to Section 4.3), the terms of which expressly provide that such class or series ranks senior to the Series A Convertible Preferred Stock as to payment of dividends and distribution of assets upon the liquidation, winding-up or dissolution of the Company (collectively referred to as “Senior Stock”).

Section 2. Dividend Rights

2.1 Dividend Rate. (a) For so long as any shares of Series A Convertible Preferred Stock are held by Comverse Technology, Inc., a New York corporation or an affiliate thereof (the “Initial Investor”), dividends on such shares of Series A Convertible Preferred Stock held by the Initial Investor shall be payable quarterly, when, as and if declared by the Board of

Directors, at the rate per annum of 4.25% per share on the Liquidation Preference (as defined in Section 3 below) in effect at such time; provided, however, that beginning on the first day (the “Reset Date”) of the first quarter after the quarter in which the interest rate initially applicable to the Company's term loan facility (the “Term Loan”) has been reduced by 0.50% or more, and thereafter, the dividend rate on such shares of Series A Convertible Preferred Stock held by the Initial Investor shall be reset to 3.875% per annum. If any shares of Series A Convertible Preferred Stock are transferred by the Initial Investor prior to the Reset Date, then dividends on such shares of Series A Convertible Preferred Stock held by persons other than the Initial Investor or any affiliate thereof shall be payable quarterly, when, as and if declared by the Board of Directors at the rate per annum of 4.625% per share on the Liquidation Preference in effect at such time and such dividend rate shall not be reset even if the interest rate applicable to the Term Loan is later reduced. Dividends are cumulative.

(b) Notwithstanding the foregoing, if the Company's stockholders have not approved the issuance of the shares of Common Stock underlying the Preferred Shares on or prior to the last day of the fiscal quarter following the date that is 180 days after the first date on which the Company is in compliance with the Securities Exchange Commission (“SEC”) reporting requirements promulgated under the Securities Exchange Act of 1934, as amended (such date being the “Compliance Date”), then on such date and on the last day of each subsequent fiscal quarter the annual dividend rate of the Series A Convertible Preferred Stock will increase by 1%, unless the proxy statement referred to below is mailed in such fiscal quarter, in which case there shall be no additional increase in the annual dividend rate. If thereafter the Company mails its proxy statement relating to such stockholder approval, the dividend rate will reset to the applicable dividend rate set forth in clause (a) above beginning on the first day of the fiscal quarter after which such proxy statement was mailed.

2.2 Dividend Restrictions. If the Company does not declare a dividend for payment on the regularly scheduled dividend payment date, it may not declare dividends on any Junior Stock or Parity Stock.

2.3 Payment of Dividends. Except as described in Section 2.4 below, the Company shall make each dividend payment in the Series A Convertible Preferred Stock in cash.

2.4 Payment of Dividends in Shares of Common Stock. To the extent that the Company determines in good faith that it is prohibited by the terms of its then-existing credit facilities, debt indentures or any other then-existing debt instruments from paying cash dividends on the Series A Convertible Preferred Stock, the Company may, in its absolute discretion, subject to the remainder of this Section 2.4, elect to make all (or, if less than all, the prohibited portion) of such dividend payment in shares of Common Stock. In order to pay dividends in shares of Common Stock, (i) the shares of Common Stock to be delivered as payment therefor shall have been duly authorized, (ii) the shares of Common Stock, once issued, shall be validly issued, fully paid and nonassessable and (iii) during the period commencing on the Compliance Date and ending on the second anniversary of such date, either (A) the Common Stock to be delivered as payment therefor shall be freely transferable by the recipient without further action on its behalf, other than by reason of the fact that such recipient is an affiliate of the Company or (B) a shelf registration statement relating to such shares of Common Stock shall have been filed with the SEC and shall be effective to permit the resale of such shares by the holders thereof. The Company will use its reasonable best efforts to maintain the effectiveness of the registration statement for one year following the delivery of such Common Stock. Common Stock issued in payment or partial payment of a dividend pursuant to this Section 2.4 shall be valued for such purpose at 95% of the average of the daily volume weighted average stock price for each of the five (5) consecutive trading days ending on the second trading day immediately prior to the record date for such dividend.

Section 3. Liquidation Preference.

3.1 Liquidation Preference. In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company, each, a “Liquidation Event”), each holder of Series A Convertible Preferred Stock shall be entitled to receive out of the assets of the Company available for distribution to stockholders of the Company, before any distribution of assets is made on the Common Stock or any other Junior Stock, but after any distribution on any of the Company's indebtedness or Senior Stock, an amount equal to \$1,000 per share of Series A Convertible Preferred Stock (the “Issue Price”) held by such holder, plus an amount equal to the sum of all accrued and unpaid dividends, whether or not declared (the “Liquidation Preference”). If upon such liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the assets to be distributed to and among the holders of shares of Series A Convertible Preferred Stock shall be insufficient to permit payment of the Liquidation Preference in full to the holders of Series A Convertible Preferred Stock, then the entire assets of the Company available for distribution to holders of Series A Convertible Preferred Stock shall be distributed to and among the holders of the shares of Series A Convertible Preferred Stock then outstanding *pro rata* to and among them in proportion to the full amounts of Liquidation Preference they would otherwise be entitled to receive pursuant to this Section 3.1.

3.2 Non-Cash Consideration. If any assets of the Company distributed to stockholders in connection with any Liquidation Event are in a form other than cash, then the value of such assets shall be their fair market value as determined by

the Board of Directors in good faith, except that any securities to be distributed to stockholders upon a Liquidation Event shall be valued as follows:

(a) The method of valuation of securities not subject to investment letter or other similar restrictions on free marketability shall be, unless otherwise specified in a definitive agreement for the acquisition of the Company giving rise to the Liquidation Event, as follows:

(i) if the securities are then traded on a national securities exchange, including The Nasdaq Global Market, or a similar recognized securities exchange or on a national quotation system, then the value shall be deemed to be the average of the closing prices of the securities on such exchange or system over the twenty-one (21) consecutive trading day period preceding the consummation of the Liquidation Event; and

(ii) if (i) above does not apply but the securities are actively traded over-the-counter, then the value shall be deemed to be the average of the closing bid and ask prices over the twenty-one (21) consecutive trading day period preceding the consummation of the Liquidation Event; and

(iii) if there is no active public market for such securities, then the value for such securities shall be the fair market value thereof, as determined in good faith by the Board of Directors as evidenced by a Board resolution thereof.

(b) The method of valuation of securities subject to investment letter or other restrictions on free marketability shall be to make an appropriate discount from the market value determined as above in subparagraphs (a)(i), (ii) or (iii) of this subsection, as applicable, to reflect the approximate fair market value thereof, as determined by the Board of Directors as evidenced by a resolution of the Board of Directors.

3.3 Notice of Liquidation Event. Written notice of any Liquidation Event stating a payment date and the place where such payments shall be made, shall be given by mail, postage prepaid, or by telecopy to non-U.S. residents, not less than ten (10) days prior to the payment date stated therein, to the holders of record of shares of Series A Convertible Preferred Stock, such notice to be addressed to each such holder at such holder's address as shown by the records of the Company.

Section 4. Voting Rights.

4.1 Authorization of Underlying Common Stock. The Series A Convertible Preferred Stock will have no voting rights (except as required by the DGCL or as set forth in this Section 4) until the issuance of the underlying shares of Common Stock upon conversion of the Series A Convertible Preferred Stock is approved by majority vote of the Company's common stockholders (including the Initial Investor)(the "Approval Time").

4.2 Scope. Following the Approval Time, each share of Series A Convertible Preferred Stock shall entitle its holder to a number of votes equal to the number of shares of Common Stock into which such share of Series A Convertible Preferred Stock is initially convertible, based on a Conversion Rate equal to the Issue Price divided by the Conversion Price in effect on the Issue Date, on all matters voted upon by the holders of Common Stock.

4.3 Class Protective Provisions.

(a) So long as any shares of Series A Convertible Preferred Stock are outstanding, the approval or consent of the holders of at least 66 2/3% of the outstanding shares of the Series A Convertible Preferred Stock, voting separately as a class with all other series of preferred stock upon which like voting rights have been conferred and are exercisable, will be required: (i) for any amendment of the Company's Certificate of Incorporation (by merger, consolidation or otherwise), if the amendment would alter or change the powers, preferences, privileges or rights of the holders so as to affect them adversely, (ii) to issue, authorize or increase the authorized amount of, or issue or authorize any obligation or security convertible into or evidencing a right to purchase, any Senior Stock; or (iii) to reclassify any authorized stock of the Company into any Senior Stock, or any obligation or security convertible into or evidencing a right to purchase any Senior Stock, provided that no such vote shall be required for the Company to issue, authorize or increase the authorized amount of, or issue or authorize any obligation or security convertible into or evidencing a right to purchase, any Parity Stock or Junior Stock.

(b) If the Company fails to repurchase shares of Series A Convertible Preferred Stock as required upon the occurrence of a Fundamental Change (as defined in Section 5.5(f)(iii) below), then the number of directors constituting the Board of Directors will be increased by two (2) and the holders of the then outstanding Series A Convertible Preferred Stock, voting separately as a class with all other series of preferred stock upon which like voting rights have been conferred and are

exercisable, shall have the right to elect two (2) directors to fill such vacancies (the “Additional Directors”). Upon repurchase of all such shares of Series A Convertible Preferred Stock, the holders of the then outstanding Series A Convertible Preferred Stock will no longer have the right to elect the Additional Directors, the term of office of each Additional Director will terminate immediately upon such repurchase of the Series A Convertible Preferred Stock and the number of directors will, without further action, be reduced by two (2).

Section 5. Conversion Rights. The outstanding shares of Series A Convertible Preferred Stock shall be convertible into shares of Common Stock as follows:

5.1 Optional Conversion. Each share of Series A Convertible Preferred Stock is convertible after the Approval Time, in whole or in part, at the option of the holder thereof, into the number of shares of Common Stock obtained by dividing (i) the Liquidation Preference then in effect by (ii) the Conversion Price (as defined below) then in effect (the “Conversion Rate”). Initially, the Conversion Rate shall be 30.6185 (i.e., 30.6185 shares of Common Stock for each share of Series A Convertible Preferred Stock being converted). As used herein, the term “Conversion Price” initially shall be \$32.66, but shall be subject to adjustment as provided herein.

5.2 Mandatory Conversion. At any time on or after the second anniversary of the Issue Date, the Company shall have the right (provided approval of the issuance of the underlying shares of Common Stock upon conversion of the Series A Convertible Preferred Stock has been obtained), at its option, to cause the Series A Convertible Preferred Stock, in whole but not in part, to be automatically converted into Common Stock at the Conversion Price then in effect; provided, that the Company may exercise this right only if the closing sale price of the Common Stock immediately prior to such mandatory conversion equals or exceeds:

- 150% of the Conversion Price, if the conversion occurs on or after the second anniversary of the Issue Date but prior to the third anniversary of the Issue Date;
- 140% of the Conversion Price, if the conversion occurs on or after the third anniversary of the Issue Date but prior to the fourth anniversary of the Issue Date; and
- 135% of the Conversion Price, if the conversion occurs on or after the fourth anniversary of the Issue Date.

5.3 Validity of Common Stock to be Issued Upon Conversion. All shares of Common Stock which may be issued upon conversion of the shares of Series A Convertible Preferred Stock shall be validly issued, fully paid and nonassessable, and free from all liens and charges in respect of the issuance or delivery thereof, other than those imposed, created or granted by the holders of such shares of Series A Convertible Preferred Stock or such shares of Common Stock, as applicable.

5.4 Mechanics of Conversion. Before the Company will issue any shares of Common Stock upon conversion, a holder shall surrender the certificate or certificates therefore, duly endorsed, or deliver an appropriate indemnity agreement at the office of the Company or its transfer agent, in the event that such certificate has been lost, stolen or destroyed, for the Series A Convertible Preferred Stock and in the case of a conversion pursuant to Section 5.1 above, shall give written notice to the Company of the election to convert the same and shall state therein the name or names in which the certificate or certificates for shares of Common Stock are to be issued. The Company shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Series A Convertible Preferred Stock, or to the nominee or nominees of such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled (together with a check payable to such holder or nominee in the amount of any cash amounts payable as a result of a conversion into fractional shares of Common Stock as provided below) as aforesaid. A certificate or certificates will be issued for the remaining shares of Series A Convertible Preferred Stock in any case in which fewer than all of the shares of Series A Convertible Preferred Stock represented by a certificate are converted. Any such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Series A Convertible Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date.

5.5 Adjustment of Conversion Price. The Conversion Price shall be subject to adjustment from time to time in accordance with the following provisions:

- (a) Certain Definitions. For purposes of this Section 5.5:
 - (i) The term “Additional Shares of Common Stock” shall mean all shares of Common Stock

issued after the Issue Date, other than shares of Common Stock issued or issuable:

- (A) upon conversion of the Series A Convertible Preferred Stock;
- (B) as a dividend or distribution on the Series A Convertible Preferred Stock;
- (C) as restricted common stock (or any other form of equity award) to employees, consultants or directors pursuant to an equity incentive plan approved by the Board of Directors;
- (D) upon the exercise of Options (as defined in Section 5.5(a)(vii) below) or the conversion or exchange of securities outstanding as of the Issue Date or for which an adjustment to the Conversion Price has already been made;
- (E) in connection with the acquisition (whether by securities purchase, asset purchase, merger or otherwise) of the securities or assets of another Person by the Company approved by holders of a majority of the shares of the Series A Convertible Preferred Stock; or
- (F) in an underwritten public offering.

(ii) “Common Stock Per Share Market Value” shall mean the price per share of Common Stock obtained by dividing (A) the Market Value by (B) by the number of shares of Common Stock outstanding (on a Fully Diluted Basis (as defined in Section 5.5(e)(ii) below)) at the time of determination;

(iii) The term “Convertible Securities” shall mean any evidence of indebtedness, shares or other securities convertible into or exchangeable for Common Stock.

(iv) “Fair Market Value” shall mean, with respect to a share of Common Stock on any business day:

(A) if the Common Stock is not Publicly Traded at the time of such determination, the Common Stock Per Share Market Value; or

(B) if the Common Stock is Publicly Traded at the time of determination, the “market price” of the Common Stock computed as the average of the closing prices on such day of the Common Stock on all domestic securities exchanges on which the Common Stock is then listed, or, if there have been no sales on any such exchange on such day, the average of the highest bid and lowest asked prices on all such exchanges at the end of such day or, if on any such day the Common Stock is not so listed, the average of the highest bid and lowest asked prices on such day in the domestic over-the-counter market as reported by the National Quotation Bureau, Incorporated, or any similar successor organization, in each such case averaged over a period of ten business days consisting of the day as of which “market price” is being determined and the nine consecutive business days prior to such day;

(v) The term “Issue Date” shall mean the date of the initial issuance of the Series A Convertible Preferred Stock to the Initial Investor.

(vi) “Market Value” shall mean the price that would be paid for the Common Stock of the Company on a Fully Diluted Basis on a going-concern basis in an arm's-length transaction between a willing buyer and a willing seller (neither acting under compulsion), as determined by the Board of Directors in its reasonable discretion;

(vii) The term “Options” shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities.

(viii) “Person” shall mean any individual, partnership, limited partnership, corporation, limited liability company, association, joint stock company, trust, joint venture, unincorporated organization, or governmental entity.

(ix) “Publicly Traded” shall mean, with respect to any security, that such security is (a) listed on a domestic securities exchange, including The Nasdaq Global Market or (b) traded in the domestic over-the-counter

market, which trades are reported by the National Quotation Bureau, Incorporated.

(b) Reorganization; Share Exchange; Reclassification. In the event of a reorganization, share exchange, or reclassification, other than a change in par value, or from par value to no par value, or from no par value to par value, each share of Series A Convertible Preferred Stock shall, after such reorganization, share exchange or reclassification, be convertible into the kind and number of shares of stock or other securities or other property of the Company which the holder of Series A Convertible Preferred Stock would have been entitled to receive if the holder had held the Common Stock issuable upon conversion of such share of Series A Convertible Preferred Stock immediately prior to such reorganization, share exchange, or reclassification.

(c) Subdivision or Combination of Shares. In case outstanding shares of Common Stock shall be subdivided, the Conversion Price shall be appropriately reduced as of the effective date of such subdivision so that the number of shares of Common Stock issuable upon conversion of any shares of Series A Convertible Preferred Stock shall be increased in proportion to such increase of outstanding shares. In case outstanding shares of Common Stock shall be combined, the Conversion Price shall be appropriately increased as of the effective date of such combination so that the number of shares of Common Stock issuable upon conversion of any shares of Series A Convertible Preferred Stock shall be decreased in proportion to such decrease of outstanding shares.

(d) Stock Dividends. In case shares of Common Stock are issued as a dividend or other distribution on the Common Stock, then the Conversion Price shall be adjusted, as of the earliest of the date of such payment or other distribution, to that price determined by multiplying the Conversion Price in effect immediately prior to such payment or other distribution by a fraction (i) the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to the payment of such dividend or other distribution, and (ii) the denominator of which shall be the total number of shares of Common Stock outstanding immediately after the payment of such dividend or other distribution. In the event that the Company shall pay any dividend on the Common Stock payable in any right to acquire Common Stock for no consideration, then the Company shall be deemed to have made a dividend payable in Common Stock in an amount of shares equal to the maximum number of shares issuable upon exercise of such rights to acquire Common Stock.

(e) Issuance of Additional Shares of Common Stock. (i) If, prior to the eighteen month anniversary of the Compliance Date, the Company issues Additional Shares of Common Stock or Convertible Securities which are convertible into Additional Shares of Common Stock without consideration, or for consideration per share, or with a per share conversion or exercise price, lower than the then current Fair Market Value of the Company's Common Stock, then in such event, the Conversion Price shall be reduced, concurrently with such issue, to an amount determined by multiplying the Conversion Price then in effect by a fraction:

(A) the numerator of which shall be (x) an amount equal to the total number of shares of Common Stock outstanding immediately prior to the issuance or sale of such Additional Shares of Common Stock (the "Outstanding Common"), plus (y) the number of shares of Common Stock that the aggregate consideration received by the Company for such issuance or sale would purchase at the then current Conversion Price, and

(B) the denominator of which shall be the Outstanding Common plus the Additional Shares of Common Stock.

(ii) For purposes of the formula in this Section 5.5, other than the Additional Shares of Common Stock to which such calculation relates, all shares of Common Stock issuable upon the exercise of outstanding Options or issuable upon the conversion (at the Conversion Price in effect immediately before such determinations) of the Series A Convertible Preferred Stock or outstanding Convertible Securities (including Convertible Securities issued upon the exercise of outstanding Options), shall be deemed to be Outstanding Common (a "Fully Diluted Basis").

(iii) Determination of Consideration. For purposes of this Section 5.5(e), the consideration received by the Company for the issue or sale of any Additional Shares of Common Stock shall be computed as follows:

(C) insofar as it consists of cash, be the aggregate amount of cash received by the Company; and

(D) insofar as it consists of property other than cash, be computed at the fair value thereof at the time of the issue, as determined by the Board of Directors in good faith.

(f) Adjustment to Conversion Price Upon Fundamental Change.

(i)

(A) If a holder exercises its right pursuant to this Section 5 to convert its Series A Convertible Preferred Stock upon the occurrence of a Fundamental Change pursuant to clauses (i), (ii) or (iv) of the definition thereof that occurs prior to May 25, 2017, then (x) at the effective date of the transaction constituting such Fundamental Change (the “Effective Date”), the right to convert Series A Convertible Preferred Stock into shares of Common Stock shall be changed into a right to convert such Series A Convertible Preferred Stock into the kind and amount of cash, securities or other property of the Company or other entity (the “Transaction Consideration”) that the holder would have received if the holder had converted such Series A Convertible Preferred Stock immediately prior to such transaction constituting a Fundamental Change and (y) in the circumstances set forth in Section 5.5(f)(i)(B), upon conversion, such holder will be entitled to receive, in addition to the Transaction Consideration in respect of the number of shares of Common Stock equal to the Conversion Rate, additional Transactional Consideration in respect of an additional number of shares of Common Stock of the Company (the “Additional Shares”), or an equivalent amount of the same form of consideration into which all or substantially all of the shares of the Company's Common Stock have been converted or exchanged in connection with the Fundamental Change (other than cash paid in lieu of fractional interests in any security or pursuant to dissenters' rights), determined as set forth in Section 5.5(f)(i)(B); *provided, however*, that a Fundamental Change for purposes of this Section 5.5(f)(i) will not be deemed to have occurred in the case of a merger or consolidation, if (x) at least 90% of the consideration (excluding cash payments for fractional shares and cash payments pursuant to dissenters' appraisal rights) in the merger or consolidation consists of freely tradable common stock of a United States company traded on a national securities exchange (or which will be so traded or quoted when issued or exchanged in connection with such transaction) and (y) as a result of such transaction or transactions the shares of Series A Convertible Preferred Stock become convertible solely into such common stock; and *provided, further*, that if holders of the Company's Common Stock receive or have the right to receive more than one form of consideration in connection with such Fundamental Change, then, for purposes of the foregoing, the forms of consideration in which the make-whole premium will be paid will be in proportion to the relative value of the different forms of consideration paid to the Company's common stockholders in connection with the Fundamental Change (and, if an election as to different forms of consideration is offered to holders of the Company's Common Stock, in accordance with the election made as to such forms of consideration by the Holders of the Series A Convertible Preferred Stock being converted), all as determined in accordance with paragraph (B) below.

(B) The number of Additional Shares referred to in Section 5.5(f)(i) shall be determined for the Series A Convertible Preferred Stock by reference to the table on Exhibit A, based on the price per share at which the Common Stock of the Company is being acquired (the “Acquisition Stock Price”).

(C) The Acquisition Stock Prices set forth in the first row of the table on Exhibit A (i.e., column headers) will be adjusted as of each date on which the Conversion Rate of the Series A Convertible Preferred Stock is adjusted. The adjusted Acquisition Stock Prices will equal the Acquisition Stock Prices applicable immediately prior to such adjustment, multiplied by a fraction, the numerator of which is the Conversion Rate immediately prior to the adjustment giving rise to such Acquisition Stock Price adjustment and the denominator of which is the Conversion Rate as so adjusted. The initial number of Additional Shares set forth in the table on Exhibit A will be adjusted from time to time in the same manner as the Conversion Rate is adjusted from time to time in the manner provided under this Section 5.

(D) Upon a Fundamental Change which takes place prior to May 25, 2017, the holder of each share of Series A Convertible Preferred Stock shall be entitled to receive upon conversion of each share, in addition to shares of Common Stock to which it is entitled based on the Conversion Rate, a number of Additional Shares per \$1,000.00 of Liquidation Preference per share of the Series A Convertible Preferred Stock so converted which corresponds to the Acquisition Stock Price then in effect and date of such Fundamental Change as set forth in the table on Exhibit A.

(E) The exact “Acquisition Stock Prices” and “Effective Dates” may not be set forth in the table on Exhibit A, in which case:

(1) If the Acquisition Stock Price is between two Acquisition Stock Price amounts in the table on Exhibit A or the Effective Date is between two Effective Dates in the table on Exhibit A, the number of Additional Shares will be determined by a straight-line interpolation between the number of Additional Shares set forth for the higher and lower Acquisition Stock Price amounts and the two dates, as applicable, based on a 365-day year.

(2) If the Acquisition Stock Price is in excess of \$60.00 per share (subject to adjustment), no Additional Shares will be issued upon conversion.

(3) (C) If the Acquisition Stock Price is less than \$30.00 (subject to adjustment), the number of Additional Shares issued on conversion will be the amount set forth in the farthest column on the left of the table which contains Additional Share numbers.

(F) If the Transaction Consideration includes securities or other property other than cash, the value thereof for purposes of determining the Acquisition Stock Price shall be determined in good faith by the Board of Directors.

(ii) In addition, upon a Fundamental Change, any holder of shares of the Series A Convertible Preferred Stock will have the right to require the Company to purchase such holder's Series A Convertible Preferred Stock for 100% of the Liquidation Preference. Notwithstanding the foregoing, however, the holders of the Series A Convertible Preferred Stock will not have the right to require the Company to repurchase Series A Convertible Preferred Stock upon such Fundamental Change (i) unless such repurchase complies with the terms of the Company's then existing credit facilities, debt indentures and other debt instruments and (ii) unless and until the Board of Directors has approved such Fundamental Change or elected to take a neutral position with respect to such Fundamental Change.

(iii) A "Fundamental Change" is deemed to have occurred upon the occurrence of any of the following: (i) the sale, conveyance or disposition in one or a series of transactions of all or substantially all of the assets of the Company or of its significant subsidiaries to a third party, or any transaction that is subject to Rule 13e-3 of the Securities Exchange Act of 1934, as amended (ii) the consummation of a transaction by which any person or group, other than the Initial Investor or its affiliates, is or becomes the beneficial owner, directly or indirectly, of 50% or more of the securities issued by the Company having the power to vote (measured by voting power rather than number of shares) in the election of directors of the Company ("Voting Stock"), (iii) during any period of two consecutive years, the Continuing Directors (as defined below) cease for any reason to constitute a majority of the Board of Directors, or (iv) the consolidation, merger or other business combination of the Company with or into any other Person or Persons (other than a recapitalization, subdivision, combination, reclassification or exchange of shares provided for elsewhere in this Section 5); provided, however, that a Fundamental Change will not be deemed to have occurred in the case of clause (iv) above in the case of (a) a consolidation, merger or other business combination in which holders of the Company's Voting Stock immediately prior to the transaction continue after the transaction to hold, directly or indirectly, the same relative percentage of the Voting Stock as before any such transaction and the Voting Stock of the surviving entity or entities necessary to elect a majority of the members of the board of directors (or their equivalent if other than a corporation) of such entity or entities, including pursuant to a holding company merger effected under Section 251(g) of the DGCL or any successor provision, or (b) a migratory merger effected solely for the purpose of changing the jurisdiction of incorporation of the Company.

(iv) "Continuing Directors" shall mean individuals who (i) at the beginning of the relevant two-year period of determination constituted the Board of Directors, together with (ii) any new directors whose election to the Board of Directors or whose nomination for election by the stockholders of the Corporation was approved by the Initial Investor or by a vote of a majority of the directors who were either directors at the beginning of such period or approved pursuant to this clause (ii).

(g) Certificate of Adjustment. In each case of an adjustment or readjustment of the Conversion Price pursuant to this Section 5.5, the Company, at its expense, shall cause its chief financial officer to compute such adjustment or

readjustment in accordance with the provisions hereof and prepare a certificate showing such adjustment or readjustment, and shall mail such certificate, by first class mail, postage prepaid, to each registered holder of the Series A Convertible Preferred Stock at the holder's address as shown in the Company's books.

5.6 Fractional Shares. No fractional shares of Common Stock shall be issued upon any conversion of Series A Convertible Preferred Stock. All shares of Common Stock (including fractions thereof) issuable upon conversion of shares of Series A Convertible Preferred Stock by a holder thereof shall be aggregated for purposes of determining whether conversion would result in the issuance of any fractional share. If, after the aforementioned aggregation, the conversion would result in the issuance to any holder of a fractional share, then, in lieu of any fractional share to which the holder would otherwise be entitled, the Company shall pay the holder cash equal to the product of such fraction multiplied by the Common Stock's Fair Market Value as of the date of conversion.

5.7 Reservation of Stock Issuable Upon Conversion. The Board of Directors shall at all times reserve a sufficient number of authorized but unissued shares of Common Stock to be issued in satisfaction of the conversion rights, dividends and other privileges aforesaid. For the purposes of this Section 5.7, the number of shares of Common Stock then issuable upon the conversion of all outstanding shares of Series A Convertible Preferred Stock shall be computed as if all outstanding shares of Series A Convertible Preferred Stock were held by a single holder. The Company shall from time to time, in accordance with the laws of the State of Delaware, increase the authorized amount of its Common Stock if at any time the authorized amount of its Common Stock remaining unissued shall not be sufficient to permit the conversion of, or payment of dividends on, all shares of Series A Convertible Preferred Stock at the time outstanding.

5.8 Mandatory Conversion on Merger Closing. At the Effective Time (as such term is defined in the Agreement and Plan of Merger, dated as of August 12, 2012 (as the same may from time to time be amended, modified or supplemented from time to time in accordance with its terms), among the Company, Comverse Technology, Inc., a New York corporation ("CTI"), and Victory Acquisition I LLC), without any further action by the Company or any holder of any Series A Convertible Preferred Stock, each issued and outstanding share of Series A Convertible Preferred Stock that is not held by CTI will (i) be automatically converted (in accordance with the immediately following sentence) into the number of shares of Common Stock obtained by dividing the Liquidation Price then in effect by the Conversion Price then in effect, and (ii) cease to accrue any dividends or any other amounts on each such share of Series A Convertible Preferred Stock. The mechanics of any such conversion will be as set forth in Section 5.4; *provided, however*, that for purposes of this Section 5.8, the last two sentences of Section 5.4 will be disregarded and any conversion pursuant to this Section 5.8 will be deemed to have been made immediately prior to the Effective Time, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock at such Effective Time.

Section 6. Miscellaneous

6.1 Notices. Any notice required by the provisions of the Certificate of Designation to be given to the holders of shares of the Series A Convertible Preferred Stock shall be deemed given upon the earlier of actual receipt or deposit in the United States mail, by certified or registered mail, return receipt requested, postage prepaid, or delivery by a recognized express courier, fees prepaid, addressed to each holder of record at the address of such holder appearing on the books of the Company.

6.2 Payment of Taxes. The Company will pay all taxes (other than taxes based upon income) and other governmental charges that may be imposed with respect to the issue or delivery of shares of Common Stock upon conversion of shares of the Series A Convertible Preferred Stock, excluding any tax or other charge imposed in connection with any transfer involved in the issue and delivery of shares of Common Stock in a name other than that in which the shares of the Series A Convertible Preferred Stock so converted were registered.

6.3 No Impairment. The Company shall not avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but shall at all times in good faith assist in carrying out all such action as may be reasonably necessary or appropriate in order to protect the conversion rights of the holders of the Series A Convertible Preferred Stock against impairment.

6.4 No Reissuance of Preferred Stock. No share or shares of Series A Convertible Preferred Stock acquired by the Company by reason of redemption, purchase, conversion or otherwise shall be reissued, and all such shares shall be cancelled, retired and eliminated from the shares which the Company shall be authorized to issue.

6.5 No Preemptive Rights. No holder of Series A Convertible Preferred Stock shall have a right to purchase shares

of capital stock of the Company sold or issued by the Company except to the extent that such a right may from time to time be set forth in a written agreement between the Company and any such holder of Series A Convertible Preferred Stock.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, said corporation has caused this Amended and Restated Certificate of Designation, Preferences and Rights to be signed by Peter Fante, Chief Legal Officer, and attested by Jonathan Kohl, General Counsel, Corporate and Securities, and Corporate Secretary, as of this August 30, 2012.

/s/ Peter Fante

Name: Peter Fante
Title: Chief Legal Officer

ATTESTED:

By: /s/ Jonathan Kohl

Name: Jonathan Kohl
Title: General Counsel, Corporate and Securities,
and Corporate Secretary

[Signature Page for Amended and Restated Certificate of Designation]

Exhibit A

| Capped make-whole table: Additional shares per \$1,000 | | | | | | | | | | | |
|--|-------------------------|------|------|------|------|------|------|------|------|------|------|
| | Acquisition Stock Price | | | | | | | | | | |
| | \$30.00 | \$31 | \$32 | \$33 | \$34 | \$35 | \$40 | \$45 | \$50 | \$55 | \$60 |
| <u>Effective Date</u> | | | | | | | | | | | |
| May 25, 2007 | 3.70 | 3.39 | 3.10 | 2.83 | 2.59 | 2.37 | 1.54 | 1.03 | 0.73 | 0.54 | 0.00 |
| May 23, 2008 | 3.70 | 3.35 | 3.02 | 2.72 | 2.44 | 2.18 | 1.18 | 0.56 | 0.22 | 0.05 | 0.00 |
| May 25, 2009 | 3.70 | 3.32 | 2.97 | 2.64 | 2.34 | 2.06 | 0.92 | 0.09 | 0.00 | 0.00 | 0.00 |
| May 25, 2010 | 3.70 | 3.30 | 2.93 | 2.59 | 2.26 | 1.96 | 0.71 | 0.00 | 0.00 | 0.00 | 0.00 |
| May 25, 2011 | 3.70 | 3.30 | 2.92 | 2.56 | 2.22 | 1.91 | 0.56 | 0.00 | 0.00 | 0.00 | 0.00 |
| May 25, 2012 | 3.70 | 3.30 | 2.92 | 2.55 | 2.22 | 1.90 | 0.55 | 0.00 | 0.00 | 0.00 | 0.00 |
| May 24, 2013 | 3.70 | 3.29 | 2.92 | 2.56 | 2.22 | 1.90 | 0.55 | 0.00 | 0.00 | 0.00 | 0.00 |
| May 23, 2014 | 3.70 | 3.30 | 2.91 | 2.56 | 2.22 | 1.90 | 0.55 | 0.00 | 0.00 | 0.00 | 0.00 |
| May 25, 2015 | 3.70 | 3.29 | 2.91 | 2.55 | 2.22 | 1.90 | 0.55 | 0.00 | 0.00 | 0.00 | 0.00 |
| May 25, 2016 | 3.70 | 3.30 | 2.91 | 2.56 | 2.22 | 1.90 | 0.55 | 0.00 | 0.00 | 0.00 | 0.00 |
| May 25, 2017 | 3.70 | 3.30 | 2.91 | 2.56 | 2.22 | 1.90 | 0.55 | 0.00 | 0.00 | 0.00 | 0.00 |

**CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Dan Bodner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Verint Systems Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter, (the fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: September 5, 2012

By: /s/ Dan Bodner

Dan Bodner

President and Chief Executive Officer

Principal Executive Officer

CERTIFICATION BY THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Douglas E. Robinson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Verint Systems Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter, (the fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: September 5, 2012

By: /s/ Douglas E. Robinson
Douglas E. Robinson
Chief Financial Officer
Principal Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Verint Systems Inc. (the “Company”) on Form 10-Q for the period ended July 31, 2012 (the “Report”), I, Dan Bodner, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 5, 2012

/s/ Dan Bodner

Dan Bodner

President and Chief Executive Officer

Principal Executive Officer

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

CERTIFICATION REQUIRED BY 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Verint Systems Inc. (the “Company”) on Form 10-Q for the period ended July 31, 2012 (the “Report”), I, Douglas E. Robinson, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 5, 2012

/s/ Douglas E. Robinson

Douglas E. Robinson

Chief Financial Officer

Principal Financial Officer

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.