

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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 October 31, 2013

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 53,455,327 shares of the registrant's common stock outstanding on November 15, 2013.

Verint Systems Inc. and Subsidiaries
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October 31, 2013

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Cautionary Note on Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, the provisions of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include financial projections, statements of plans and objectives for future operations, statements of future economic performance, and statements of assumptions relating thereto. Forward-looking statements may appear throughout this report, including without limitation, Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and 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, assumptions, 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, assumptions, 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 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, valuations, costs and expenses, maintaining profitability levels, management distraction, post-acquisition integration activities, and potential asset impairments;
- 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 associated with our ability to effectively and efficiently allocate limited financial and human resources to business, development, strategic, or other opportunities that may not come to fruition or produce satisfactory returns;
- risks that we may be unable to maintain and enhance relationships with key resellers, partners, and systems integrators;
- 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 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 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 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 assisting customers in realizing the benefits of our solutions and 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;

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- risks that our products may contain defects, which could expose us to substantial liability;
- risks associated with our dependence on a limited number of suppliers or original equipment manufacturers ("OEMs") 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 arising as a result of contingent, unknown or unexpected obligations or liabilities of our former parent company, Comverse Technology, Inc. ("CTI"), assumed upon completion of our merger with CTI, pursuant to which CTI merged with and into our new, wholly owned subsidiary (the "CTI Merger"), including litigation, regulatory or compliance liabilities, or as a result of parties obligated to provide us with indemnification being unwilling or unable to perform such obligations;
- risks relating to our reliance on CTI's former subsidiary, Comverse, Inc. ("Comverse"), to perform certain transition services following the CTI Merger on a timely basis or at all in order for us to comply with certain regulatory requirements;
- 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 changing tax rates, tax laws and regulations, and the continuing availability of expected tax benefits, including those expected as a result of the CTI Merger; and
- risks associated with being a former consolidated subsidiary of CTI and formerly part of CTI's consolidated tax group.

These risks, uncertainties, assumptions, and challenges, as well as other factors, are discussed in greater detail in "Risk Factors" under Item 1A of our Annual Report on Form 10-K for the year ended January 31, 2013. 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
Item 1. Financial Statements

VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Unaudited)

(in thousands, except share and per share data)	October 31, 2013	January 31, 2013
Assets		
Current Assets:		
Cash and cash equivalents	\$ 237,460	\$ 209,973
Restricted cash and bank time deposits	8,172	11,128
Short-term investments	138,851	13,593
Accounts receivable, net of allowance for doubtful accounts of \$1.2 million and \$1.8 million, respectively	178,478	168,415
Inventories	14,873	15,014
Deferred cost of revenue	7,487	6,253
Prepaid expenses and other current assets	58,564	77,277
Total current assets	643,885	501,653
Property and equipment, net	37,317	38,161
Goodwill	838,722	829,909
Intangible assets, net	126,086	144,261
Capitalized software development costs, net	8,434	6,343
Long-term deferred cost of revenue	8,916	7,742
Other assets	63,164	36,200
Total assets	\$ 1,726,524	\$ 1,564,269
Liabilities, Preferred Stock, and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 57,425	\$ 47,355
Accrued expenses and other current liabilities	166,015	177,736
Current maturities of long-term debt	6,559	5,867
Deferred revenue	156,188	163,252
Total current liabilities	386,187	394,210
Long-term debt	637,356	570,822
Long-term deferred revenue	13,630	13,562
Other liabilities	91,976	70,457
Total liabilities	1,129,149	1,049,051
Preferred Stock - \$0.001 par value; authorized 2,500,000 shares. Series A convertible preferred stock; Issued and outstanding 0 and 293,000 shares as of October 31, 2013 and January 31, 2013, respectively; aggregate liquidation preference and redemption value of \$365,914 at January 31, 2013.	—	285,542
Commitments and Contingencies		
Stockholders' Equity:		
Common stock - \$0.001 par value; authorized 120,000,000 shares. Issued 53,756,000 and 40,460,000 shares; outstanding 53,454,000 and 40,158,000 shares as of October 31, 2013 and January 31, 2013, respectively.	54	40
Additional paid-in capital	911,971	580,762
Treasury stock, at cost - 302,000 shares as of October 31, 2013 and January 31, 2013.	(8,013)	(8,013)
Accumulated deficit	(272,892)	(303,762)
Accumulated other comprehensive loss	(42,251)	(44,225)
Total Verint Systems Inc. stockholders' equity	588,869	224,802
Noncontrolling interest	8,506	4,874
Total stockholders' equity	597,375	229,676
Total liabilities, preferred stock, and stockholders' equity	\$ 1,726,524	\$ 1,564,269

See notes to condensed consolidated financial statements.

VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited)

(in thousands, except per share data)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2013	2012	2013	2012
Revenue:				
Product	\$ 101,974	\$ 87,404	\$ 287,189	\$ 281,393
Service and support	122,340	114,116	364,358	329,188
Total revenue	224,314	201,520	651,547	610,581
Cost of revenue:				
Product	33,322	25,420	94,584	92,694
Service and support	36,900	36,166	115,568	105,772
Amortization of acquired technology and backlog	1,935	3,696	7,920	11,124
Total cost of revenue	72,157	65,282	218,072	209,590
Gross profit	152,157	136,238	433,475	400,991
Operating expenses:				
Research and development, net	30,704	27,732	91,935	86,330
Selling, general and administrative	77,472	85,626	240,540	232,302
Amortization of other acquired intangible assets	6,150	6,109	18,193	18,342
Total operating expenses	114,326	119,467	350,668	336,974
Operating income	37,831	16,771	82,807	64,017
Other income (expense), net:				
Interest income	242	125	563	379
Interest expense	(7,416)	(7,698)	(21,987)	(23,283)
Loss on extinguishment of debt	—	—	(9,879)	—
Other expense, net	(646)	(340)	(5,013)	(189)
Total other expense, net	(7,820)	(7,913)	(36,316)	(23,093)
Income before provision for income taxes	30,011	8,858	46,491	40,924
Provision for income taxes	5,957	2,243	11,869	9,414
Net income	24,054	6,615	34,622	31,510
Net income attributable to noncontrolling interest	1,567	1,144	3,752	3,397
Net income attributable to Verint Systems Inc.	22,487	5,471	30,870	28,113
Dividends on preferred stock	—	(3,909)	(174)	(11,521)
Net income attributable to Verint Systems Inc. common shares	\$ 22,487	\$ 1,562	\$ 30,696	\$ 16,592
Net income per common share attributable to Verint Systems Inc.:				
Basic	\$ 0.42	\$ 0.04	\$ 0.58	\$ 0.42
Diluted	\$ 0.42	\$ 0.04	\$ 0.57	\$ 0.41
Weighted-average common shares outstanding:				
Basic	53,374	39,785	52,781	39,622
Diluted	53,946	39,922	53,561	40,094

See notes to condensed consolidated financial statements.

VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2013	2012	2013	2012
Net income	\$ 24,054	\$ 6,615	\$ 34,622	\$ 31,510
Other comprehensive income, net of reclassification adjustments:				
Foreign currency translation adjustments	12,232	7,258	1,537	2,877
Net unrealized gains on available-for-sale investments	125	—	3	—
Net unrealized (losses) gains on derivative financial instruments designated as hedges	(870)	2,632	283	(708)
Benefit from (provision for) income taxes on net unrealized (losses) gains on derivative financial instruments designated as hedges	96	(258)	31	70
Other comprehensive income	11,583	9,632	1,854	2,239
Comprehensive income	35,637	16,247	36,476	33,749
Comprehensive income attributable to noncontrolling interest	1,618	1,349	3,632	3,651
Comprehensive income attributable to Verint Systems Inc.	\$ 34,019	\$ 14,898	\$ 32,844	\$ 30,098

See notes to condensed consolidated financial statements.

VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)

(in thousands)	Verint Systems Inc. Stockholders' Equity								
	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, 2012	38,982	\$ 40	\$ 554,351	\$ (7,466)	\$ (357,764)	\$ (47,736)	\$ 141,425	\$ 2,870	\$ 144,295
Net income	—	—	—	—	28,113	—	28,113	3,397	31,510
Other comprehensive income	—	—	—	—	—	1,985	1,985	254	2,239
Stock-based compensation - equity portion	—	—	15,022	—	—	—	15,022	—	15,022
Exercises of stock options	78	—	1,388	—	—	—	1,388	—	1,388
Common stock issued for stock awards and stock bonuses	1,056	—	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	—	—	5	—	—	—	5	—	5
Balances as of October 31, 2012	40,095	\$ 40	\$ 574,462	\$ (8,013)	\$ (329,651)	\$ (45,751)	\$ 191,087	\$ 6,521	\$ 197,608
Balances as of January 31, 2013	40,158	\$ 40	\$ 580,762	\$ (8,013)	\$ (303,762)	\$ (44,225)	\$ 224,802	\$ 4,874	\$ 229,676
Net income	—	—	—	—	30,870	—	30,870	3,752	34,622
Other comprehensive income (loss)	—	—	—	—	—	1,974	1,974	(120)	1,854
Stock-based compensation - equity portion	—	—	22,304	—	—	—	22,304	—	22,304
Exercises of stock options	246	—	6,432	—	—	—	6,432	—	6,432
Common stock issued for stock awards and stock bonuses	776	1	2,850	—	—	—	2,851	—	2,851
Stock issued for CTI Merger	12,274	13	299,626	—	—	—	299,639	—	299,639
Tax effects from stock award plans	—	—	(3)	—	—	—	(3)	—	(3)
Balances as of October 31, 2013	53,454	\$ 54	\$ 911,971	\$ (8,013)	\$ (272,892)	\$ (42,251)	\$ 588,869	\$ 8,506	\$ 597,375

See notes to condensed consolidated financial statements.

VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in thousands)	Nine Months Ended October 31,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 34,622	\$ 31,510
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	40,230	42,476
Stock-based compensation (equity portion)	22,006	15,544
Non-cash losses on derivative financial instruments, net	44	123
Losses on extinguishments of debt	9,879	—
Other non-cash items, net	1,783	(5,955)
Changes in operating assets and liabilities, net of effects of business combinations and CTI Merger:		
Accounts receivable	(8,820)	(2,481)
Inventories	(861)	1,761
Deferred cost of revenue	(1,951)	13,185
Prepaid expenses and other assets	24,822	6,261
Accounts payable and accrued expenses	1,607	(10,170)
Deferred revenue	(7,918)	(29,968)
Other, net	(424)	2,848
Net cash provided by operating activities	115,019	65,134
Cash flows from investing activities:		
Purchases of short-term investments	(195,509)	—
Maturities of short-term investments	70,000	—
Cash paid for business combinations, net of cash acquired	(10,457)	(660)
Purchases of property and equipment	(9,439)	(11,472)
Settlements of derivative financial instruments not designated as hedges	205	(266)
Cash paid for capitalized software development costs	(3,892)	(2,921)
Change in restricted cash and bank time deposits, including long-term portion	5,935	1,271
Net cash used in investing activities	(143,157)	(14,048)
Cash flows from financing activities:		
Proceeds from borrowings, net of original issuance discount	646,750	—
Repayments of borrowings and other financing obligations	(584,309)	(5,130)
Payments of debt issuance and other debt-related costs	(7,754)	(217)
Cash received in CTI Merger	10,370	—
Proceeds from exercises of stock options	6,432	1,771
Purchases of treasury stock	—	(615)
Payments of contingent consideration for business combinations (financing portion)	(16,087)	(6,074)
Net cash provided by (used in) financing activities	55,402	(10,265)
Effect of exchange rate changes on cash and cash equivalents	223	545
Net increase in cash and cash equivalents	27,487	41,366
Cash and cash equivalents, beginning of period	209,973	150,662
Cash and cash equivalents, end of period	\$ 237,460	\$ 192,028

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.

Preparation of Condensed Consolidated Financial Statements

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, 2013. The condensed consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the periods ended October 31, 2013 and 2012, and the condensed consolidated balance sheet as of October 31, 2013, 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, 2013 is derived from the audited consolidated financial statements presented in our Annual Report on Form 10-K for the year ended January 31, 2013. 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, 2013. The results for interim periods are not necessarily indicative of a full year's results.

Significant Change in Ownership

On February 4, 2013, we successfully completed the acquisition of our former parent company, Comverse Technology, Inc. ("CTI"), eliminating CTI's majority ownership and control of us and establishing us as a fully independent public company. Prior to February 4, 2013, CTI beneficially owned a majority of our common stock (assuming the conversion of CTI's holdings of our Series A Convertible Preferred Stock ("Preferred Stock") into common stock) and held a majority of the voting power of our common stock. Our acquisition of CTI is described in greater detail in Note 4, "Merger with CTI".

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

Our significant accounting policies are described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended January 31, 2013. There were no significant changes to our significant accounting policies during the nine months ended October 31, 2013.

New Accounting Pronouncements

New Accounting Pronouncements Implemented

In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2012-02, *Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*, which simplifies how entities test indefinite-lived intangible assets for impairment and improves 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. Our adoption of this guidance effective February 1, 2013 did not materially impact our condensed consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which contained amended standards regarding disclosure requirements for items reclassified out of accumulated other comprehensive income ("AOCI"). These amended standards require the disclosure of information about the amounts reclassified out of AOCI by component and, in addition, require disclosure, either on the face of the financial statements or in the notes, of significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. These amended standards do not change the current requirements for reporting net income or other comprehensive income in the condensed consolidated financial statements. These amended standards were effective for us on February 1, 2013, and adoption of this guidance did not materially impact our condensed consolidated financial statements. The disclosures required by the amended standards appear in Note 10, "Stockholders' Equity".

In July 2013, the FASB issued ASU No. 2013-10, *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*, permitting entities to use the Fed Funds Effective Swap Rate as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to the U.S. Treasury rate and the London Interbank Offered Rate (LIBOR). The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments in this ASU were effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. We adopted the amendments in this ASU effective July 17, 2013, and the initial adoption of the amendments in this ASU did not impact our condensed consolidated financial statements.

New Accounting Pronouncements To Be Implemented

In March 2013, the FASB issued ASU No. 2013-05, *Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*. This new standard is intended to resolve diversity in practice regarding the release into net income of a cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. ASU No. 2013-05 is effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. We are currently reviewing this standard, but we do not anticipate that its adoption will have a material impact on our condensed consolidated financial statements, absent any material transactions involving the derecognition of subsidiaries or groups of assets within a foreign entity.

In July 2013, the FASB issued ASU No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU No. 2013-11 requires that entities with an unrecognized tax benefit and a net operating loss carryforward or similar tax loss or tax credit carryforward

in the same jurisdiction as the uncertain tax position present the unrecognized tax benefit as a reduction of the deferred tax asset for the loss or tax credit carryforward rather than as a liability, when the uncertain tax position would reduce the loss or tax credit carryforward under the tax law, thereby eliminating diversity in practice regarding this presentation issue. This new guidance is effective prospectively for annual reporting periods beginning on or after December 15, 2013, although retrospective application is permitted. We are currently assessing the impact of this guidance, if any, on 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 nine months ended October 31, 2013 and 2012:

(in thousands, except per share amounts)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2013	2012	2013	2012
Net income	\$ 24,054	\$ 6,615	\$ 34,622	\$ 31,510
Net income attributable to noncontrolling interest	1,567	1,144	3,752	3,397
Net income attributable to Verint Systems Inc.	22,487	5,471	30,870	28,113
Dividends on Preferred Stock	—	(3,909)	(174)	(11,521)
Net income attributable to Verint Systems Inc. for basic net income per common share	22,487	1,562	30,696	16,592
Dilutive effect of dividends on Preferred Stock	—	—	—	—
Net income attributable to Verint Systems Inc. for diluted net income per common share	\$ 22,487	\$ 1,562	\$ 30,696	\$ 16,592
Weighted-average shares outstanding:				
Basic	53,374	39,785	52,781	39,622
Dilutive effect of employee equity award plans	572	137	780	472
Dilutive effect of assumed conversion of Preferred Stock	—	—	—	—
Diluted	53,946	39,922	53,561	40,094
Net income per common share attributable to Verint Systems Inc.:				
Basic	\$ 0.42	\$ 0.04	\$ 0.58	\$ 0.42
Diluted	\$ 0.42	\$ 0.04	\$ 0.57	\$ 0.41

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:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2013	2012	2013	2012
Common shares excluded from calculation:				
Stock options and restricted stock-based awards	343	1,348	263	888
Convertible Preferred Stock	—	11,095	164	10,989

Our Preferred Stock was canceled in conjunction with the CTI Merger on February 4, 2013. The weighted-average common shares underlying the assumed conversion of the Preferred Stock for the nine months ended October 31, 2013 in the table above reflect the Preferred Stock as outstanding for only four days during the nine months ended October 31, 2013. Further details regarding the CTI Merger appear in Note 4, "Merger with CTI".

3. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

The following tables summarize our cash, cash equivalents and short-term investments as of October 31, 2013 and January 31, 2013:

October 31, 2013				
(in thousands)	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash and bank time deposits	\$ 191,922	\$ —	\$ —	\$ 191,922
Money market funds	45,538	—	—	45,538
Total cash and cash equivalents	\$ 237,460	\$ —	\$ —	\$ 237,460
Short-term investments:				
Commercial paper and corporate debt securities (available-for-sale)	\$ 113,589	\$ 3	\$ —	\$ 113,592
Bank time deposits	25,259	—	—	25,259
Total short-term investments	\$ 138,848	\$ 3	\$ —	\$ 138,851

January 31, 2013				
(in thousands)	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash and bank time deposits	\$ 143,888	\$ —	\$ —	\$ 143,888
Money market funds	62,085	—	—	62,085
Commercial paper	4,000	—	—	4,000
Total cash and cash equivalents	\$ 209,973	\$ —	\$ —	\$ 209,973
Short-term investments:				
Bank time deposits	\$ 13,593	\$ —	\$ —	\$ 13,593
Total short-term investments	\$ 13,593	\$ —	\$ —	\$ 13,593

Bank time deposits which are reported within short-term investments consist of deposits held outside of the U.S. with maturities of greater than three months, or without specified maturity dates which we intend to hold for periods in excess of three months.

As of October 31, 2013, all of our available-for-sale investments had contractual maturities of less than one year.

We report our available-for-sale securities at fair value, based on quoted market prices or other readily available market information. Unrealized gains and losses, net of applicable income taxes, are included in accumulated other comprehensive income (loss) within stockholders' equity on our condensed consolidated balance sheets. Realized gains or losses, if applicable, are recorded in other income (expense), net in our condensed consolidated statement of operations, using the specific identification method. We did not realize any gains or losses on sales of available-for-sale securities during the nine months ended October 31, 2013 and October 31, 2012.

We periodically review our investment portfolios to determine if any investment is other-than-temporarily impaired due to changes in credit risk or other potential valuation concerns. We believe that the investments we held at October 31, 2013 were not other-than-temporarily impaired. We held no available-for-sale securities with unrealized losses at October 31, 2013. We do not intend to sell our available-for-sale securities and it is not more likely than not that we will be required to sell them before recovery at par, which may be at maturity.

During the nine months ended October 31, 2013, proceeds from maturities of available-for-sale securities were \$70.0 million. We received no proceeds from sales or maturities of available-for-sale securities during the nine months ended October 31, 2012.

4. MERGER WITH CTI

Overview

On August 12, 2012, we entered into an agreement and plan of merger with CTI (the "CTI Merger Agreement"), providing for the merger of CTI with and into our new, wholly owned subsidiary (the "CTI Merger") upon the terms and subject to the conditions set forth in the CTI Merger Agreement. Pursuant to the terms of the CTI Merger Agreement, the completion of the CTI Merger was contingent upon, among other things, CTI's completion of a distribution to its shareholders of substantially all of its assets other than its interests in us (the "Comverse share distribution") or other sale or disposition by CTI of these assets. On October 31, 2012, CTI completed the Comverse share distribution in which it distributed all of the outstanding shares of common stock of its subsidiary, Comverse, Inc. ("Comverse"), to its shareholders. As a result of the Comverse share distribution, Comverse became an independent public company and ceased to be a wholly owned subsidiary of CTI.

Following the satisfaction of the various conditions precedent to closing the CTI Merger, including the requisite approval of the CTI Merger Agreement and the transactions contemplated by that agreement by our stockholders and the shareholders of CTI, the CTI Merger was completed on February 4, 2013. As of January 31, 2013, prior to the effective time of the CTI Merger, CTI held approximately a 53.5% beneficial ownership position in us, assuming conversion of all of our Preferred Stock then held by CTI into shares of our common stock. The CTI Merger eliminated CTI's majority ownership and control of us.

At the closing of the CTI Merger, each issued and outstanding share of CTI common stock was converted into the right to receive new shares of our common stock at an exchange ratio of 0.1298 shares of our common stock for each share of CTI common stock, pursuant to which approximately 28.6 million of newly issued shares of our common stock were exchanged for approximately 220.0 million issued and outstanding shares of CTI common stock. In addition, the 16.3 million shares of our common stock and all shares of our Preferred Stock held by CTI at the time of the CTI Merger were canceled, resulting in approximately 12.3 million incremental shares of our common stock outstanding upon completion of the CTI Merger.

The 28.6 million shares of our common stock issued to CTI shareholders in the CTI Merger were comprised of the following:

- 16.3 million shares in exchange for the same number of shares held by CTI at the time of the CTI Merger.
- 11.2 million shares in exchange for all shares of our Preferred Stock held by CTI at the time of the CTI Merger, calculated using the \$366.1 million liquidation preference of the Preferred Stock at the CTI Merger date and a conversion price of \$32.66 per share.
- 0.8 million shares determined by dividing a \$25.0 million "Target Amount" by \$32.78, which was the average of the daily volume weighted averages of the trading prices of our common stock during the 20 consecutive trading days ending on January 31, 2013. The \$25.0 million "Target Amount" was determined in accordance with the CTI Merger Agreement based on CTI's successful completion of the Comverse share distribution on October 31, 2012.
- 0.3 million shares determined by dividing CTI's \$9.9 million positive net worth (as defined in the CTI Merger Agreement) at the effective date of the CTI Merger, by \$32.78, which was the average of the daily volume weighted averages of the trading prices of our common stock during the 20 consecutive trading days ending on January 31, 2013. The maximum allowable CTI positive net worth for which consideration was to be paid in the CTI Merger was \$10.0 million.

Holders of shares of our common stock immediately prior to the completion of the CTI Merger, other than CTI, continued to own their existing shares, which were not affected by the CTI Merger.

The CTI Merger qualified as a tax-free reorganization for U.S. federal income tax purposes.

Several agreements between Verint and CTI were executed concurrently with the CTI Merger Agreement, including a Voting Agreement and a Governance and Repurchase Rights Agreement, which terminated upon completion of the CTI Merger on February 4, 2013. These agreements governed certain activities of the parties prior to the CTI Merger, and also provided for certain rights and obligations in the event that the CTI Merger Agreement was terminated.

During the three and nine months ended October 31, 2013, we incurred expenses associated with this matter of \$0.1 million and \$0.6 million, respectively, consisting primarily of legal and other professional fees, which have been expensed as incurred and are reflected within selling, general and administrative expenses. During the year ended January 31, 2013, we incurred \$16.1 million of expenses associated with this matter, \$9.6 million and \$12.9 million of which were incurred during the three and nine months ended October 31, 2012, respectively.

As noted previously, on October 31, 2012, CTI completed the spin-off of Comverse as an independent, publicly traded company, accomplished by means of a pro rata distribution of 100% of Comverse's outstanding common shares to CTI's

shareholders. Following the Comverse share distribution, Comverse and CTI operated independently, and neither had any ownership interest in the other. In order to govern certain ongoing relationships between CTI and Comverse after the Comverse share distribution and to provide mechanisms for an orderly transition, CTI and Comverse entered into a Distribution Agreement, Transition Services Agreement, Tax Disaffiliation Agreement and Employee Matters Agreement in connection with the Comverse share distribution.

The Distribution Agreement, among other things, provides for the allocation between CTI and Comverse of various assets, liabilities and obligations attributable to periods prior to the Comverse share distribution. Under the Distribution Agreement, Comverse agreed to indemnify CTI and its affiliates (including Verint following the CTI Merger) against certain losses, including losses arising as a result of the CTI Merger and the Comverse share distribution. Certain of Comverse's indemnification obligations are capped at \$25.0 million and certain obligations are uncapped. Pursuant to the terms of the Distribution Agreement, at the closing of the CTI Merger, CTI placed \$25.0 million of cash into an escrow account to support indemnification claims to the extent made against Comverse by CTI and its affiliates (including Verint after the CTI Merger). The balance remaining in such escrow account on August 4, 2014 (18 months after the closing of the CTI Merger), if any, will be released to Comverse. Claims related to an Israeli option holder lawsuit, details of which appear in Note 16, "Commitments and Contingencies", are excluded from the escrow account and would be indemnifiable directly by Comverse without cap.

Under the Transition Services Agreement, each of Comverse and CTI (including Verint after the CTI Merger) provide the other with certain administrative services on an interim basis for agreed upon fees. The Tax Disaffiliation Agreement governs rights, responsibilities and obligations of CTI and Comverse after the Comverse share distribution with respect to tax liabilities and benefits, tax attributes, tax contests and other tax matters. The Employee Matters Agreement allocates liabilities and responsibilities relating to CTI and Comverse employee compensation and benefit plans.

Condensed Consolidated Financial Statement Impact

For financial reporting purposes, the CTI Merger was accounted for as our acquisition of CTI in a combination of entities under common control. We are the continuing financial reporting entity. Common control transactions are transfers and exchanges between entities that are under the control of the same parent, or are transactions in which all of the combining entities are controlled by the same party or parties before and after the transaction and that control is not transitory. When accounting for a transfer of assets or exchange of shares between entities under common control, the entity receiving the net assets or the equity interests recognizes the assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of the transfer.

Following the October 31, 2012 Comverse share distribution, the net assets of CTI consisted primarily of its controlling equity interests in Verint, as well as certain residual cash and cash equivalents and other sundry net assets. In addition, CTI had net operating loss ("NOL") carryforwards for income tax reporting purposes and other tax attributes. No CTI employees, operations or business processes moved to the combined company in the CTI Merger. As a result, our net assets and operations prior to the CTI Merger represent the vast majority of the net assets and all of the operations of the combined company.

As a result of the CTI Merger, our consolidated stockholders' equity was adjusted to reflect the \$285.5 million carrying value of our Preferred Stock, all of which was held by CTI, and the \$14.1 million carrying value of CTI's net assets (other than its equity interests in us) at February 4, 2013, as increases to our additional paid-in capital. Prior to the CTI Merger, our Preferred Stock had been classified as mezzanine equity on our condensed consolidated balance sheet. The majority of CTI's net assets (other than its equity interests in us) at February 4, 2013 consisted of cash and cash equivalents.

As noted above, CTI's net assets also included net deferred tax assets primarily relating to CTI's NOL carryforwards for income tax purposes. The net deferred tax assets were fully offset by unrecognized tax benefits and valuation allowances. Also included in CTI's net assets were \$15.8 million of liabilities primarily related to certain unrecognized tax benefits (not offsetting NOL carryforwards) and accrued penalties and interest and corresponding indemnification assets totaling the same amount, recognizing Comverse's contractual obligation under the Tax Disaffiliation Agreement to indemnify us for these liabilities. All of these amounts are preliminary and are based on the information that was available to us through the date of this report. 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 merger date regarding these matters, if any, will be recorded as an adjustment to CTI's net assets.

5. BUSINESS COMBINATIONS

Nine Months Ended October 31, 2013

CTI Merger

On February 4, 2013, we completed the CTI Merger which is discussed in Note 4, "Merger with CTI".

Other Business Combinations

During the three months ended October 31, 2013, we completed two business combinations:

- On August 1, 2013, we acquired certain technology and other assets for use in our Communications Intelligence operating segment in a transaction that qualified as a business combination.
- On October 4, 2013, we acquired all of the outstanding shares of a privately held company specializing in performance improvements in customer contact centers, based in the Europe, the Middle East and Africa ("EMEA") region, that is being integrated into our Enterprise Intelligence operating segment.

These business combinations were not individually material to our condensed consolidated financial statements.

We have included the financial results of these business combinations in our condensed consolidated financial statements from their respective acquisition dates.

The combined consideration for these business combinations was approximately \$15.4 million, including \$10.9 million of combined cash paid at the closings. We also agreed to make potential additional cash payments to the respective former shareholders or asset owners aggregating up to approximately \$5.4 million, contingent upon the achievement of certain performance targets over periods ending through July 2014. The combined fair values of these contingent consideration obligations were estimated to be \$4.6 million as of the respective acquisition dates, and have not significantly changed as of October 31, 2013.

The fair values assigned to identifiable intangible assets acquired in these business combinations were determined primarily by using the income approach, which discounts expected future cash flows attributable to these assets to present value using estimates and assumptions determined by management. The acquired identifiable finite-lived intangible assets are being amortized on a straight-line basis, which we believe approximates the pattern in which the assets are utilized, over their estimated useful lives.

Included among the factors contributing to the recognition of goodwill in these transactions were synergies in products and technologies, and the addition of a skilled, assembled workforce. Of the \$7.8 million of goodwill associated with these business combinations, \$7.1 million was assigned to our Enterprise Intelligence segment and is not deductible for income tax purposes and \$0.7 million was assigned to our Communications Intelligence segment, which is deductible for income tax purposes.

Revenue and the impact on net income attributable to these acquisitions for the three months ended October 31, 2013 were not significant.

Transaction and related costs, consisting primarily of professional fees and integration expenses, directly related to these acquisitions, totaled \$0.6 million and \$1.1 million for the three and nine months ended October 31, 2013, respectively. All transaction and related costs were expensed as incurred within selling, general and administrative expenses.

The following table sets forth the components and the allocations of the purchase prices for the two business combinations completed during the three months ended October 31, 2013. These purchase price allocations have been prepared on a preliminary basis and changes to those allocations may occur as additional information becomes available during the respective measurement periods (up to one year from the respective acquisition dates).

(in thousands)	Amount
Components of Combined Purchase Price:	
Cash	\$ 10,853
Fair value of contingent consideration	4,557
Total Combined Purchase Price	\$ 15,410
Allocation of Combined Purchase Price:	
Net tangible liabilities:	
Accounts receivable	\$ 1,545
Other current assets, including cash acquired	1,468
Other assets	245
Current and other liabilities	(1,118)
Deferred revenue	(760)
Deferred income taxes, net - current and long-term	(2,164)
Net tangible liabilities	(784)
Identifiable intangible assets:	
Customer relationships	6,809
Developed technology	1,209
Trademarks and trade names	409
Total identifiable intangible assets	8,427
Goodwill	7,767
Total Combined Purchase Price	\$ 15,410

For these acquisitions, customer relationships, developed technology, and trademarks and trade names were assigned estimated useful lives of nine years, from three years to five years, and two years, respectively, the weighted average of which is approximately 8.1 years.

The pro forma impact of these acquisitions was not material to our historical condensed consolidated operating results and is therefore not presented.

In October 2013, we signed a definitive agreement to acquire all of the outstanding shares of a privately held provider of fraud prevention and identity authentication solutions, based in the Americas region, which would be integrated into our Enterprise Intelligence operating segment. This business combination, if completed, will not be material to our condensed consolidated financial statements. We expect to close this acquisition prior to January 31, 2014.

Please refer to Note 18, "Subsequent Event", for information regarding a business combination completed subsequent to October 31, 2013.

Business Combinations in Prior Periods

Transactions associated with business combinations completed in prior periods that impacted our condensed consolidated financial statements as of October 31, 2013, and for the nine months ended October 31, 2013 and 2012, are described below.

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 was 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. Changes in the fair value of the contingent consideration obligation may result from changes in discount periods and rates, and changes in probability assumptions with respect to the likelihood of achieving the performance targets.

As of January 31, 2013, \$6.4 million had been accrued for the actual contingent consideration earned and expected to be paid to the former Vovici shareholders under this arrangement. This liability changed by a negligible amount during the three months ended April 30, 2013, and payment of this amount was made during the three months ending July 31, 2013. No contingent consideration had been paid to the former Vovici shareholders prior to this payment. We have no further contingent consideration obligations for this acquisition.

For the three and nine months ended October 31, 2012, we recorded an expense of \$0.8 million and a benefit of \$2.9 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.

Transaction and related costs, consisting primarily of professional fees and integration expenses, directly related to the acquisition of Vovici totaled \$0.3 million and \$0.5 million for the three and nine months ended October 31, 2012, respectively, and were expensed as incurred within selling, general and administrative expenses. Such costs for the nine months ended October 31, 2013 were not significant.

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.

As of January 31, 2013, the fair value of this contingent consideration was \$2.8 million. During the three months ended July 31, 2013, we reached an agreement to settle our potential obligations under the GMT contingent consideration arrangement with respect to the former GMT securityholders in exchange for a payment of \$2.7 million. This payment, which was made during the three months ending July 31, 2013, eliminated any remaining contingent consideration obligations to these former securityholders. No contingent consideration had been paid under the GMT contingent consideration arrangement prior to this payment. Certain other participants under the GMT contingent consideration arrangement, who were not GMT securityholders, remain eligible to earn contingent consideration for the period ended January 31, 2014, the fair value of which was negligible at October 31, 2013. For the three and nine months ended October 31, 2013, we recorded benefits of \$0.8 million and \$0.1 million, respectively, within selling, general and administrative expenses for the change in the fair value of the GMT contingent consideration obligation.

For the three and nine months ended October 31, 2012, we recorded benefits of \$1.3 million and \$5.8 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.

Transaction and related costs, consisting primarily of professional fees and integration expenses, directly related to the acquisition of GMT, totaled \$0.1 million and \$0.3 million for the three and nine months ended October 31, 2012, and were expensed as incurred within selling, general and administrative expenses. Such costs for the nine months ended October 31, 2013 were not significant.

Other Business Combinations

During the year ended January 31, 2012, in addition to the acquisitions of Vovici and GMT, 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.

For the three and nine months ended October 31, 2013, we recorded net benefits of \$1.0 million and \$1.6 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 October 31, 2013, the aggregate fair value of the contingent consideration obligations associated with these acquisitions was \$6.4 million. During the nine months ended

October 31, 2013 and 2012, we made payments of \$7.8 million and \$5.2 million, respectively, to the respective former shareholders or asset owners under these arrangements.

Transaction and related costs, consisting primarily of professional fees and integration expenses, directly related to these acquisitions, totaled \$0.1 million and \$0.6 million for the three and nine months ended October 31, 2012, respectively, and were expensed as incurred within selling, general and administrative expenses. Such costs for the nine months ended October 31, 2013 were not significant.

In connection with one of the foregoing business combinations, the purchase price allocation included liabilities for uncertain tax positions and certain other liabilities associated with pre-acquisition business activities of the acquired company. Based upon our evaluation of these matters, including assessments of additional information obtained subsequent to the acquisition date regarding facts and circumstances that existed as of the acquisition date, the purchase price allocation for this acquisition included current liabilities of approximately \$4.7 million associated with certain other pre-acquisition business activities of the acquired company and long-term liabilities of approximately \$5.2 million associated with uncertain tax positions of the acquired company. Corresponding indemnification assets of \$4.7 million and \$5.2 million, respectively, classified in the same manner, were also recorded as components of the purchase price allocation for this acquisition, in recognition of 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 January 31, 2013, the liability associated with pre-acquisition uncertain tax positions of the acquired company was \$3.0 million and was included within other liabilities, and the corresponding indemnification asset of \$2.6 million was included within other assets. Also as of January 31, 2013, the liability associated with certain other pre-acquisition business activities of the acquired company was \$3.0 million, and was included within accrued expenses and other current liabilities, and the corresponding indemnification asset, reflected within prepaid expenses and other current assets, was \$3.0 million.

As of October 31, 2013, the liability associated with certain other pre-acquisition business activities of the acquired company, included within accrued expenses and other current liabilities, and the corresponding indemnification asset, reflected within prepaid expenses and other current assets, were \$2.2 million. The changes in these carrying values during the nine months ended October 31, 2013 reflected derecognition of certain liabilities and corresponding indemnification assets and the impact of foreign currency exchange rate fluctuations. These changes were offsetting and therefore did not impact our condensed consolidated statement of operations for the three and nine months ended October 31, 2013.

As of October 31, 2013, the liability associated with pre-acquisition uncertain tax positions of the acquired company was \$2.2 million and was included within other liabilities. The change in the carrying value of this liability during the nine months ended October 31, 2013 reflected the settlement of an uncertain tax position and the impact of foreign currency exchange rate fluctuations. In addition, during the three months ended April 30, 2013 and October 31, 2013, based upon our assessment of the collectibility of the indemnification from the former shareholders of the acquired company, we recognized impairments of \$0.3 million and \$0.4 million, respectively, of the indemnification asset associated with these liabilities, which is included in other income (expense), net. No impairment was recognized for the three months ended July 31, 2013. The indemnification asset associated with these liabilities was \$1.2 million as of October 31, 2013 and is included within other assets.

6. INTANGIBLE ASSETS AND GOODWILL

Acquisition-related intangible assets consisted of the following as of October 31, 2013 and January 31, 2013:

(in thousands)	October 31, 2013		
	Cost	Accumulated Amortization	Net
Intangible assets with finite lives:			
Customer relationships	\$ 232,256	\$ (135,140)	\$ 97,116
Acquired technology	95,733	(72,612)	23,121
Trade names	13,113	(11,085)	2,028
Non-competition agreements	5,516	(4,785)	731
Distribution network	2,440	(1,779)	661
Backlog	843	(114)	729
Total intangible assets with finite lives	349,901	(225,515)	124,386
In-process research and development, with indefinite lives	1,700	—	1,700
Total	\$ 351,601	\$ (225,515)	\$ 126,086

(in thousands)	January 31, 2013		
	Cost	Accumulated Amortization	Net
Intangible assets with finite lives:			
Customer relationships	\$ 225,321	\$ (117,903)	\$ 107,418
Acquired technology	93,860	(64,617)	29,243
Trade names	12,737	(10,537)	2,200
Non-competition agreements	5,516	(4,227)	1,289
Distribution network	2,440	(1,596)	844
Backlog	843	(76)	767
Total intangible assets with finite lives	340,717	(198,956)	141,761
In-process research and development, with indefinite lives	2,500	—	2,500
Total	\$ 343,217	\$ (198,956)	\$ 144,261

The following table presents net acquisition-related intangible assets by reportable segment as of October 31, 2013 and January 31, 2013:

(in thousands)	October 31, 2013	January 31, 2013
Enterprise Intelligence	\$ 111,291	\$ 126,341
Video Intelligence	3,002	3,880
Communications Intelligence	11,793	14,040
Total	\$ 126,086	\$ 144,261

Total amortization expense recorded for acquisition-related intangible assets was \$8.1 million and \$26.1 million for the three and nine months ended October 31, 2013, respectively, and \$9.8 million and \$29.5 million for the three and nine months ended October 31, 2012, 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 as of October 31, 2013 is as follows:

(in thousands)

Years Ending January 31,	Amount
2014 (remainder of year)	\$ 8,544
2015	32,491
2016	30,806
2017	27,873
2018	11,575
2019 and thereafter	13,097
Total	\$ 124,386

No impairment indicators were identified for finite-lived intangible assets during the nine months ended October 31, 2013 and 2012. Our in-process research and development assets were acquired during the year ended January 31, 2012, and no impairment indicators were identified for these assets during the nine months ended October 31, 2013 and 2012.

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and identifiable intangible assets acquired. 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.

Goodwill activity and related information for the nine months ended October 31, 2013, 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, 2013	\$ 896,774	\$ 771,738	\$ 76,803	\$ 48,233
Accumulated impairment losses through January 31, 2013	(66,865)	(30,791)	(36,074)	—
Goodwill, net, at January 31, 2013	829,909	740,947	40,729	48,233
Business combinations	7,767	7,055	—	712
Foreign currency translation and other	1,046	1,637	6	(597)
Goodwill, net, at October 31, 2013	\$ 838,722	\$ 749,639	\$ 40,735	\$ 48,348
Goodwill, net, at October 31, 2013:				
Goodwill, gross, at October 31, 2013	\$ 905,587	\$ 780,430	\$ 76,809	\$ 48,348
Accumulated impairment losses through October 31, 2013	(66,865)	(30,791)	(36,074)	—
Goodwill, net, at October 31, 2013	\$ 838,722	\$ 749,639	\$ 40,735	\$ 48,348

No events or circumstances indicating the potential for goodwill impairment were identified during the nine months ended October 31, 2013 and 2012.

7. LONG-TERM DEBT

The following table summarizes our long-term debt at October 31, 2013 and January 31, 2013:

(in thousands)	October 31, 2013	January 31, 2013
Term loan facility - 2013 Amended Credit Agreement:		
Outstanding borrowings	\$ 646,750	\$ —
Unamortized debt discount	(2,944)	—
Term loan facility - 2011 Credit Agreement:		
Outstanding borrowings	—	576,000
Unamortized debt discount	—	(2,199)
Other debt	109	2,888
Total debt	643,915	576,689
Less: current maturities	6,559	5,867
Long-term debt	\$ 637,356	\$ 570,822

In May 2007, we entered into a \$675.0 million secured credit agreement (the "2007 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 (the "2011 Credit Agreement") and concurrently terminated the 2007 Credit Agreement. The 2011 Credit Agreement provided 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 2011 Credit Agreement.

The 2011 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 was being amortized as interest expense over the term of the term loan using the effective interest method.

The majority of the term loan proceeds under the 2011 Credit Agreement were used to repay all \$583.2 million of outstanding term loan borrowings under the 2007 Credit Agreement at the closing date of the 2011 Credit Agreement. There were no outstanding borrowings under the revolving credit facility under the 2007 Credit Agreement at the closing date of the 2011 Credit Agreement.

On March 6, 2013, we entered into an amendment and restatement agreement with the lenders under the 2011 Credit Agreement providing for the amendment and restatement of the 2011 Credit Agreement (as amended and restated, the "2013 Amended Credit Agreement"). The 2013 Amended Credit Agreement provides for \$850.0 million of senior secured credit facilities, comprised of (i) a \$650.0 million term loan maturing in September 2019 and (ii) a \$200.0 million revolving credit facility maturing in March 2018, subject to increase (up to a maximum increase of \$300.0 million) and reduction from time to time according to the terms of the 2013 Amended Credit Agreement.

The 2013 Amended Credit Agreement included an original issuance term loan discount of 0.50%, or \$3.3 million, resulting in net term loan proceeds of \$646.7 million. This discount is being amortized as interest expense over the term of the 2013 term loan using the effective interest method.

The majority of the proceeds of the term loan under the 2013 Amended Credit Agreement were used to repay all \$576.0 million of outstanding term loan borrowings under the 2011 Credit Agreement at the March 6, 2013 closing date of the 2013 Amended Credit Agreement. There were no outstanding borrowings under the 2011 Credit Agreement's revolving credit facility at the closing date of the 2013 Amended Credit Agreement.

The terms and conditions of the 2011 Credit Agreement have been superseded by the terms and conditions of the 2013 Amended Credit Agreement, although some terms and conditions have remained consistent.

Loans under the 2013 Amended 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 3.00% (or, if our corporate credit ratings are BB- and Ba3 or better, 2.75%). The Adjusted LIBO Rate is the greater of (i) 1.00% per annum and (ii) the product of the LIBO Rate and Statutory Reserves (both as defined in the 2013 Amended Credit Agreement), and

(b) in the case of Base Rate loans, the Base Rate plus 2.00% (or, if our corporate credit ratings are BB- and Ba3 or better, 1.75%). The Base Rate is the greatest of (i) the administrative agent's prime rate, (ii) the Federal Funds Effective Rate (as defined in the 2013 Amended Credit Agreement) plus 0.50% and (iii) the Adjusted LIBO Rate for a one-month interest period plus 1.00%.

As of October 31, 2013, the interest rate on the term loan under the 2013 Amended Credit Agreement was 4.00%. Including the impact of the 0.50% original issuance term loan discount and the deferred debt issuance costs, the effective interest rate on the term loan was approximately 4.23% as of October 31, 2013. As of January 31, 2013, the interest rate on the term loan under the 2011 Credit Agreement was 4.50%.

Loans under the 2011 Credit Agreement incurred interest in a similar manner as loans under the 2013 Amended Credit Agreement, as follows:

(a) in the case of Eurodollar loans, the Adjusted LIBO Rate plus 3.25% (or, if our corporate credit ratings were at least BB- and Ba3 or better, 3.00%). The Adjusted LIBO Rate was the greater of (i) 1.25% per annum and (ii) the product of the LIBO Rate and Statutory Reserves (both as defined in the 2011 Credit Agreement), and

(b) in the case of Base Rate loans, the Base Rate plus 2.25% (or, if our corporate credit ratings were at least BB- and Ba3 or better, 2.00%). The Base Rate was the greatest of (i) the administrative agent's prime rate, (ii) the Federal Funds Effective Rate (as defined in the 2011 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 approximately \$7.5 million, associated with the 2013 Amended Credit Agreement, which have been deferred and are classified within Other assets and are being amortized as interest expense over the term of the 2013 Amended Credit Agreement. Of these deferred costs, \$5.0 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 \$2.5 million and are being amortized on a straight-line basis.

At the March 6, 2013 closing date of the 2013 Amended Credit Agreement, there were \$11.0 million of unamortized deferred fees and \$2.2 million of unamortized original issuance term loan discount associated with the 2011 Credit Agreement. Of the \$11.0 million of unamortized deferred fees, \$3.5 million were associated with the revolving credit commitments under the 2011 Credit Agreement provided by lenders that are continuing to provide revolving credit commitments under the 2013 Amended Credit Agreement and therefore continue to be deferred, and are being amortized over the term of the 2013 Amended Credit Agreement. The remaining \$7.5 million of unamortized deferred fees and the \$2.2 million unamortized original issuance discount, all of which related to the 2011 term loan, were expensed as a \$9.7 million loss on extinguishment of debt in the three months ended April 30, 2013.

Under the 2013 Amended Credit Agreement, we are required to pay a commitment fee equal to 0.50% per annum of the undrawn portion on the revolving credit facility, payable quarterly, and customary administrative agent and letter of credit fees. These fees are unchanged from the 2011 Credit Agreement.

The 2013 Amended Credit Agreement requires us to make term loan principal payments of \$1.6 million per quarter commencing on May 1, 2013 and continuing through August 1, 2019, with the remaining balance due in September 2019. 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 and a 1.0% premium applicable in the event of a Repricing Transaction (as defined in the 2013 Amended Credit Agreement) prior to March 5, 2014. The loans are also subject to mandatory prepayment requirements with respect to certain asset sales, excess cash flows (as defined in the 2013 Amended 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 2013 Amended Credit Agreement.

As of October 31, 2013, future scheduled principal payments on the term loan under the 2013 Amended Credit Agreement are presented in the following table:

(in thousands)

Years Ending January 31,	Amount
2014 (remainder of year)	\$ 1,625
2015	6,500
2016	6,500
2017	6,500
2018	6,500
2019 and thereafter	619,125
Total	\$ 646,750

We incurred interest expense on borrowings under our credit facilities of \$6.6 million and \$19.7 million during the three and nine months ended October 31, 2013, respectively, and \$6.8 million and \$20.3 million during the three and nine months ended October 31, 2012, respectively. In addition, we recorded \$0.5 million and \$1.6 million, during the three and nine months ended October 31, 2013, respectively, for amortization of our deferred debt issuance costs, which is also reported within interest expense on our condensed consolidated statements of operations. We recorded \$0.7 million and \$2.1 million of amortization of our deferred debt issuance costs during the three and nine months ended October 31, 2012, respectively.

We recorded \$0.1 million and \$0.3 million during each of the three and nine months ended October 31, 2013 and October 31, 2012, respectively, for amortization of the original issuance term loan discounts, which is reported within interest expense.

Our obligations under the 2013 Amended Credit Agreement are guaranteed, in the same manner as under the 2011 Credit Agreement, 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, in the same manner as under the 2011 Credit Agreement, by security interests in substantially all of our and their assets, subject to certain exceptions detailed in the 2013 Amended Credit Agreement and related ancillary documents.

The 2013 Amended Credit Agreement contains certain customary affirmative and negative covenants for credit facilities of this type, which covenants are substantially similar to those in the 2011 Credit Agreement. These covenants include limitations on us and our subsidiaries with respect to indebtedness, liens, nature of business, investments and loans, distributions, acquisitions, dispositions of assets, sale-leaseback transactions and transactions with affiliates. The revolving credit facility also contains a financial covenant that requires us to maintain a ratio of Consolidated Total Debt to Consolidated EBITDA (each as defined in the 2013 Amended Credit Agreement) of no greater than 5.00 to 1 until January 31, 2015 and no greater than 4.50 to 1 thereafter (the "Leverage Ratio Covenant"). The limitations imposed by the covenants are subject to certain exceptions as detailed in the 2013 Amended Credit Agreement.

The 2013 Amended Credit Agreement provides for certain customary events of default with corresponding grace periods. These events of default include failure to pay principal or interest when due under the 2013 Amended Credit Agreement, failure to comply with covenants, any representation or warranty made by us proving to be inaccurate in any material respect, defaults under certain other indebtedness of us or our subsidiaries, the occurrence of a Change of Control (as defined in the 2013 Amended Credit Agreement) with respect to us and certain insolvency or receivership events affecting us or our significant subsidiaries. Upon the occurrence of an event of default resulting from a violation of the Leverage Ratio Covenant, the lenders under our revolving credit facility may require us to immediately repay outstanding borrowings under the revolving credit facility and may terminate their commitments to provide loans under that facility. A violation of the Leverage Ratio Covenant would not, by itself, result in an event of default under the term loan but may trigger a cross-default under the term loan in the event we are required to repay outstanding borrowings under the revolving credit facility. Upon the occurrence of other events of default, the lenders may require us to immediately repay all outstanding borrowings under the 2013 Amended Credit Agreement and the lenders under our revolving credit facility may terminate their commitments to provide loans under the facility.

In connection with a business combination completed during the year ended January 31, 2012, we assumed approximately \$3.3 million of development bank and government debt in the Americas region. The carrying value of this debt was \$2.5 million at January 31, 2013. During the three months ended July 31, 2013, we repaid \$2.0 million of this debt, resulting in a \$0.2 million loss on extinguishment of debt, which is reported in the condensed consolidated statement of operations for the nine months ended October 31, 2013. The remaining portion of this debt has a carrying value of \$0.1 million at October 31, 2013.

8. SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENT INFORMATION

Condensed Consolidated Balance Sheets

Inventories consisted of the following as of October 31, 2013 and January 31, 2013:

(in thousands)	October 31, 2013	January 31, 2013
Raw materials	\$ 3,837	\$ 4,263
Work-in-process	6,039	5,633
Finished goods	4,997	5,118
Total inventories	\$ 14,873	\$ 15,014

Condensed Consolidated Statements of Operations

Other expense, net consisted of the following for the three and nine months ended October 31, 2013 and 2012:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2013	2012	2013	2012
Foreign currency (losses) gains, net	\$ 702	\$ 1,144	\$ (2,504)	\$ 1,267
Gains on derivative financial instruments, net	(721)	(253)	(45)	(122)
Other, net	(627)	(1,231)	(2,464)	(1,334)
Total other expense, net	\$ (646)	\$ (340)	\$ (5,013)	\$ (189)

Condensed Consolidated Statements of Cash Flows

The following table provides supplemental information regarding our condensed consolidated cash flows for the nine months ended October 31, 2013 and 2012:

(in thousands)	Nine Months Ended October 31,	
	2013	2012
Cash paid for interest	\$ 17,724	\$ 20,546
Cash (refunds) payments of income taxes, net	\$ (6,463)	\$ 14,807
Non-cash investing and financing transactions:		
Net non-cash assets acquired in CTI Merger	\$ 3,727	\$ —
Accrued but unpaid purchases of property and equipment	\$ 1,217	\$ 1,715
Inventory transfers to property and equipment	\$ 658	\$ 374
Liabilities for contingent consideration in business combinations	\$ 4,557	\$ —
Leasehold improvements funded by lease incentive	\$ —	\$ 5,014

9. CONVERTIBLE PREFERRED STOCK

On May 25, 2007, we entered into a Securities Purchase Agreement with 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 our May 2007 acquisition of Witness Systems Inc. ("Witness").

On August 12, 2012, we entered into the CTI Merger Agreement providing for the CTI Merger. The CTI Merger was completed on February 4, 2013 and eliminated CTI's majority ownership and control of us. Each outstanding share of Preferred Stock, all of which was held by CTI, was canceled upon completion of the CTI Merger. As a result of the CTI Merger, our consolidated stockholders' equity was adjusted to reflect the \$285.5 million carrying value of our Preferred Stock at February 4, 2013, as an increase to our additional paid-in capital. Further details regarding the CTI Merger appear in Note 4, "Merger with CTI".

The terms of the Preferred Stock provided that upon a fundamental change, as defined in the certificate of designation governing the Preferred Stock, the holders of the Preferred Stock would have had the right to require us to repurchase the Preferred Stock for 100% of the liquidation preference then in effect. Therefore, the Preferred Stock was classified as

mezzanine equity on our condensed consolidated balance sheet as of January 31, 2013, 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, was not solely under our control.

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

We concluded that, as of January 31, 2013, the occurrence of a fundamental change and the associated potential required repurchase of the Preferred Stock were not probable under the terms of the Securities Purchase Agreement. We therefore did not adjust the carrying amount of the Preferred Stock to its redemption amount, which was its liquidation preference, at January 31, 2013. Through January 31, 2013, cumulative, undeclared dividends on the Preferred Stock were \$72.9 million and, as a result, the liquidation preference of the Preferred Stock was \$365.9 million at that date.

10. STOCKHOLDERS' EQUITY

Dividends on Common Stock

We did not declare or pay any dividends on our common stock during the nine months ended October 31, 2013 and 2012. We have been and continue to be subject to certain restrictions on declaring and paying dividends on our common stock under the terms of our credit facilities. We were also subject to certain restrictions on declaring and paying dividends on our common stock under the terms of our Preferred Stock, prior to its cancellation on February 4, 2013 in connection with the CTI Merger, further details of which appear in Note 4, "Merger with CTI".

Treasury Stock

Repurchased shares of common stock are recorded as treasury stock, at cost. At October 31, 2013 and January 31, 2013, we held 302,000 shares of treasury stock with a cost of \$8.0 million.

Shares of restricted stock awards that are forfeited when recipients separate from their employment prior to the lapsing of the award's restrictions are recorded as 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 or delivery-related tax event occurs at a time when the holder is not permitted to sell shares in the market. Our stock bonus program contains similar terms. Any such repurchases of common stock occur at prevailing market prices and are recorded as treasury stock.

During the nine months ended October 31, 2013, we did not acquire any shares of treasury stock. During the nine months ended October 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.

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. 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

In addition to net income, accumulated other comprehensive income (loss) includes items such as foreign currency translation adjustments and unrealized gains and losses on certain marketable securities and derivative financial instruments designated as hedges. Accumulated other comprehensive income (loss) is presented as a separate line item in the stockholders' equity section of our condensed consolidated balance sheets. Accumulated other comprehensive income (loss) items have no impact on our net income as presented in our condensed consolidated statements of operations.

The following table summarizes changes in the components of our accumulated other comprehensive loss by component for the nine months ended October 31, 2013:

(in thousands)	Unrealized Gains on Derivative Financial Instruments Designated as Hedges	Unrealized Gains on Available-for- Sale Investments	Foreign Currency Translation Adjustments	Total
Accumulated other comprehensive income (loss) at January 31, 2013	\$ 2,447	\$ —	\$ (46,672)	\$ (44,225)
Other comprehensive income before reclassifications	4,355	3	1,657	6,015
Amounts reclassified out of accumulated other comprehensive income (loss)	(4,041)	—	—	(4,041)
Net other comprehensive income (loss), current period	314	3	1,657	1,974
Accumulated other comprehensive income (loss) at October 31, 2013	\$ 2,761	\$ 3	\$ (45,015)	\$ (42,251)

All amounts presented in the table above are net of income taxes, if applicable. The accumulated net losses in foreign currency translation adjustments 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.

The amounts reclassified out of accumulated other comprehensive loss into the condensed consolidated condensed statements of operations, with presentation location, for the three months ended October 31, 2013 and 2012 were as follows:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,		Affected Line Items in the Condensed Consolidated Statements of Operations
	2013	2012	2013	2012	
Unrealized (gains) losses on derivative financial instruments:					
Foreign currency forward contracts	\$ (167)	\$ 37	\$ (370)	\$ 114	Cost of product revenue
	(178)	43	(383)	109	Cost of service revenue
	(1,123)	238	(2,455)	646	Research and development
	(516)	122	(1,140)	336	Selling, general and administrative
	(1,984)	440	(4,348)	1,205	Total, before provision for income taxes
	(174)	44	(307)	119	(Provision for) benefit from income taxes
	\$ (1,810)	\$ 396	\$ (4,041)	\$ 1,086	Total, net of income taxes

Noncontrolling Interest

The noncontrolling interest presented in our condensed consolidated financial statements reflects a 50% noncontrolling equity interest in a joint venture which functions as a systems integrator for Asian markets. Net income attributable to noncontrolling interest, as reported on our condensed consolidated statements of operations, represents the net income of this joint venture attributable to the noncontrolling equity interest. The noncontrolling interest is reflected within stockholders' equity on the condensed consolidated balance sheet but is presented separately from our equity.

II. 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 October 31, 2013, we recorded a \$6.0 million provision for income taxes on pre-tax income of \$30.0 million, which represented an effective income tax rate of 19.8%. The 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 October 31, 2012, we recorded a \$2.2 million provision for income taxes on pre-tax income of \$8.9 million, which represented an effective income tax rate of 25.3%. 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 and the recognition of previously unrecognized tax benefits, offset by the write-off of certain tax attributes resulting from the merger of certain foreign subsidiaries. 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 nine months ended October 31, 2013, we recorded an \$11.9 million provision for income taxes on pre-tax income of \$46.5 million, which represented an effective tax rate of 25.5%. The income tax provision does not include income tax benefit on losses incurred by certain domestic operations where we maintain valuation allowances and is mainly the result of the activities of profitable jurisdictions. The effective tax rate was also reduced because CTI received a favorable ruling from the Internal Revenue Service which resulted in adjustments to deferred taxes and an indemnified tax liability. Our pre-tax income in foreign jurisdictions, where we recorded tax provisions at rates lower than the U.S. federal statutory rate, was higher than domestic losses where we maintain valuation allowances and do not record tax benefits.

For the nine months ended October 31, 2012, we recorded a \$9.4 million provision for income taxes on pre-tax income of \$40.9 million, which represented an effective tax rate of 23.0%. 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 and the recognition of previously unrecognized tax benefits, offset by the write-off of certain tax attributes resulting from the merger of certain foreign subsidiaries. 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 carryforwards.

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 \$142.1 million and \$55.4 million (excluding interest and penalties) as of October 31, 2013 and January 31, 2013, respectively. The accrued liability for interest and penalties was \$20.0 million and \$8.3 million at October 31, 2013 and January 31, 2013, respectively. Interest and penalties are recorded as a component of the provision for income taxes in our condensed consolidated statements of operations. As of October 31, 2013 and January 31, 2013, the total amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate were approximately \$137.3 million and \$50.8 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 October 31, 2013 could decrease by approximately \$2.4 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.

12. 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. There were no transfers between levels of the fair value measurement hierarchy during the nine months ended October 31, 2013 and 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 October 31, 2013 and January 31, 2013:

(in thousands)	October 31, 2013		
	Fair Value Hierarchy Category		
	Level 1	Level 2	Level 3
Assets:			
Money market funds	\$ 45,538	\$ —	\$ —
Short-term investments, classified as available-for-sale	—	113,592	—
Foreign currency forward contracts	—	3,262	—
Total assets	\$ 45,538	\$ 116,854	\$ —
Liabilities:			
Foreign currency forward contracts	\$ —	\$ 1,040	\$ —
Contingent consideration - business combinations	—	—	10,869
Total liabilities	\$ —	\$ 1,040	\$ 10,869

(in thousands)	January 31, 2013		
	Fair Value Hierarchy Category		
	Level 1	Level 2	Level 3
Assets:			
Money market funds	\$ 62,085	\$ —	\$ —
Commercial paper (1)	—	4,000	—
Foreign currency forward contracts	—	2,854	—
Total assets	\$ 62,085	\$ 6,854	\$ —
Liabilities:			
Foreign currency forward contracts	\$ —	\$ 542	\$ —
Contingent consideration - business combinations	—	—	25,041
Total liabilities	\$ —	\$ 542	\$ 25,041

(1) Commercial paper investments with remaining maturities of three months or less at time of purchase, classified within cash and cash equivalents.

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 nine months ended October 31, 2013 and 2012:

(in thousands)	Nine Months Ended October 31,	
	2013	2012
Fair value measurement at beginning of period	\$ 25,041	\$ 38,646
Contingent consideration liabilities recorded for business combinations	4,557	—
Changes in fair values, recorded in operating expenses	(1,635)	(8,428)
Payments of contingent consideration	(17,094)	(6,902)
Fair value measurement at end of period	\$ 10,869	\$ 23,316

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 active market prices for such funds.

Short-term Investments - Short-term investments represent investments in commercial paper and corporate bonds classified as available-for-sale. Investments in commercial paper with remaining maturities of three months or less at time of purchase are classified within cash and cash equivalents. The fair values of these investments are estimated using observable market prices for identical securities that are traded in inactive markets, if available. When observable market prices for identical securities are not available, we value these short-term investments using non-binding market price quotes from brokers which we review for reasonableness using observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model.

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 within selling, general, and administrative expenses. 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 1.7% to 15.0% in our calculations of the estimated fair values of our contingent consideration liabilities as of October 31, 2013. We utilized discount rates ranging from 3.1% to 16.5% in our calculations of the estimated fair values of our contingent consideration liabilities as of October 31, 2012.

Other Financial Instruments

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

The estimated fair values of our term loan borrowings were \$647.0 million and \$583.0 million at October 31, 2013 and January 31, 2013, 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 October 31, 2013 and January 31, 2013 did not significantly differ from par value.

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

In addition to assets and liabilities that are measured at fair value on a recurring basis, we also measure certain assets and liabilities at fair value on a nonrecurring basis. Our non-financial assets, including goodwill, intangible assets and property, plant and equipment, are measured at fair value when there is an indication of impairment and the carrying amount exceeds the asset's projected undiscounted cash flows. These assets are recorded at fair value only when an impairment charge is recognized. No such impairment charges were recorded during the three months ended October 31, 2013 and 2012.

13. 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, and exposures from cash, cash equivalents and short-term investments denominated 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 \$121.0 million and \$108.1 million as of October 31, 2013 and January 31, 2013, respectively.

Fair Values of Derivative Financial Instruments

The fair values of our derivative financial instruments as of October 31, 2013 and January 31, 2013 were as follows:

October 31, 2013

(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	\$ 3,262	Accrued expenses and other liabilities	\$ 236
Total derivative financial instruments designated as hedging instruments		\$ 3,262		\$ 236
Derivative financial instruments not designated as hedging instruments:				
Foreign currency forward contracts	—	\$ —	Accrued expenses and other liabilities	\$ 804
Total derivative financial instruments not designated as hedging instruments		\$ —		\$ 804

January 31, 2013

(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	\$ 2,808	Accrued expenses and other liabilities	\$ 64
Total derivative financial instruments designated as hedging instruments		\$ 2,808		\$ 64
Derivative financial instruments not designated as hedging instruments:				
Foreign currency forward contracts	Prepaid expenses and other current assets	\$ 46	Accrued expenses and other liabilities	\$ 478
Total derivative financial instruments not designated as hedging instruments		\$ 46		\$ 478

Derivative Financial Instruments in Cash Flow Hedging Relationships

The effects of derivative financial instruments designated as cash flow hedging instruments as of October 31, 2013 and January 31, 2013, and for the three and nine months ended October 31, 2013 and 2012 were as follows:

(in thousands)	Net Unrealized Gains Recognized in Accumulated Other Comprehensive Loss		Classification of Net Gains (Losses) Reclassified from Other Comprehensive Loss into the Condensed Consolidated Statements of Operations	Net Gains (Losses) Reclassified from Other Comprehensive Loss into the Condensed Consolidated Statements of Operations			
	October 31, 2013	January 31, 2013		Three Months Ended October 31,		Nine Months Ended October 31,	
				2013	2012	2013	2012
Foreign currency forward contracts	\$ 2,761	\$ 2,447	Operating Expenses	\$ 1,984	\$ (440)	\$ 4,348	\$ (1,205)

There were no gains or losses from ineffectiveness of these hedging instruments recorded for the nine months ended October 31, 2013 and 2012. All of the foreign currency forward contracts underlying the \$2.8 million of net unrealized gains recorded in accumulated other comprehensive loss at October 31, 2013 mature within twelve months, and therefore we expect all such gains to be reclassified into earnings within the next twelve months.

Derivative Financial Instruments Not Designated as Hedging Instruments

Losses recognized on derivative financial instruments not designated as hedging instruments in our condensed consolidated statements of operations for the three and nine months ended October 31, 2013 and 2012 were as follows:

(in thousands)	Classification in Condensed Consolidated Statements of Operations	Three Months Ended October 31,		Nine Months Ended October 31,	
		2013	2012	2013	2012
Foreign currency forward contracts	Other expense, net	\$ (721)	\$ (254)	\$ (44)	\$ (123)

14. 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 nine months ended October 31, 2013 and 2012:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2013	2012	2013	2012
Cost of revenue - product	\$ 243	\$ 257	\$ 572	\$ 583
Cost of revenue - service and support	458	564	1,208	1,531
Research and development, net	890	769	2,432	1,906
Selling, general and administrative	8,138	5,095	20,942	14,298
Total stock-based compensation expense	\$ 9,729	\$ 6,685	\$ 25,154	\$ 18,318

The following table summarizes stock-based compensation expense by type of award for the three and nine months ended October 31, 2013 and 2012:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2013	2012	2013	2012
Stock options	\$ 45	\$ 59	\$ 152	\$ 236
Restricted stock awards and restricted stock units	8,335	4,605	21,727	15,050
Phantom stock units	23	28	87	517
Stock bonus program	1,326	1,993	3,188	2,515
Total stock-based compensation expense	\$ 9,729	\$ 6,685	\$ 25,154	\$ 18,318

Total stock-based compensation expense by classification was as follows for the three and nine months ended October 31, 2013 and 2012:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2013	2012	2013	2012
Equity-classified awards	\$ 8,318	\$ 4,550	\$ 22,304	\$ 15,022
Stock bonus program	—	—	(298)	522
Total equity-settled awards	8,318	4,550	22,006	15,544
Other liability-classified awards	1,411	2,135	3,148	2,774
Total stock-based compensation expense	\$ 9,729	\$ 6,685	\$ 25,154	\$ 18,318

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. Amounts reported in the stock bonus program caption in the preceding table represent stock bonus expenses recognized in those periods for awards that were subsequently settled with equity during the nine months ended October 31, 2013 and 2012. Expenses associated with stock bonus program awards that remain outstanding as of October 31, 2013 and 2012 are reflected within other liability-classified awards in the preceding table. Our other liability-classified awards also 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, the current period's compensation expense associated with those awards is reported within equity-classified awards in the preceding table.

Stock Options

We have generally not granted stock options subsequent to January 31, 2006, other than in connection with several business combinations whereby stock options to purchase shares of the acquired companies were converted into stock options to purchase shares of our common stock.

The following table summarizes stock option activity and related information for the nine months ended October 31, 2013:

(in thousands, except per share data)	Number of Stock Options	Weighted- Average Exercise Price
Outstanding at January 31, 2013	924	\$ 31.88
Options exercised	(246)	\$ 26.20
Options forfeited or expired	(15)	\$ 24.88
Outstanding at October 31, 2013	663	\$ 34.14
Options exercisable at October 31, 2013	658	\$ 34.35

Cash proceeds received from the exercise of stock options were \$6.4 million for the nine months ended October 31, 2013.

At October 31, 2013, there was approximately \$0.1 million of unrecognized compensation expense, net of estimated forfeitures, related to unvested stock options that we expect to recognize over a weighted-average period of one year.

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.

The following table summarizes restricted stock unit activity and related information for the nine months ended October 31, 2013:

(in thousands, except per share data)	Number of RSUs	Weighted- Average Grant Date Fair Value
Outstanding at January 31, 2013	1,536	\$ 31.42
RSUs granted	1,537	\$ 33.16
RSUs released	(776)	\$ 31.67
RSUs forfeited	(78)	\$ 31.79
Outstanding at October 31, 2013	2,219	\$ 32.51

Activity presented in the table above includes shares earned and released under our stock bonus program, further details regarding which appear below under "Stock Bonus Program".

The table above includes RSUs granted to executive officers and certain other employees that vest upon the achievement of specified performance goals. At each reporting date, we update our assessment of the probability that the specified performance criteria will be achieved and adjust the related stock-based compensation expenses of the performance-based RSUs, if necessary. We amortize the fair values of performance-based RSUs over the requisite service period for each separately vesting tranche of the award.

Substantially all of the restricted stock units granted during the year ended January 31, 2013 included 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 October 31, 2013, for such awards that remain outstanding, 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 October 31, 2013, there was approximately \$52.8 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 2.2 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 nine months ended October 31, 2013, grants and forfeitures of phantom stock units were not significant. Total cash payments made upon vesting of phantom stock units for the nine months ended October 31, 2013 were \$0.2 million. Total accrued liabilities for phantom stock units were \$0.1 million and \$0.2 million at October 31, 2013 and January 31, 2013, respectively.

Stock Bonus Program

We have a stock bonus program under which eligible employees may receive a portion of their annual or quarterly bonuses (depending on the employee's bonus plan) in the form of fully vested shares of our common stock. Through January 31, 2013, 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 (the "discount"). 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.

For the year ended January 31, 2013, our board of directors approved up to 150,000 shares of common stock for awards under this program and a discount of 15%, (the "2013 stock bonus program"). Approximately 93,000 shares of our common stock were earned and issued to participants under the 2013 stock bonus program, including 80,000 shares issued during the nine months ended October 31, 2013, which completed our obligations under the 2013 stock bonus program.

On March 15, 2013, 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, 2014 (the "2014 stock bonus program"). Executive officers are permitted to participate in the 2014 stock bonus program, but only to the extent that shares remain available for awards following the enrollment of all other participants. Shares awarded to executive officers with respect to the 15% discount will be subject to a one year vesting period.

Total accrued liabilities for stock bonus programs were \$3.5 million and \$3.1 million as of October 31, 2013 and January 31, 2013, respectively.

15. RELATED PARTY TRANSACTIONS

Transactions with CTI

As discussed in Note 4, "Merger with CTI", on February 4, 2013 we completed the CTI Merger, which eliminated CTI's majority ownership and control of us. As of January 31, 2013, prior to the CTI Merger, CTI beneficially owned approximately 53.5%, and also held a majority of the voting power, of our common stock on an as-converted basis.

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.

Other Related Party Transactions

Our joint venture incurs certain operating expenses, including office rent and other administrative costs, and realizes revenue, under arrangements with one of its noncontrolling shareholders. Transactions with this shareholder during the three and nine months ended October 31, 2013 were not significant.

16. COMMITMENTS AND CONTINGENCIES

Warranty Liability

The following table summarizes the activity in our warranty liability, which is included in accrued expenses and other liabilities in the condensed consolidated balance sheets, for the nine months ended October 31, 2013 and 2012:

(in thousands)	Nine Months Ended October 31,	
	2013	2012
Warranty liability, beginning of period	\$ 1,045	\$ 2,015
Provisions credited to expenses	(253)	(701)
Warranty charges	—	(188)
Foreign currency translation and other	(2)	(8)
Warranty liability, end of period	\$ 790	\$ 1,118

Legal Proceedings

On March 26, 2009, legal actions were commenced by Ms. Orit Deutsch, a former employee of our subsidiary, Verint Systems Limited ("VSL"), against VSL in the Tel Aviv Regional Labor Court (Case Number 4186/09) (the "Deutsch Labor Action") and against CTI in the Tel Aviv Regional District Court (Case Number 1335/09) (the "Deutsch District Action"). In the Deutsch Labor Action, Ms. Deutsch filed a motion to approve a class action lawsuit on the grounds that she purports to represent a class of our employees and former employees who were granted Verint and CTI stock options and were allegedly damaged as a result of the suspension on option exercises during our previous extended filing delay period. In the Deutsch District Action, in addition to a small amount of individual damages, Ms. Deutsch is seeking to certify a class of plaintiffs who were allegedly damaged due to their inability to exercise Verint and CTI stock options as a result of alleged negligence by CTI in its financial reporting. The class certification motions do not specify an amount of damages. On February 8, 2010, the Deutsch Labor Action was dismissed for lack of material jurisdiction and was transferred to the Tel Aviv Regional District Court and consolidated with the Deutsch District Action. On March 16, 2009 and March 26, 2009, respectively, legal actions were commenced by Ms. Roni Katriel, a former employee of CTI's former subsidiary, Comverse Limited, against Comverse Limited in the Tel Aviv Regional Labor Court (Case Number 3444/09) (the "Katriel Labor Action") and against CTI in the Tel Aviv Regional District Court (Case Number 1334/09) (the "Katriel District Action"). In the Katriel Labor Action, Ms. Katriel is seeking to certify a class of plaintiffs who were granted CTI stock options and were allegedly damaged as a result of the suspension on option exercises during CTI's previous extended filing delay period. In the Katriel District Action, in addition to a small amount of individual damages, Ms. Katriel is seeking to certify a class of plaintiffs who were allegedly damaged due to their inability to exercise CTI stock options as a result of alleged negligence by CTI in its financial reporting. The class certification motions do not specify an amount of damages. On March 2, 2010, the Labor Court ordered the transfer of the case to the District Court in Tel Aviv - Jaffa, based on an agreed motion filed by the parties requesting such transfer.

On April 4, 2012, Ms. Deutsch and Ms. Katriel filed an uncontested motion to consolidate and amend their claims and on June 7, 2012, the court allowed Ms. Deutsch and Ms. Katriel to file the consolidated class certification motion and an amended consolidated complaint against VSL, CTI, and Comverse Limited. Following CTI's announcement of its intention to effect the Comverse share distribution, on July 12, 2012, the plaintiffs filed a motion requesting that the District Court order CTI to set aside up to \$150.0 million in assets to secure any future judgment. The District Court ruled that it would not decide this motion until the Deutsch and Katriel class certification motion was heard. On August 16, 2012, in light of the announcement of the signing of the CTI Merger Agreement, the plaintiffs filed a motion for leave to appeal this District Court ruling to the Israeli Supreme Court. We filed our response to this motion on September 6, 2012.

Prior to the consummation of the Comverse share distribution, CTI either sold or transferred substantially all of its business operations and assets (other than its equity ownership interests in us and Comverse) to Comverse or unaffiliated third parties. On October 31, 2012, CTI completed the Comverse share distribution, in which it distributed all of the outstanding shares of common stock of Comverse to CTI's shareholders. As a result of the Comverse share distribution, Comverse became an

independent public company and ceased to be a wholly owned subsidiary of CTI, and CTI ceased to have any material assets other than its equity interest in us.

We and the other defendants filed our responses to the complaint on November 11, 2012 and plaintiffs filed their replies on December 20, 2012. A pre-trial hearing for the case was held on December 25, 2012, during which all parties agreed to attempt to settle the dispute through mediation.

On February 4, 2013, we completed the CTI Merger. As a result of the CTI Merger, we have assumed certain rights and liabilities of CTI, including any liability of CTI arising out of the Deutsch District Action and the Katriel District Action. However, under the terms of the Distribution Agreement between CTI and Comverse relating to the Comverse share distribution, we, as successor to CTI, are entitled to indemnification from Comverse for any losses we suffer in our capacity as successor-in-interest to CTI in connection with the Deutsch District Action and the Katriel District Action.

On February 28, 2013, the mediation process began and, as of the date of this report, remains ongoing.

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.

17. 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, Video Intelligence and Communications Intelligence.

Our Enterprise Intelligence solutions help large organizations and small-to-medium sized business organizations to extract and analyze valuable information from customer interactions and related operational and transactional data for the purpose of optimizing the performance of their customer service operations, including contact centers, back offices, branches, and remote locations.

Our Video Intelligence solutions help organizations enhance safety and security by enabling them to deploy an end-to-end IP video solution with integrated analytics or evolve to IP video operations without discarding their investments in analog Closed Circuit Television technology.

Our Communications Intelligence solutions are designed to generate evidence and intelligence and are used to detect and neutralize criminal and terrorist threats.

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 nine months ended October 31, 2013 and 2012 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, whereas 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 nine months ended October 31, 2013 and 2012. The allocations of goodwill and acquired intangible assets by operating segment appear in Note 6, "Intangible Assets and Goodwill".

Operating results by segment for the three and nine months ended October 31, 2013 and 2012 were as follows:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2013	2012	2013	2012
Revenue:				
Enterprise Intelligence				
Segment revenue	\$ 126,220	\$ 122,245	\$ 365,385	\$ 351,659
Revenue adjustments	(323)	(443)	(692)	(3,655)
	<u>125,897</u>	<u>121,802</u>	<u>364,693</u>	<u>348,004</u>
Video Intelligence				
Segment revenue	27,287	25,587	88,388	93,916
Revenue adjustments	—	(348)	(167)	(1,840)
	<u>27,287</u>	<u>25,239</u>	<u>88,221</u>	<u>92,076</u>
Communications Intelligence				
Segment revenue	71,249	54,817	199,163	172,381
Revenue adjustments	(119)	(338)	(530)	(1,880)
	<u>71,130</u>	<u>54,479</u>	<u>198,633</u>	<u>170,501</u>
Total revenue	\$ 224,314	\$ 201,520	\$ 651,547	\$ 610,581
Segment contribution:				
Enterprise Intelligence	\$ 56,772	\$ 52,139	\$ 155,169	\$ 147,102
Video Intelligence	5,546	3,992	20,482	23,027
Communications Intelligence	24,457	18,693	62,223	49,826
Total segment contribution	86,775	74,824	237,874	219,955
Unallocated expenses, net:				
Amortization of acquired intangible assets	8,085	9,805	26,113	29,466
Stock-based compensation	9,729	6,685	25,154	18,318
Other unallocated expenses	31,130	41,563	103,800	108,154
Total unallocated expenses, net	<u>48,944</u>	<u>58,053</u>	<u>155,067</u>	<u>155,938</u>
Operating income	37,831	16,771	82,807	64,017
Other expense, net	(7,820)	(7,913)	(36,316)	(23,093)
Income before provision for income taxes	\$ 30,011	\$ 8,858	\$ 46,491	\$ 40,924

18. SUBSEQUENT EVENT

On November 6, 2013, we acquired certain technology and other assets for use in our Communications Intelligence operating segment in a transaction that qualified as a business combination. This business combination was not material to our condensed consolidated financial statements.

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, 2013 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 80 percent of the Fortune 100—use Verint solutions. Our portfolio of Enterprise Intelligence Solutions and Security Intelligence Solutions helps organizations Make Big Data Actionable™ through the ability to capture, analyze, and act on large volumes of rich, complex, and often underused information sources—such as voice, video, and unstructured text. In the enterprise intelligence market, our customer-centric workforce optimization and voice of the customer solutions help organizations improve 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 an agreement and plan of merger with CTI (the "CTI Merger Agreement") providing for the CTI Merger, upon the terms and subject to the conditions set forth in the CTI Merger Agreement. Following the satisfaction of the various conditions precedent to closing the CTI Merger, including the requisite approval of the CTI Merger Agreement and the transactions contemplated by that agreement by our stockholders and the shareholders of CTI, the CTI Merger was completed on February 4, 2013. The CTI Merger eliminated CTI's majority ownership and control of us. Further details regarding the CTI Merger appear in Note 4, "Merger with CTI" to our condensed consolidated financial statements included in Part I, Item 1 of this report.

On March 6, 2013, we entered into an amendment and restatement agreement with the lenders under our then existing credit agreement (the "2011 Credit Agreement") providing for the amendment and restatement of the 2011 Credit Agreement (as amended and restated, the "2013 Amended Credit Agreement"). The 2013 Amended Credit Agreement provides for \$850.0 million of senior secured credit facilities, comprised of a \$650.0 million term loan maturing in September 2019 and a \$200.0 million revolving credit facility maturing in March 2018, subject to increase (up to a maximum increase of \$300.0 million) and reduction from time to time according to the terms of the 2013 Amended Credit Agreement.

The majority of the proceeds of the term loan under the 2013 Amended Credit Agreement were used to repay all \$576.0 million of outstanding term loan borrowings under the 2011 Credit Agreement at the closing date of the 2013 Amended Credit Agreement. There were no outstanding borrowings under the 2011 Credit Agreement's revolving credit facility at the closing date. Further details regarding the 2013 Amended Credit Agreement appear in Note 7, "Long-term Debt" to our condensed consolidated financial statements included in Part I, Item 1 of this report.

We completed two business combinations during the three months ended October 31, 2013. We also completed a business combination in November 2013, and in October 2013, we signed a definitive agreement for a business combination that is expected to close before January 31, 2014. None of the completed business combinations were individually material to our condensed consolidated financial statements. The impending business combination, if completed, will also not be material to our condensed consolidated financial statements.

Further details regarding these business combinations appear in Note 5, "Business Combinations" and in Note 18, "Subsequent Event" to our condensed consolidated financial statements included in Part I, Item 1 of this report.

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, 2013 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, 2013, 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;
- Accounting for cost of revenue; and
- Allowance for doubtful accounts.

We did not identify any significant changes to our critical accounting policies and estimates during the nine months ended October 31, 2013.

Results of Operations

Seasonality and Cyclical

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 reflect 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 nine months ended October 31, 2013 and 2012:

(in thousands, except per share data)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2013	2012	2013	2012
Revenue	\$ 224,314	\$ 201,520	\$ 651,547	\$ 610,581
Operating income	\$ 37,831	\$ 16,771	\$ 82,807	\$ 64,017
Net income attributable to Verint Systems Inc. common shares	\$ 22,487	\$ 1,562	\$ 30,696	\$ 16,592
Net income per common share attributable to Verint Systems Inc.:				
Basic	\$ 0.42	\$ 0.04	\$ 0.58	\$ 0.42
Diluted	\$ 0.42	\$ 0.04	\$ 0.57	\$ 0.41

Three Months Ended October 31, 2013 compared to Three Months Ended October 31, 2012. Our revenue increased approximately \$22.8 million, or 11%, from \$201.5 million in the three months ended October 31, 2012 to \$224.3 million in the three months ended October 31, 2013. In our Communications Intelligence segment, revenue increased approximately \$16.7 million, or 31%, from \$54.5 million in the three months ended October 31, 2012 to \$71.2 million in the three months ended October 31, 2013. The increase consisted of a \$14.4 million increase in product revenue and a \$2.3 million increase in service and support revenue. In our Enterprise Intelligence segment, revenue increased approximately \$4.1 million, or 3%, from \$121.8 million in the three months ended October 31, 2012 to \$125.9 million in the three months ended October 31, 2013. The increase consisted of a \$5.3 million increase in service and support revenue, partially offset by a \$1.2 million decrease in product revenue. In our Video Intelligence segment, revenue increased approximately \$2.1 million, from \$25.2 million in the three months ended October 31, 2012 to \$27.3 million in the three months ended October 31, 2013. For additional details on our revenue by segment, see "—Revenue by Operating Segment". Revenue in the Americas, in Europe, the Middle East and Africa ("EMEA"), and in the Asia-Pacific region ("APAC") represented approximately 53%, 22%, and 25% of our total revenue, respectively, in the three months ended October 31, 2013, compared to approximately 52%, 26%, and 22%, respectively, in the three months ended October 31, 2012. Further details regarding changes in revenue are provided below.

Operating income was \$37.8 million in the three months ended October 31, 2013 compared to \$16.8 million in the three months ended October 31, 2012. This increase in operating income was primarily due to a \$16.0 million increase in gross profit from \$136.2 million to \$152.2 million, and a \$5.2 million decrease in operating expenses, from \$119.5 million to \$114.3 million. The increase in gross profit was primarily due to increased gross profit in our Enterprise Intelligence segment. The decrease in operating expenses consisted of a \$8.1 million decrease in selling, general and administrative expenses, partially offset by a \$3.0 million increase in net research and development expenses. Further details regarding changes in operating income are provided below.

Net income attributable to Verint Systems Inc. common shares was \$22.5 million, and diluted net income per common share was \$0.42, in the three months ended October 31, 2013 compared to net income attributable to Verint Systems Inc. common shares of \$1.6 million, and diluted net income per common share of \$0.04, in the three months ended October 31, 2012. The increase in net income attributable to Verint Systems Inc. common shares and diluted net income per common share in the three months ended October 31, 2013 was primarily due to our increased operating income, as described above, a \$3.8 million increase in our provision for income taxes, and a \$3.9 million decrease in dividends on preferred stock resulting from the cancellation of our Preferred Stock.

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 as noted above. When comparing average exchange rates for the three months ended October 31, 2013 to average exchange rates for the three months ended October 31, 2012, the U.S. dollar strengthened relative to the euro, Israeli shekel, and Singapore dollar, resulting in decreases in our revenue, cost of revenue and operating expenses on a U.S. dollar-denominated basis. For the three months ended October 31, 2013, had foreign exchange rates remained unchanged from rates in effect for the three months ended October 31, 2012, our revenue would have been approximately \$0.4 million higher and our cost of revenue and operating expenses would have been approximately \$0.4 million lower, which would have resulted in a \$0.8 million increase impact to operating income.

We employed approximately 3,400 people, including part-time employees and certain contractors, as of October 31, 2013, as compared to approximately 3,200 as of October 31, 2012.

Nine Months Ended October 31, 2013 compared to Nine Months Ended October 31, 2012. Our revenue increased approximately \$40.9 million, or 7%, to \$651.5 million in the nine months ended October 31, 2013 from \$610.6 million in the nine months ended October 31, 2012. In our Enterprise Intelligence segment, revenue increased approximately \$16.7 million, or 5%, to \$364.7 million in the nine months ended October 31, 2013 from \$348.0 million in the nine months ended October 31, 2012. The increase consisted of a \$17.6 million increase in service and support revenue, partially offset by a \$0.9 million decrease in product revenue. In our Communications Intelligence segment, revenue increased approximately \$28.1 million, or 16%, from \$170.5 million in the nine months ended October 31, 2012 to \$198.6 million in the nine months ended October 31, 2013. The increase consisted of a \$17.1 million increase in service and support revenue and a \$11.0 million increase in product revenue. In our Video Intelligence segment, revenue decreased approximately \$3.9 million, from \$92.1 million in the nine months ended October 31, 2012 to \$88.2 million in the nine months ended October 31, 2013. For additional details on our revenue by segment, see "—Revenue by Operating Segment". Revenue in the Americas, EMEA, and in the APAC regions represented approximately 54%, 21%, and 25% of our total revenue, respectively, in the nine months ended October 31, 2013, compared to approximately 54%, 25%, and 21%, respectively, in the nine months ended October 31, 2012. Further details regarding changes in revenue are provided below.

Operating income was \$82.8 million in the nine months ended October 31, 2013 compared to \$64.0 million in the nine months ended October 31, 2012. The increase in operating income was primarily due to a \$32.5 million increase in gross profit from \$401.0 million to \$433.5 million, partially offset by a \$13.7 million increase in operating expenses, from \$337.0 million to \$350.7 million. The increase in gross profit was primarily due to increased gross profit in our Enterprise Intelligence segment. The increase in operating expenses consisted of an \$8.2 million increase in selling, general and administrative expense and a \$5.6 million increase in net research and development expenses, partially offset by a \$0.1 million decrease in amortization of other acquired intangible assets. Further details regarding changes in operating income are provided below.

Net income attributable to Verint Systems Inc. common shares was \$30.7 million, and diluted net income per common share was \$0.57, in the nine months ended October 31, 2013 compared to net income attributable to Verint Systems Inc. common shares of \$16.6 million, and diluted net income per common share of \$0.41, in the nine months ended October 31, 2012. The increase in net income attributable to Verint Systems Inc. common shares and diluted net income per common share in the nine months ended October 31, 2013 was primarily due to our increased operating income, as described above, and a \$13.2 million increase in total other expense, net, primarily due to extinguishment of the term loan under the 2011 Credit Agreement during the nine months ended October 31, 2013, which resulted in a \$9.7 million loss during the nine months ended October 31, 2013, a \$3.8 million increase in foreign currency exchange losses, and a \$1.1 million write-off of an indemnification asset associated

with tax liabilities recorded in connection with the CTI Merger in the nine months ended October 31, 2013, partially offset by a \$1.3 million decrease in interest expense. The decrease in diluted net income per common share was also impacted by the cancellation of our Preferred Stock, and the corresponding elimination of the associated dividends, as well as approximately 12.3 million of incremental shares of our common stock outstanding, all in connection with the CTI Merger. Further discussion regarding the CTI Merger appears in Note 4, "Merger with CTI" to our condensed consolidated financial statements included under Part I, Item 1.

When comparing average exchange rates for the nine months ended October 31, 2013 to average exchange rates for the nine months ended October 31, 2012, the U.S. dollar strengthened relative to the British pound sterling, Australian dollar, Brazilian real, and Japanese yen, resulting in decreases in our revenue, cost of revenue and operating expenses on a U.S. dollar-denominated basis. For the nine months ended October 31, 2013, had foreign exchange rates remained unchanged from rates in effect for the nine months ended October 31, 2012, our revenue would have been approximately \$1.0 million higher and our cost of revenue and operating expenses would have been approximately \$1.1 million higher, which would have resulted in a \$0.1 million decrease to operating income.

Revenue by Operating Segment

The following table sets forth revenue for each of our three operating segments for the three and nine months ended October 31, 2013 and 2012:

(in thousands)	Three Months Ended October 31,		% Change 2013 - 2012	Nine Months Ended October 31,		% Change 2013 - 2012
	2013	2012		2013	2012	
Enterprise Intelligence	\$ 125,897	\$ 121,802	3%	\$ 364,693	\$ 348,004	5%
Communications Intelligence	71,130	54,479	31%	198,633	170,501	16%
Video Intelligence	27,287	25,239	8%	88,221	92,076	(4)%
Total revenue	\$ 224,314	\$ 201,520	11%	\$ 651,547	\$ 610,581	7%

Enterprise Intelligence Segment

Three Months Ended October 31, 2013 compared to Three Months Ended October 31, 2012. Enterprise Intelligence revenue increased approximately \$4.1 million, or 3%, from \$121.8 million in the three months ended October 31, 2012 to \$125.9 million in the three months ended October 31, 2013. The increase consisted of a \$5.3 million increase in service and support revenue, partially offset by a \$1.2 million decrease in product revenue. The increase in service and support revenue was primarily due to an increase in our customer install base and the related support revenue generated from this customer base during the three months ended October 31, 2013. The decrease in product revenue was primarily due to a decrease in product sales to new and existing customers during the three months ended October 31, 2013. The continued growth of service revenue is attributable to various factors, including a higher component of service offerings in our standard arrangements and our growing install base. The aggregate value of executed license arrangements, which comprises the majority of our product revenue, can fluctuate from quarter to quarter.

Nine Months Ended October 31, 2013 compared to Nine Months Ended October 31, 2012. Enterprise Intelligence revenue increased approximately \$16.7 million, or 5%, from \$348.0 million in the nine months ended October 31, 2012 to \$364.7 million in the nine months ended October 31, 2013. The increase consisted of a \$17.6 million increase in service and support revenue, partially offset by a \$0.9 million decrease in product revenue. The increase in service and support revenue was primarily due to an increase in our customer install base and the related support revenue generated from this customer base during the nine months ended October 31, 2013. The decrease in product revenue was primarily due to an decrease in product sales to new and existing customers during the nine months ended October 31, 2013. The continued growth of service revenue is attributable to various factors, including an increase in services associated with customer product upgrades, a higher component of service offerings in our standard arrangements, and our growing install base. The aggregate value of executed license arrangements, which comprises the majority of our product revenue, can fluctuate from quarter to quarter.

Communications Intelligence Segment

Three Months Ended October 31, 2013 compared to Three Months Ended October 31, 2012. Communications Intelligence revenue increased approximately \$16.7 million, or 31%, from \$54.5 million in the three months ended October 31, 2012 to \$71.2 million in the three months ended October 31, 2013. The increase consisted of a \$14.4 million increase in product revenue and a \$2.3 million increase in service and support revenue. The increase in product revenue was mainly due to a

increase in product deliveries to customers, and an increase in product revenue attributable to progress on projects being accounted for under the percentage-of-completion ("POC") method. The increase in service and support revenue was primarily attributable to an increase in the customer install base, and new communications intelligence "software as a service" ("SaaS") offerings.

Nine Months Ended October 31, 2013 compared to Nine Months Ended October 31, 2012. Communications Intelligence revenue increased approximately \$28.1 million, or 16%, from \$170.5 million in the nine months ended October 31, 2012 to \$198.6 million in the nine months ended October 31, 2013. The increase consisted of a \$17.1 million increase in service and support revenue and a \$11.0 million increase in product revenue. The increase in service and support revenue was primarily attributable to an increase in the customer install base, the progress realized during the current year on projects recognized using the POC method, some of which commenced in the previous fiscal year, and new communications intelligence SaaS offerings. The increase in product revenue was mainly due to an increase in progress realized during the current year on projects recognized using the POC method, some of which commenced in the previous fiscal year, partially offset by a decrease in product deliveries to customers.

Video Intelligence Segment

Three Months Ended October 31, 2013 compared to Three Months Ended October 31, 2012. Video Intelligence revenue increased approximately \$2.1 million, or 8%, from \$25.2 million in the three months ended October 31, 2012 to \$27.3 million in the three months ended October 31, 2013. The increase was primarily attributable to the recognition of a multi-year project completed during the three months ended October 31, 2013, with no comparable transaction in the three months ended October 31, 2012.

Nine Months Ended October 31, 2013 compared to Nine Months Ended October 31, 2012. Video Intelligence revenue decreased approximately \$3.9 million, or 4%, from \$92.1 million in the nine months ended October 31, 2012 to \$88.2 million in the nine months ended October 31, 2013. The decrease was primarily attributable to a decrease in product revenue, following the substantial recognition of a multi-year project completed during the nine months ended October 31, 2012, with no comparable transaction in the nine months ended October 31, 2013.

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 licensing of software products and sale of hardware products (which include software that works together with the hardware to deliver the product's essential functionality), and (b) service and support revenue, including revenue from installation services, post-contract customer support, project management, hosting services, SaaS, product warranties, and training services. For multiple-element arrangements for which we are unable to establish vendor specific objective evidence ("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 nine months ended October 31, 2013 and 2012:

(in thousands)	Three Months Ended October 31,		% Change 2013 - 2012	Nine Months Ended October 31,		% Change 2013 - 2012
	2013	2012		2013	2012	
Product revenue	\$ 101,974	\$ 87,404	17%	\$ 287,189	\$ 281,393	2%
Service and support revenue	122,340	114,116	7%	364,358	329,188	11%
Total revenue	\$ 224,314	\$ 201,520	11%	\$ 651,547	\$ 610,581	7%

Product Revenue

Three Months Ended October 31, 2013 compared to Three Months Ended October 31, 2012. Product revenue increased approximately \$14.6 million, or 17%, from \$87.4 million for the three months ended October 31, 2012 to \$102.0 million for the three months ended October 31, 2013, resulting from a \$14.4 million increase in our Communications Intelligence segment and a \$1.4 million increase in our Video Intelligence segment, partially offset by a \$1.2 million decrease in our Enterprise Intelligence segment. For additional information see "— Revenue by Operating Segment".

Nine Months Ended October 31, 2013 compared to Nine Months Ended October 31, 2012. Product revenue increased approximately \$5.8 million, or 2%, from \$281.4 million for the nine months ended October 31, 2012 to \$287.2 million for the nine months ended October 31, 2013, resulting from an \$11.0 million increase in our Communications Intelligence segment, partially offset by a \$4.3 million decrease in our Video Intelligence segment and a \$0.9 million decrease in our Enterprise Intelligence segment. For additional information see "— Revenue by Operating Segment".

Service and Support Revenue

Three Months Ended October 31, 2013 compared to Three Months Ended October 31, 2012. Service and support revenue increased approximately \$8.2 million, or 7%, from \$114.1 million for the three months ended October 31, 2012 to \$122.3 million for the three months ended October 31, 2013. This increase was primarily attributable to increases of \$5.3 million and \$2.3 million in our Enterprise Intelligence and Communications Intelligence segments, respectively. For additional information see "— Revenue by Operating Segment".

Nine Months Ended October 31, 2013 compared to Nine Months Ended October 31, 2012. Service and support revenue increased approximately \$35.2 million, or 11%, from \$329.2 million for the nine months ended October 31, 2012 to \$364.4 million for the nine months ended October 31, 2013. This increase was primarily attributable to increases of \$17.6 million and \$17.1 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 nine months ended October 31, 2013 and 2012:

(in thousands)	Three Months Ended October 31,			Nine Months Ended October 31,		
	2013	2012	% Change 2013 - 2012	2013	2012	% Change 2013 - 2012
Cost of product revenue	\$ 33,322	\$ 25,420	31%	\$ 94,584	\$ 92,694	2%
Cost of service and support revenue	36,900	36,166	2%	115,568	105,772	9%
Amortization of acquired technology and backlog	1,935	3,696	(48)%	7,920	11,124	(29)%
Total cost of revenue	\$ 72,157	\$ 65,282	11%	\$ 218,072	\$ 209,590	4%

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.

Our product gross margins are impacted by the mix of products that we sell from period to period. As with many other technology companies, our software products tend to have higher gross margins than our hardware products.

Three Months Ended October 31, 2013 compared to Three Months Ended October 31, 2012. Cost of product revenue increased approximately 31% from \$25.4 million in the three months ended October 31, 2012 to \$33.3 million in the three months ended October 31, 2013. Our overall product gross margins decreased to 67% in the three months ended October 31, 2013 from 71% in the three months ended October 31, 2012. Product gross margins in our Enterprise Intelligence segment were 91% in each of

the three months ended October 31, 2013 and 2012. Product gross margins in our Communications Intelligence segment decreased from 62% in the three months ended October 31, 2012 to 58% for the three months ended October 31, 2013 as a result of a change in product mix. Product gross margins in our Video Intelligence segment increased from 53% in the three months ended October 31, 2012 to 56% in the three months ended October 31, 2013 as a result of a change in product mix.

Nine Months Ended October 31, 2013 compared to Nine Months Ended October 31, 2012. Cost of product revenue increased approximately 2% from \$92.7 million in the nine months ended October 31, 2012 to \$94.6 million in the nine months ended October 31, 2013. Our overall product gross margins were 67% in each of the nine months ended October 31, 2013 and 2012. Product gross margins in our Enterprise Intelligence segment increased from 89% in the nine months ended October 31, 2012 to 92% in the nine months ended October 31, 2013 primarily as a result of higher royalty expense in connection with a large transaction during the nine months ended October 31, 2012, which adversely impacted product margins during that period, as well as a continued decrease in hardware sales as part of our product offering. Product gross margins in our Communications Intelligence segment decreased to 55% for the nine months ended October 31, 2013 from 57% in the nine months ended October 31, 2012 as a result of a change in product mix. Product gross margins in our Video Intelligence segment were 58% in each of the nine months ended October 31, 2013 and 2012.

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 POC method.

Three Months Ended October 31, 2013 compared to Three Months Ended October 31, 2012. Cost of service and support revenue increased approximately 2% from \$36.2 million in the three months ended October 31, 2012 to \$36.9 million in the three months ended October 31, 2013. Employee compensation and related expenses increased \$0.9 million, primarily driven by increased services and support employee headcount required to deliver the increased implementation services in our Enterprise Intelligence segment. Our overall service and support gross margins increased to 70% in the three months ended October 31, 2013 compared to 68% in the three months ended October 31, 2012.

Nine Months Ended October 31, 2013 compared to Nine Months Ended October 31, 2012. Cost of service and support revenue increased approximately 9% from \$105.8 million in the nine months ended October 31, 2012 to \$115.6 million in the nine months ended October 31, 2013. Employee compensation and related expenses increased \$6.5 million, primarily driven by a \$2.9 million and \$3.1 million increase in our Communication Intelligence and Enterprise Intelligence segments, respectively, reflecting an increase in services and support employee headcount required to deliver the increased implementation services. Contractor costs increased \$2.3 million primarily due to increased use of contractors in our Enterprise Intelligence segment to deliver services during the nine months ended October 31, 2013 compared to the nine months ended October 31, 2012. Our overall service and support gross margins were 68% in each of the nine months ended October 31, 2013 and 2012.

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 October 31, 2013 compared to Three Months Ended October 31, 2012. Amortization of acquired technology and backlog decreased approximately 48% from \$3.7 million in the three months ended October 31, 2012 to \$1.9 million in the three months ended October 31, 2013 primarily due to a reduction in amortization of acquired technology from a historical business combination, which became fully amortized during the three months ended July 31, 2013, as well as the impact of the weakening of the foreign currencies in which some of our intangible assets are denominated.

Nine Months Ended October 31, 2013 compared to Nine Months Ended October 31, 2012. Amortization of acquired technology and backlog decreased approximately 29% from \$11.1 million in the nine months ended October 31, 2012 to \$7.9 million in the nine months ended October 31, 2013 primarily due to a reduction in amortization of acquired technology from a historical business combination, which became fully amortized during the nine months ended October 31, 2012, partially offset by the impact of the strengthening of the foreign currencies in which some of our intangible assets are denominated during the nine months ended October 31, 2013 relative to the nine months ended October 31, 2012.

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 nine months ended October 31, 2013 and 2012:

(in thousands)	Three Months Ended October 31,		% Change 2013 - 2012	Nine Months Ended October 31,		% Change 2013 - 2012
	2013	2012		2013	2012	
Research and development, net	\$ 30,704	\$ 27,732	11%	\$ 91,935	\$ 86,330	6%

Three Months Ended October 31, 2013 compared to Three Months Ended October 31, 2012. Research and development, net increased approximately \$3.0 million, or 11%, from \$27.7 million in the three months ended October 31, 2012 to \$30.7 million in the three months ended October 31, 2013. The increase was primarily attributable to a \$3.2 million increase in employee compensation and related expenses due to increased headcount in our Enterprise Intelligence and Communications Intelligence segments, partially offset by a \$0.7 million increase in research and development reimbursements from government programs that were received during the three months ended October 31, 2013 primarily in our Enterprise Intelligence and Communications Intelligence segments.

Nine Months Ended October 31, 2013 compared to Nine Months Ended October 31, 2012. Research and development, net increased approximately \$5.6 million, or 6%, from \$86.3 million in the nine months ended October 31, 2012 to \$91.9 million in the nine months ended October 31, 2013. The increase was primarily attributable to a \$3.3 million increase in employee compensation and related expenses due to increased headcount in our Enterprise Intelligence and Communications Intelligence segments, a \$1.1 million increase in contractor expenses due to increased use of contractors in our Communications Intelligence segment, and a \$0.5 million increase in stock-based compensation resulting from an increase in average amounts of outstanding restricted stock units, and continued increases in our stock price, which impacts the total stock-based compensation to be recognized over the vesting periods, 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 nine months ended October 31, 2013 and 2012:

(in thousands)	Three Months Ended October 31,		% Change 2013 - 2012	Nine Months Ended October 31,		% Change 2013 - 2012
	2013	2012		2013	2012	
Selling, general and administrative	\$ 77,472	\$ 85,626	(10)%	\$ 240,540	\$ 232,302	4%

Three Months Ended October 31, 2013 compared to Three Months Ended October 31, 2012. Selling, general and administrative expenses decreased approximately \$8.1 million, or 10%, from \$85.6 million in the three months ended October 31, 2012 to \$77.5 million in the three months ended October 31, 2013 primarily due to \$9.6 million in professional fees incurred in connection with the CTI Merger during the three months ended October 31, 2012, with none incurred during the three months ended October 31, 2013, and a \$1.0 million decrease in the change in fair value of our obligations under contingent consideration arrangements. These decreases were partially offset by a \$3.0 million increase in stock-based compensation resulting from an increase in average amounts of outstanding restricted stock units, and continued increases in our stock price, which impacts the total stock-based compensation to be recognized over the vesting periods.

Nine Months Ended October 31, 2013 compared to Nine Months Ended October 31, 2012. Selling, general and administrative expenses increased approximately \$8.2 million, or 4%, from \$232.3 million in the nine months ended October 31, 2012 to \$240.5 million in the nine months ended October 31, 2013 primarily due to a \$6.8 million increase in the change in fair value of our obligations under contingent consideration arrangements, a \$6.6 million increase in stock-based compensation resulting from an increase in average amounts of outstanding restricted stock units, and continued increases in our stock price, which

impacts the total stock-based compensation to be recognized over the vesting periods, a \$3.2 million increase in employee compensation and related expenses, \$2.4 million of which was attributable to an increase in headcount in corporate support employees. The remaining increase in employee compensation expense was primarily due to increases in headcount in our Enterprise Intelligence and Communication Intelligence segments. Also included in selling, general, and administrative expenses for the nine months ended October 31, 2013 were \$3.5 million of special performance incentives associated with a prior period business combination. These increases were partially offset by a \$12.3 million decrease in professional fees incurred in connection with the CTI Merger.

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 nine months ended October 31, 2013 and 2012:

(in thousands)	Three Months Ended October 31,		% Change	Nine Months Ended October 31,		% Change
	2013	2012	2013 - 2012	2013	2012	2013 - 2012
Amortization of other acquired intangible assets	\$ 6,150	\$ 6,109	1%	\$ 18,193	\$ 18,342	(1)%

Three Months Ended October 31, 2013 compared to Three Months Ended October 31, 2012. Amortization of other acquired intangible assets did not materially change in the three months ended October 31, 2013 compared to the three months ended October 31, 2012.

Nine Months Ended October 31, 2013 compared to Nine Months Ended October 31, 2012. Amortization of other acquired intangible assets decreased by \$0.1 million from \$18.3 million in the nine months ended October 31, 2012 to \$18.2 million in the nine months ended October 31, 2013 due to the impact of the weakening of the foreign currencies in which some of our intangible assets are denominated.

Other Expense, Net

The following table sets forth total other expense, net for the three and nine months ended October 31, 2013 and 2012:

(in thousands)	Three Months Ended October 31,		% Change	Nine Months Ended October 31,		% Change
	2013	2012	2013 - 2012	2013	2012	2013 - 2012
Interest income	\$ 242	\$ 125	94%	\$ 563	\$ 379	49%
Interest expense	(7,416)	(7,698)	(4)%	(21,987)	(23,283)	(6)%
Loss on extinguishment of debt	—	—	*	(9,879)	—	*
Other income (expense):						
Foreign currency gains (losses)	702	1,144	(39)%	(2,504)	1,267	*
Losses on derivatives	(721)	(253)	*	(45)	(122)	*
Other, net	(627)	(1,231)	(49)%	(2,464)	(1,334)	85%
Total other income (expense), net	(646)	(340)	*	(5,013)	(189)	*
Total other expense, net	\$ (7,820)	\$ (7,913)	(1)%	\$ (36,316)	\$ (23,093)	57%

* Percentage is not meaningful.

Three Months Ended October 31, 2013 compared to Three Months Ended October 31, 2012. Total other expense, net, decreased by \$0.1 million from \$7.9 million in the three months ended October 31, 2012 to \$7.8 million in the three months ended October 31, 2013.

Interest expense decreased from \$7.7 million in the three months ended October 31, 2012 to \$7.4 million in the three months ended October 31, 2013 primarily due to lower interest rates on borrowings associated with the 2013 Amended Credit Agreement, which was effective in March 2013, compared to interest incurred under the 2011 Credit Agreement. Further

discussion regarding our credit agreements appears in Note 7, “Long-term Debt” to our condensed consolidated financial statements included under Part I, Item 1.

We recorded \$0.7 million of net foreign currency gains in the three months ended October 31, 2013 compared to gains of \$1.1 million in the three months ended October 31, 2012. Foreign currency gains in the three months ended October 31, 2013 resulted primarily from the weakening of the U.S. dollar against the Singapore dollar, which resulted in foreign currency gains on our U.S. dollar-denominated net assets in certain entities which use that functional currency.

In the three months ended October 31, 2013, there were net losses on derivative financial instruments (not designated as hedging instruments) of \$0.7 million, compared to losses of \$0.3 million on such instruments for the three months ended October 31, 2012. The net loss in the current year resulted from weakening of the hedged currencies against the functional currencies, primarily the U.S. dollar against the euro and Singapore dollar, during that period. Movements of hedged currencies against functional currencies were generally not significant during the three months ended October 31, 2013.

Other, net expense decreased from \$1.2 million in the three months ended October 31, 2012 to \$0.6 million in the three months ended October 31, 2013. The decrease was primarily attributable to a \$1.1 million write-off of an indemnification asset in connection with the resolution of an uncertain tax position from a prior business combination in our Communications Intelligence segment in the three months ended October 31, 2012, with no comparable events during the three months ended October 31, 2013.

Nine Months Ended October 31, 2013 compared to Nine Months Ended October 31, 2012. Total other expense, net, increased by \$13.2 million from \$23.1 million in the nine months ended October 31, 2012 to \$36.3 million in the nine months ended October 31, 2013. During the nine months ended October 31, 2013, we recorded a \$9.9 million loss upon extinguishment of debt, which primarily relates to the extinguishment of the term loan under the 2011 Credit Agreement. There were no such losses recognized during the nine months ended October 31, 2012. Further discussion regarding our credit agreements appears in Note 7, “Long-term Debt” to our condensed consolidated financial statements included under Part I, Item 1.

Interest expense decreased to \$22.0 million in the nine months ended October 31, 2013 from \$23.3 million in the nine months ended October 31, 2012 primarily due to lower interest rates on borrowings associated with the 2013 Amended Credit Agreement, which was effective in March 2013, compared to interest incurred under the 2011 Credit Agreement.

We recorded \$2.5 million of net foreign currency losses in the nine months ended October 31, 2013 compared to a \$1.3 million of net gains in the nine months ended October 31, 2012. Foreign currency losses in the nine months ended October 31, 2013 resulted primarily from the strengthening of the U.S. dollar against the Singapore dollar and Japanese yen, which resulted in foreign currency losses on our U.S. dollar-denominated net assets in certain entities which use that functional currency, and the weakening of the U.S. dollar against the Israeli shekel, euro, and British pound sterling, which resulted in foreign currency losses on our U.S. dollar-denominated liabilities in certain entities which use those functional currencies.

Other, net expense was \$2.5 million in the nine months ended October 31, 2013 compared to \$1.3 million in the nine months ended October 31, 2012. The increase was primarily attributable to a \$1.1 million write-off of an indemnification asset associated with tax liabilities recorded in connection with the CTI Merger in the three months ended October 31, 2013. Further discussion regarding the CTI Merger appears in Note 4, “Merger with CTI” to our 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 nine months ended October 31, 2013 and 2012:

(in thousands)	Three Months Ended October 31,		% Change	Nine Months Ended October 31,		% Change
	2013	2012	2013 - 2012	2013	2012	2013 - 2012
Provision for income taxes	\$ 5,957	\$ 2,243	166%	\$ 11,869	\$ 9,414	26%

Three Months Ended October 31, 2013 compared to Three Months Ended October 31, 2012. Our effective tax rate was 19.8% for the three months ended October 31, 2013, compared to 25.3% for the three months ended October 31, 2012. For the three months ended October 31, 2013, the effective tax rate was significantly impacted by the level and mix of earnings and losses by jurisdiction. Pre-tax income in our foreign jurisdictions, where we record tax provisions at rates lower than the U.S. federal

statutory rate, was higher than our domestic losses where we maintain valuation allowances and did not record the related tax benefits. The result was an income tax provision of \$6.0 million on pre-tax income of \$30.0 million, resulting in an effective tax rate of 19.8%.

For the three months ended October 31, 2012, our effective income tax rate was lower than the U.S. federal statutory rate of 35% primarily due to the level and mix of income and losses by taxing jurisdiction and the recognition of previously unrecognized tax benefits, offset by the write-off of certain tax attributes resulting from the merger of certain foreign subsidiaries. The income generated in foreign jurisdictions, taxed at rates lower than the U.S. federal statutory rate, was higher than our domestic losses where we maintain valuation allowances and did not record tax benefits. The result was an income tax provision of \$2.2 million on \$8.9 million of pre-tax income, which represented an effective tax rate of 25.3%.

Nine Months Ended October 31, 2013 compared to Nine Months Ended October 31, 2012. Our effective tax rate was 25.5% for the nine months ended October 31, 2013, compared to 23.0% for the nine months ended October 31, 2012. For the nine months ended October 31, 2013, the effective tax rate was impacted by the level and mix of earnings and losses by jurisdiction. The effective tax rate was also reduced because CTI received a favorable ruling from the Internal Revenue Service which resulted in adjustments to deferred taxes and an indemnified tax liability. Pre-tax income in our foreign jurisdictions, where we record tax provisions at rates lower than the U.S. federal statutory rate, was higher than our domestic losses where we maintain valuation allowances and did not record the related tax benefits. The result was an income tax provision of \$11.9 million on pre-tax income of \$46.5 million, resulting in an effective tax rate of 25.5%.

For the nine months ended October 31, 2012, our effective income tax rate was lower than the U.S. federal statutory rate of 35% primarily due to the level and mix of income and losses by taxing jurisdiction and the recognition of previously unrecognized tax benefits, offset by the write-off of certain tax attributes resulting from the merger of certain foreign subsidiaries. Pre-tax income in our foreign jurisdictions, taxed at rates lower than the U.S. federal statutory rate, was higher than domestic losses where we maintain valuation allowances and did not record tax benefits. The result was an income tax provision of \$9.4 million on \$40.9 million of pre-tax income, which represented an effective tax rate of 23.0%.

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.

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 the 2011 Credit Agreement and terminated the 2007 Credit Agreement. The 2011 Credit Agreement included a term loan facility, with an outstanding balance of \$576.0 million at January 31, 2013, and a \$170.0 million revolving line of credit, which was unused at January 31, 2013. On March 6, 2013, the 2011 Credit Agreement was replaced by the 2013 Amended Credit Agreement. The 2013 Amended Credit Agreement includes a \$650.0 million term loan facility, of which \$646.8 million is outstanding at October 31, 2013, and a \$200.0 million revolving credit facility, which was unused at October 31, 2013. 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 agreements 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 February 4, 2013, we completed the CTI Merger, which eliminated CTI's majority ownership in and control of us. The CTI Merger was accomplished through an exchange of new shares of our common stock for all of the issued and outstanding shares of CTI common stock. Other than the payment of professional fees and other transaction expenses, no cash was used in the CTI Merger. CTI's net assets acquired by us at the date of the merger included \$10.4 million of cash.

We have historically expanded our business in part by investing in strategic growth initiatives, including acquisitions of products, technologies, and businesses. Other than the CTI Merger, we have used cash as consideration for substantially all of our historical business acquisitions, including \$10.5 million of cash (net of cash acquired) expended for business acquisitions during the three months ended October 31, 2013. 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 March 2013 by entering into the 2013 Amended Credit Agreement, which amended and restated the 2011 Credit Agreement, or as we did in February 2013 by completing the CTI Merger.

A considerable portion of our operating income is earned outside the United States. Cash, cash equivalents, short-term investments, and restricted cash and bank time deposits (including any long-term portions) held by our subsidiaries outside the United States were \$252.0 million and \$192.9 million as of October 31, 2013 and January 31, 2013, respectively, and are generally used to fund the subsidiaries' operating requirements and to invest in company growth initiatives, including business acquisitions. 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 our cash and cash equivalents, restricted cash and bank time deposits, short-term investments and long-term debt as of October 31, 2013 and January 31, 2013:

(in thousands)	October 31, 2013	January 31, 2013
Cash and cash equivalents	\$ 237,460	\$ 209,973
Restricted cash and bank time deposits	\$ 8,172	\$ 11,128
Short-term investments	\$ 138,851	\$ 13,593
Long-term debt	\$ 637,356	\$ 570,822

At October 31, 2013, our cash and cash equivalents totaled \$237.5 million, an increase of \$27.5 million from \$210.0 million at January 31, 2013. Our operating activities and financing activities generated \$115.0 million and \$55.4 million, respectively, of cash during the nine months ended October 31, 2013, which was partially offset by \$143.2 million of cash used in investing activities during this period. Further discussion of these items appears below.

Consolidated Cash Flow Activity

The following table summarizes selected items from our condensed consolidated statements of cash flows for the nine months ended October 31, 2013 and 2012:

(in thousands)	Nine Months Ended October 31,	
	2013	2012
Net cash provided by operating activities	\$ 115,019	\$ 65,134
Net cash used in investing activities	(143,157)	(14,048)
Net cash provided by (used in) financing activities	55,402	(10,265)
Effect of exchange rate changes on cash and cash equivalents	223	545
Net increase in cash and cash equivalents	\$ 27,487	\$ 41,366

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 \$115.0 million of net cash during the nine months ended October 31, 2013, compared to \$65.1 million generated during the nine months ended October 31, 2012. The increased operating activity cash flow in the current year's period resulted primarily from higher accounts receivable collections from customers and the impact of net income tax refunds of \$6.5 million, compared to net income tax payments of \$14.8 million in the prior year's period. The net income tax refunds in the current year's period resulted principally from the impact of income tax refunds in Israel associated with prior periods' income tax returns. Operating cash flow activity for the nine months ended October 31, 2013 also included the payment of a \$7.2 million investment banking fee associated with the CTI Merger.

Net Cash Used in Investing Activities

During the nine months ended October 31, 2013, our investing activities used \$143.2 million of net cash, primarily reflecting \$125.5 million of net purchases of short-term investments. We expanded our short-term investing activity during the nine months ended October 31, 2013 to increase returns on funds provided by the period's operating and financing activities. We also made \$13.3 million of payments for property, equipment, and capitalized software development costs during this period. During the nine months ended October 31, 2012, our funds were held entirely in cash and cash equivalents and we therefore did not make any purchases of short-term investments during that period.

During the nine months ended October 31, 2012, our investing activities used \$14.0 million of net cash, including \$14.4 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. Other investing activities provided \$1.1 million of net cash during this period.

As of the date of this report, we have no significant commitments for capital expenditures.

Net Cash Provided by (Used in) Financing Activities

For the nine months ended October 31, 2013, our financing activities provided \$55.4 million of net cash. During this period, we borrowed \$646.7 million under our 2013 Amended Credit Agreement (gross borrowings of \$650.0 million, reduced by a \$3.3 million original issuance discount), repaid \$576.0 million of outstanding borrowings under our 2011 Credit Agreement, and paid \$7.8 million of related debt issuance costs. We also received \$10.4 million of cash in connection with the CTI Merger during this period. Other financing activities during the nine months ended October 31, 2013 included payments of \$16.1 million for the financing portion of payments under contingent consideration arrangements related to prior business combinations, and the receipt of \$6.4 million of proceeds from exercises of stock options.

During the nine months ended October 31, 2012, our financing activities used \$10.3 million of net cash, including \$6.1 million for the financing portion of payments under contingent consideration arrangements related to prior business combinations, and \$5.1 million of repayments of borrowings and other financing obligations. Other financing activities provided \$0.9 million of net cash 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 common stock, which are not permitted under our 2013 Amended 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 the 2007 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 the 2011 Credit Agreement and concurrently terminated the 2007 Credit Agreement. The 2011 Credit Agreement provided 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 2011 Credit Agreement.

The 2011 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.

The majority of the proceeds of the term loan under the 2011 Credit Agreement were used to repay all \$583.2 million of outstanding term loan borrowings under the 2007 Credit Agreement at the closing date of the 2011 Credit Agreement. There were no outstanding borrowings under the 2007 Credit Agreement's revolving credit facility at the closing date.

On March 6, 2013, we entered into an amendment and restatement agreement with the lenders under the 2011 Credit Agreement providing for the 2013 Amended Credit Agreement. The 2013 Amended Credit Agreement provides for \$850.0 million of senior secured credit facilities, comprised of a \$650.0 million term loan maturing in September 2019 and a \$200.0 million revolving credit facility maturing in March 2018, subject to increase (up to a maximum increase of \$300.0 million) and reduction from time to time according to the terms of the 2013 Amended Credit Agreement.

The 2013 Amended Credit Agreement included an original issuance term loan discount of 0.50%, or \$3.3 million, resulting in net term loan proceeds of \$646.7 million.

The majority of the proceeds of the term loan under the 2013 Amended Credit Agreement were used to repay all \$576.0 million of outstanding term loan borrowings under the 2011 Credit Agreement at the closing date of the 2013 Amended Credit Agreement. There were no outstanding borrowings under the 2011 Credit Agreement's revolving credit facility at the closing date.

The terms and conditions of the 2011 Credit Agreement have been superseded by the terms and conditions of the 2013 Amended Credit Agreement, although some terms and conditions have remained consistent. Further details regarding the 2013 Amended Credit Agreement are described below.

The 2013 Amended Credit Agreement

Loans under the 2013 Amended 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 3.00% (or, if our corporate credit ratings are BB- and Ba3 or better, 2.75%). The Adjusted LIBO Rate is the greater of (i) 1.00% per annum and (ii) the product of the LIBO Rate and Statutory Reserves (both as defined in the 2013 Amended Credit Agreement), and

(b) in the case of Base Rate loans, the Base Rate plus 2.00% (or, if our corporate credit ratings are BB- and Ba3 or better, 1.75%). The Base Rate is the greatest of (i) the administrative agent's prime rate, (ii) the Federal Funds Effective Rate (as defined in the 2013 Amended Credit Agreement) plus 0.50% and (iii) the Adjusted LIBO Rate for a one-month interest period plus 1.00%.

The interest rate on our term loan at October 31, 2013 was 4.00%.

Under the 2013 Amended Credit Agreement, we are required to pay a commitment fee equal to 0.50% per annum of the undrawn portion on the revolving credit facility, payable quarterly, and customary administrative agent and letter of credit fees. These fees are unchanged from the 2011 Credit Agreement.

The 2013 Amended Credit Agreement requires us to make term loan principal payments of \$1.6 million per quarter commencing on May 1, 2013 and continuing through August 1, 2019, with the remaining balance due in September 2019. 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 and a 1.0% premium applicable in the event of a Repricing Transaction (as defined in the 2013 Amended Credit Agreement) prior to March 5, 2014. The loans are also subject to mandatory prepayment requirements with respect to certain asset sales, excess cash flows (as defined in the 2013 Amended 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 2013 Amended Credit Agreement.

Our obligations under the 2013 Amended Credit Agreement are guaranteed, in the same manner as under the 2011 Credit Agreement, 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, in the same manner as under the 2011 Credit Agreement, by security interests in substantially all of our and their assets, subject to certain exceptions detailed in the 2013 Amended Credit Agreement and related ancillary documents.

The 2013 Amended Credit Agreement contains certain customary affirmative and negative covenants for credit facilities of this type, which covenants are substantially similar to those in the 2011 Credit Agreement. These covenants include limitations on us and our subsidiaries with respect to indebtedness, liens, nature of business, investments and loans, distributions, acquisitions, dispositions of assets, sale-leaseback transactions and transactions with affiliates. The revolving credit facility also contains a financial covenant that requires us to maintain a ratio of Consolidated Total Debt to Consolidated EBITDA (each as defined in the 2013 Amended Credit Agreement) of no greater than 5.00 to 1 until January 31, 2015 and no greater than 4.50 to 1 thereafter (the "Leverage Ratio Covenant"). The limitations imposed by the covenants are subject to certain exceptions as detailed in the 2013 Amended Credit Agreement. At October 31, 2013, our consolidated leverage ratio was approximately 2.30 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 \$110.0 million the minimum EBITDA required to satisfy the leverage ratio covenant given our outstanding debt as of such date.

The 2013 Amended Credit Agreement provides for certain customary events of default with corresponding grace periods. These events of default include failure to pay principal or interest when due under the 2013 Amended Credit Agreement, failure to comply with covenants, any representation or warranty made by us proving to be inaccurate in any material respect, defaults under certain other indebtedness of us or our subsidiaries, the occurrence of a Change of Control (as defined in the 2013 Amended Credit Agreement) with respect to us and certain insolvency or receivership events affecting us or our significant subsidiaries. Upon the occurrence of an event of default resulting from a violation of the Leverage Ratio Covenant, the lenders under our revolving credit facility may require us to immediately repay outstanding borrowings under the revolving credit facility and may terminate their commitments to provide loans under that facility. A violation of the Leverage Ratio Covenant would not, by itself, result in an event of default under the term loan but may trigger a cross-default under the term loan in the event we are required to repay outstanding borrowings under the revolving credit facility. Upon the occurrence of other events of default, the lenders may require us to immediately repay all outstanding borrowings under the 2013 Amended Credit Agreement and the lenders under our revolving credit facility may terminate their commitments to provide loans under the facility.

Convertible Preferred Stock

Our capitalization included Series A Convertible Perpetual Preferred Stock originally issued in May 2007. All of the Preferred Stock was originally issued to, and as of February 4, 2013 continued to be held by, CTI. Each outstanding share of our Preferred Stock was canceled upon completion of the CTI Merger on February 4, 2013. As of January 31, 2013, prior to its cancellation, the Preferred Stock had a carrying value of \$285.5 million and a liquidation preference and redemption value of \$365.9 million.

Contractual Obligations

Our Annual Report on Form 10-K for the year ended January 31, 2013 includes a table summarizing our contractual obligations of approximately \$835 million as of January 31, 2013, including approximately \$702 million for long-term debt obligations, including projected future interest. This table appears under Item 7, "Management's Discussion and Analysis of Financial

Condition and Results of Operations” in that report. As described above under "Credit Agreements", in March 2013, we entered into the 2013 Amended Credit Agreement, which, among other things, modified our future debt principal and interest obligations. The 2013 Amended Credit Agreement has increased our long-term debt obligations, including projected future interest, from approximately \$702 million at January 31, 2013 to approximately \$802 million at October 31, 2013. This increase results primarily from the impact of the larger term loan under the 2013 Amended Credit Agreement compared to the term loan under the 2011 Credit Agreement, partially offset by the impact of a lower projected interest rate under the 2013 Amended Credit Agreement. Details regarding scheduled principal payments for the term loan under the 2013 Amended Credit Agreement, along with further information regarding our long-term debt obligations, are provided in Note 7, "Long-Term Debt" to our condensed consolidated financial statements included in Part I, Item 1 of this report. Other than the impact of this transaction, we believe that our contractual obligations and commercial commitments did not materially change during the nine months ended October 31, 2013.

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 or asset owners of the acquired businesses based upon achievement of performance targets following the acquisition dates. During the three months ended October 31, 2013, we completed two business combinations, both of which included contingent cash consideration arrangements. Please refer to Note 5, "Business Combinations" to our condensed consolidated financial statements included in Part I, Item 1 of this report for information regarding our business combinations.

During the nine months ended October 31, 2013, we made \$17.1 million of payments under contingent consideration arrangements. As of October 31, 2013, potential future cash payments under contingent consideration arrangements total \$40.1 million, the estimated fair value of which was \$10.9 million, of which \$10.0 million is included within accrued expenses and other current liabilities, and \$0.9 million is included within other liabilities. The performance periods associated with these potential payments extend through January 2015.

Off-Balance Sheet Arrangements

As of October 31, 2013, we did 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.

New Accounting Pronouncements

New Accounting Pronouncements Implemented

In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2012-02, *Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*, which simplifies how entities test indefinite-lived intangible assets for impairment and improves 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. Our adoption of this guidance effective February 1, 2013 did not materially impact our condensed consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which contained amended standards regarding disclosure requirements for items reclassified out of accumulated other comprehensive income ("AOCI"). These amended standards require the disclosure of information about the amounts reclassified out of AOCI by component and, in addition, require disclosure, either on the face of the financial statements or in the notes, of significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. These amended standards do not change the current requirements for reporting net income or other comprehensive income in the condensed consolidated financial statements. These amended standards were effective for us on February 1, 2013, and adoption of this guidance did not materially impact our condensed consolidated financial statements. The disclosures required by the amended standards appear in Note 10, "Stockholders' Equity".

In July 2013, the FASB issued ASU No. 2013-10, *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*, permitting entities to use the Fed Funds Effective Swap Rate as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to the U.S. Treasury rate and the London Interbank Offered Rate (LIBOR). The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments in this ASU were effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. We adopted the amendments in this ASU effective July 17, 2013, and the initial adoption of the amendments in this ASU did not impact our condensed consolidated financial statements.

New Accounting Pronouncements To Be Implemented

In March 2013, the FASB issued ASU No. 2013-05, *Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*. This new standard is intended to resolve diversity in practice regarding the release into net income of a cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. ASU No. 2013-05 is effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. We are currently reviewing this standard, but we do not anticipate that its adoption will have a material impact on our condensed consolidated financial statements, absent any material transactions involving the derecognition of subsidiaries or groups of assets within a foreign entity.

In July 2013, the FASB issued ASU No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU No. 2013-11 requires that entities with an unrecognized tax benefit and a net operating loss carryforward or similar tax loss or tax credit carryforward in the same jurisdiction as the uncertain tax position present the unrecognized tax benefit as a reduction of the deferred tax asset for the loss or tax credit carryforward rather than as a liability, when the uncertain tax position would reduce the loss or tax credit carryforward under the tax law, thereby eliminating diversity in practice regarding this presentation issue. This new guidance is effective prospectively for annual reporting periods beginning on or after December 15, 2013, although retrospective application is permitted. We are currently assessing the impact of this guidance, if any, on our condensed consolidated financial statements.

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, 2013 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 nine months ended October 31, 2013.

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 October 31, 2013, 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 three months ended October 31, 2013, 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

Item 1. Legal Proceedings

See Note 16, “Commitments and Contingencies” of the Notes to Condensed Consolidated Financial Statements under Part I, Item 1 for information regarding our legal proceedings.

Item 1A. Risk Factors

There have been no material changes to the Risk Factors described in Part I “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended January 31, 2013. In addition to the other information set forth in this Quarterly Report, you should carefully consider the risks discussed in our Annual Report on Form 10-K, which could materially affect our business, financial condition, or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing us, however. Additional risks and uncertainties not currently known to us or that we currently deem to be insignificant also may materially and adversely affect our business, financial condition, or operating results in the future.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibit list includes agreements that we entered into or that became effective during the three months ended October 31, 2013:

Number	Description	Filed Herewith / Incorporated by Reference from
10.1*	Settlement Agreement, dated September 30, 2013, between Verint Systems UK Limited and David Parcell	Filed herewith
10.2*	Consulting Agreement, dated as of October 1, 2013, between Verint Systems UK Limited and David Parcell	Filed herewith
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.

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.

December 4, 2013

/s/ Dan Bodner

Dan Bodner

President and Chief Executive Officer

December 4, 2013

/s/ Douglas E. Robinson

Douglas E. Robinson


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

DATED 30 SEPTEMBER 2013

- (1) VERINT SYSTEMS UK LIMITED

- (2) DAVID PARCELL

SETTLEMENT AGREEMENT

 21 Tudor Street, London EC4Y 0DJ
Telephone: +44 (0) 20 7039 5959
Fax: +44 (0) 20 7039 5999

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WITHOUT PREJUDICE

DATED 30 SEPTEMBER 2013

PARTIES

- (1) Verint Systems UK Limited (a company registered in England and Wales with company number 02602824) whose registered office is at 241 Brooklands Road, Weybridge, Surrey, KT13 0RH ("**the Company**") and
- (2) David Parcell of [REDACTED] ("**the Employee**");

INTRODUCTION

- (A) The Employee was employed under the terms of a contract of employment dated 16 April 2001 which was amended by means of a Supplemental Employment Agreement dated 13 June 2008 and further amended by an Amended and Restated Supplemental Employment Agreement dated July 13, 2011. These documents will hereafter collectively be referred to as "**the Contract**".
- (B) The Parties are entering into this Agreement (which is executed by the Employee only as a Deed) to record and implement the terms and conditions on which the Employee's employment will come to an end.

AGREEMENT

1. DEFINITIONS AND INTERPRETATION

- 1.1 In this Agreement the following expressions shall have the following meanings:

"**the Group**" means any company which is a holding company of the Company or a subsidiary undertaking of the Company or of any such holding company (as such expressions are defined in Sections 548, 1159 and 1162 of the Companies Act 2006);

"**NICs**" means employee National Insurance Contributions;

"**Termination**" means the termination of the Employee's employment by the Company on the Termination Date;

"**Termination Date**" means the date specified in clause 2 of this Agreement.

- 1.2 References to clauses or clause numbers shall, unless the contrary is apparent from the context, be to clauses and clause numbers of this Agreement.

2. TERMINATION DATE

- 2.1 The employment of the Employee by the Company will terminate on 30 September 2013 by mutual agreement and he will receive (together with his P45) his salary and other benefits including payment for 9.5 days' accrued holiday entitlement until this date less tax and other statutory deductions.
- 2.2 The Company will reimburse to the Employee all reasonable business expenses incurred before the Termination Date by the Employee in connection with his duties to the Company and/or any Group Company subject to the Employee's compliance with the Company's usual guidelines

relating to the reimbursement of expenses and the production of appropriate receipts or other supporting documents.

3. FULL AND FINAL SETTLEMENT

3.1 The Employee accepts the severance terms and arrangements set out in this Agreement in full and final settlement of all or any costs, claims, expenses, rights of action or any other rights which he has or may have against the Company or any member of the Group or any shareholder, director, employee, agent or officer of the Company or any member of the Group. He waives any entitlement to such costs, claims, expenses, rights of action and other rights against the Company or any member of the Group or such shareholder, director, employee, agent or officer including, without limitation, the following:

- (A) any claim for unfair dismissal under the Employment Rights Act 1996 or any contractual redundancy payment arising out of the Termination;
- (B) any claim for a statutory redundancy payment under the Employment Rights Act 1996 as a result of the Termination;
- (C) any claim for unlawful deduction from wages under the Employment Rights Act 1996 arising from any sum due in connection with the Employee's employment and outstanding on the Termination;
- (D) any claim under Regulation 30, 31, 32 or any other provision of the Working Time Regulations 1998;
- (E) any claim for direct or indirect discrimination, harassment and/or victimisation under the Equality Act 2010 which arises from your employment or its termination and which relates to any one or more of the protected characteristics listed below:
 - (1) race,
 - (2) religion or belief,
 - (3) disability,
 - (4) gender,
 - (5) nationality,
 - (6) sexual orientation, or
 - (7) age;
- (F) any claim for wrongful dismissal or any claim for breach of any express or implied term of the Contract;
- (G) any claim under European Union Law in connection with his employment or the Termination;
- (H) any claim under Section 47B of the Employment Rights Act 1996;
- (I) any claim for accrued but untaken holiday entitlement;

- (J) any claim arising from any personal injury or ill health or in respect of any Company policy or practice in connection with long term disability benefits and/or permanent health insurance in respect of symptoms or conditions of which the Employee is aware at the date of this Agreement (for the avoidance of doubt, this shall not affect the Employee's ability to continue to claim under the private medical insurance policy referred to at clause 4.2 below);
 - (K) any other claim under statute, contract or common law arising out of his employment or the Termination but excluding (i) any claim the Employee might have for any personal injuries suffered in the course of his employment where the Employee is not aware of the condition or any symptoms at the date of this Agreement, or (ii) in relation to the Employee's accrued pension entitlement, or (iii) to enforce the terms of this Agreement.
- 3.2 The Employee undertakes that neither he nor anyone acting on his behalf shall institute legal proceedings against the Company or any member of the Group or any of its or their officers or employees in the employment tribunal or any other court or tribunal other than to enforce the terms of this Agreement.
- 3.3 After taking the legal advice referred to in this Agreement the claims which the Employee is aware he has or may have against the Company and/or any member of the Group are those referred to in clause 3.1.
- 3.4 The parties acknowledge and agree that the relevant conditions relating to settlement or compromise agreements in Section 203 of the Employment Rights Act 1996, under Section 147 of the Equality Act 2010 and Section 32 of the Working Time Regulations 1998 have been satisfied and the Employee confirms that he has received independent legal advice on the terms and effect of this Agreement, and its effect on his ability to pursue his rights before an employment tribunal, and, in particular, his ability to bring claims for unfair dismissal, redundancy, any unauthorised deductions from wages, race, disability discrimination, or any claim under European Law. The Employee will procure that a certificate attached as Schedule 1 will be supplied to the Company by the Employee's legal advisor.
- 3.5 The Company will pay up to the sum of £750 + VAT as a contribution towards the Employee's legal costs incurred for advice received in respect of this Agreement. Payment will be made directly to the adviser's firm upon receipt by the Company of an invoice addressed to the Employee and marked payable by the Company.

4. COMPENSATION

- 4.1 Subject to the Company receiving this Agreement signed by the Employee and the certificate attached as Schedule 1 signed by the Employee's legal advisor the Company will pay the Employee the sums specified below ("**the Contractual Payments**") made up as follows:
- (A) Payment in lieu of salary and benefits for the Employee's notice period £144,803 to be paid within 30 days of the Termination Date;
 - (B) Severance Bonus of £108,750 to be paid within 30 days of the Termination Date;
 - (C) Pro-rated Annual Bonus for y/e 31 January 2014 - based on actual performance for the applicable performance period, less any Quarterly Bonuses, such pro-rated Annual Bonus to be calculated using the formula in the Employee's bonus plan without discretionary adjustment by Verint Systems Inc. Board of Directors and to be paid to the Employee at a commensurate time with the other officers of Verint Systems Inc.;

(D) Additional Bonus of £95,379 to be paid within 30 days of the Termination Date.

4.2 Subject to the conditions set forth in clause 4.1 above, the Company will also provide the Employee and his family with continued health insurance coverage under the Company's applicable group medical insurance program (BUPA Premier Scale C) up to 31 August 2015 on the same terms and conditions as were in effect for the Employee and his family immediately prior to the Termination Date ("**the Health Benefits**") subject to any premium adjustment imposed by the insurer.

4.3 The Contractual Payments will be subject to such statutory deductions which the Company is obliged to make in respect of tax and National Insurance Contributions. In respect of the Health Benefits, the Employee will be responsible for declaring the appropriate taxable value through his tax return.

4.4 In addition, the Company will pay:

(A) a further £30,000 ("**Severance Payment**") by way of compensation for loss of employment, such sum to be payable without deduction of tax in accordance with section 403 ITEPA 2003; and

(B) a further £76,445 by way of additional severance ("**Additional Severance Payment**"), less applicable tax.

The Severance Payment will be paid within 30 days of the Termination Date. The Additional Severance Payment will be paid in equal monthly instalments starting with the November payroll run and ending on 30 June 2014, subject to the Employee having complied with the provisions of this Agreement as at each payment date. Payment of the Additional Severance Payment will be made less applicable withholdings.

4.5 Further, the Company will, on or prior to the Termination Date, make an employer contribution to the Employee's pension scheme to secure additional benefits for the Employee. Such contribution will be in the sum of £25,000 ("**Pension Benefits**").

4.6 The parties understand that in accordance with Chapter 3 of Part 6 of the Income Tax (Earnings and Pensions) Act 2003 the Severance Payment can be paid free of tax, although neither party gives any assurance to this effect.

4.7 The Employee will be responsible for the payment of any tax and employee's national insurance contributions referable to the Severance Payment and all other payments and the provision of benefits provided at any time under this Agreement and/or the Employment Contract, to the extent that such tax and employee's national insurance contributions are in excess of any PAYE deductions made by the Employer. The Employee agrees to keep the Employer fully and promptly indemnified on a continuing basis against all such liabilities, including any interest, penalties, reasonable costs and expenses (other any interest, penalties, costs or expenses incurred as a result of any default or delay by the Employer), which the Employer may incur in respect of or by reason of such payments or the provision of such benefits.

5. COMPANY PROPERTY

Save as agreed, the Employee undertakes that he will promptly following completion of this Agreement return to the Company all keys, correspondence, documents, specifications, reports, papers, and records, and all copies in whatever form they may be stored, and any other property belonging to the Company or the Group which may be in his possession or control, including computers, cell phones, blackberries etc., and any property belonging to others which may be

in his possession or control, and which relates in any way to the business or affairs of the Company or the Group, or to any supplier, agent, distributor, or customer of the Company or the Group.

6. RESTRICTIVE COVENANTS

6.1 In consideration of, and as a condition to, the Contractual Payments, the Employee acknowledges that he will remain bound by the terms of clause 18 of the Contract (as amended by the Supplemental Employment Agreements referred to above) as amended by clause 6.2 below.

6.2 In consideration of the Additional Severance Payment, the Pension Benefits and the Company agreeing to provide the Employee with the opportunity to continue vesting his outstanding Verint Systems Inc. equity awards to the extent that he remains in Continuous Service (as defined in applicable plan rules) through the next vesting date of his outstanding Verint Systems Inc. equity awards, the Employee acknowledges and agrees that he will receive valuable consideration from such vesting and that it is appropriate for the Company to be granted extended protection of its legitimate business interests. Accordingly, the Employee agrees that clause 18.6 of the Contract (as amended) shall be deleted and replaced with the following provision:

“18.6 You undertake with the Company that during your employment and for the period 18 (eighteen) months after the termination of your employment and whether on your behalf or for any other person, firm or company, you will not (except with the prior written consent of the Company):

18.6.1 directly or indirectly entice, solicit or endeavour to entice or solicit away from the Company or member of the Group any officer, senior employee (or consultant) of the Company who possesses confidential information in relation to the Company or a member of the Group or its or their customers or has significant customer contacts, and with whom you had significant contact on behalf of the Company or a member of the Group during the final year of your employment. "Senior employee" in this context shall include:

- (a) Marketing Director
- (b) Project Manager
- (c) Customer Services Manager
- (d) Technical Director
- (e) Sales Director
- (f) Business Development Manager
- (g) Technical Account Development Manager
- (h) HR Manager
- (i) Finance Manager

18.6.2 directly or indirectly entice, solicit or endeavour to entice or solicit away from the Company or a member of the Group in competition with the Company the business of any person, firm or company who at anytime during the period of 12 months preceding the date of such termination was a customer of the

Company or of a member of the Group and with whom you had significant contact; and/or

- 18.6.3 directly or indirectly deal with or accept business in competition with the Company from any person, firm or company who at anytime during the period of 12 months preceding the date of such termination was a customer of the Company or of a member of the Group and with whom you had significant contact,

And for the purposes of sub-clauses 18.6.2 and 18.6.3 "customer" shall include any third party with whom the Company or a member of the Group was (during the said period of 12 months) in negotiation in respect of the provision of goods or services or to whom the Company or a member of the Group (during the said period) made or had been requested to make an offer to provide goods or services.

- 18.6(A) The restrictions set out in clauses 18.6.2 and 18.6.3 shall not prevent you from soliciting or dealing with customers for a purpose not connected with or not in competition with the business of the Company or a member of the Group.

- 18.6(B) You undertake with the Company that during your employment and for the period 12 (twelve) months after the termination of your employment and whether on your behalf or for any other person, firm or company, you will not (except with the prior written consent of the Company) within the Restricted Area and whether as employee, director, principal, agent, consultant or in any other capacity be directly or indirectly employed or engaged in or perform services for any business which shall be in competition with such part or parts of the Company's business or a member of the Group's business as you were concerned to a material extent on behalf of the Company or a member of the Group during the final year of your employment."

7. CONFIDENTIALITY

- 7.1 The parties agree that, save for disclosure to their legal and/or financial advisers or to the HM Revenue & Customs (and in the case of the Employee to his immediate family) and save as may be required by law, they will keep confidential the terms and existence of this Agreement.
- 7.2 Each party agrees that it will not make or publish or cause to be made or published any disparaging or untrue remark about the other party or, as the case may be, its directors, officers or employees.

8. WARRANTIES

The Employee warrants to the Company as follows:

- 8.1 he has not presented a Claim Form at an office of the Employment Tribunals, or issued a claim form in the High Court or County Court, in respect of any claim in the United Kingdom in connection with his employment with the Company, and/or any member of the Group or the Termination;
- 8.2 he has not commenced any other legal proceedings in the United Kingdom or elsewhere in respect of any claim in connection with his employment with the Company and/or any member of the Group or the Termination;
- 8.3 he has not done any act or omitted to do any act which

- (A) if it was done or omitted to have been done (as appropriate) and had come to the attention of the Company before the Termination Date would have entitled the Company to terminate his employment summarily and without compensation or
 - (B) if it was done or omitted to have been done (as appropriate) after the Termination Date would have been in breach of the terms of this Agreement had it been done or omitted to have been done (as the case may be) after the date of this Agreement;
- 8.4 he has committed no breach of duty (including fiduciary duty) owed to the Company or any other member of the Group. For the avoidance of doubt, this Agreement shall not operate to release the Employee from any liability owed to any member of the Group of which the Employee was a director by virtue of his employment with the Company;
- 8.5 other than those claims referred to in clause 3.1 and having taken the legal advice referred to in this Agreement he is not aware of any claim he may have against the Company or any member of the Group of whatever nature arising out of his employment or the Termination, nor of any circumstances which might give rise to such a claim;
- 8.6 he has provided to his legal advisor referred to in clause 3.4 all relevant information relating to his employment with the Company and any Group Company and the Termination to enable the legal advisor to advise the Employee on any statutory claims the Employee may have; and
- 8.7 he has not at the date of this Agreement accepted, agreed to accept or been made any offer of a new contract of service or for services nor has he entered into any form of arrangement that such an offer will be made at any time in the future.

9. RESIGNATION FROM OFFICE

By accepting the terms of this Agreement the Employee will be deemed to resign on the Termination Date from his position as a director of the Company and from all or any other office which he holds in the Company and/or any member of the Group which resignation, if requested, shall be in the form of Schedule 2 to this Agreement or as required by applicable local laws. The Employee's co-operation in effecting his removal from office in all Group entities is a condition of the payment of the Severance Payment and the Additional Severance Payment

10. THIRD PARTIES

The Company is entering this Agreement for itself and on behalf of each Group Company each of which may directly enforce any rights it has against the Employee.

11. GENERAL

- 11.1 This Agreement shall be governed by and construed in accordance with the laws of England and Wales.
- 11.2 Except in relation to any provisions of the Contract which are stated to apply following the Termination (namely: the restrictive covenants referred to in clause 6 above and the provisions relating to the Clawback of Bonus and/or Incentive Awards, the Assignment of Intellectual Property and the Indemnification and Directors and Officers Liability Insurance contained in clauses 4, 7 and 10 of the Amended and Restated Supplemental Employment Agreement dated 13 July 2011), this Agreement sets out the entire agreement between the parties in relation to the rights of the Employee arising upon or in relation to the Termination. The Employee acknowledges and warrants to the Company that he is not entering into this Agreement in reliance upon any representation which is not expressly set out in this Agreement.

11.3 Although marked "Without Prejudice" this Agreement and associated "Without Prejudice" correspondence shall become open and binding as between the parties when this Agreement has been signed by both of them and dated.

EXECUTION

The Parties have executed this Agreement on the date first mentioned above as evidence of their agreement to its terms.

SIGNED by /s/ Peter Fante)
Director)
for and on behalf of)
Verint Systems UK Limited)
this 30th day of September 2013)

EXECUTED and DELIVERED as a Deed by)
/s/ David Parcell)
this 30th day of September 2013)
in the presence of:)

Witness signature /s/ Stephanie Parcell

Witness name Stephanie Parcell

Witness address [REDACTED]

[REDACTED]

Witness occupation Retired

SCHEDULE 1

I, Jill Scott, a solicitor with Archon Solicitors Limited, confirm to Verint Systems UK Limited (the "**Company**") that I gave independent legal advice to David Parcell as to the terms and effect of the Settlement Agreement to which this Schedule 1 is attached and in particular its effects on his ability to bring claims before an Employment Tribunal.

I confirm that I am a relevant independent advisor for the purposes of the statutory provisions to which reference is made in clause 3.4 of the Settlement Agreement to which this Schedule 1 is attached. Further, at the time I gave the advice referred to above there was in force a policy of insurance or an indemnity covering members of a profession or a professional body covering the risk of a claim by David Parcell in respect of any loss arising in consequence of that advice.

I confirm that I am not acting and have not acted in this matter for the Company or any associated Company.

Signed: /s/ Jill Scott

Dated: 30 September 2013

SCHEDULE 2

Letter of Resignation

The Board of Directors

Each of the Verint Group Companies identified below

Dear Sirs

I resign with immediate effect as a director of all Verint Group companies including but not limited to the following companies and confirm that I have no claim whatsoever outstanding against the companies arising from the termination of my directorship or otherwise save as set out in a Settlement Agreement dated 30/09/13.

Verint Systems UK Limited

Verint Systems SAS

Verint Systems GmbH

Iontas Limited

Verint Video Solutions SL

Verint Video Solutions UK Limited

Verint Witness Systems (Unlimited)

Verint WS Holdings Limited

Yours faithfully

/s/ David Parcell

David Parcell

CONSULTING AGREEMENT

CONSULTING AGREEMENT (this “Agreement”), dated as of 1 October, 2013 between Verint Systems UK Limited (the “Company”), and David Parcell (“Consultant”).

WHEREAS, the Company desires to engage Consultant, and Consultant desires to be engaged, as a consultant of the Company on the terms and conditions set forth below.

NOW, THEREFORE, the Company and Consultant hereby agree as follows:

1. Consulting Period. The Company shall retain Consultant’s services, and Consultant shall serve the Company and its “Affiliates” (which shall mean any direct or indirect holding company of the Company or any subsidiary of any such holding company or the Company, where “holding company” and “subsidiary” shall have the meanings set out in Sections 548, 1159 and 1162 of the Companies Act 2006), as a consultant for a period commencing on the date hereof and continuing until 30 June 2014, unless earlier terminated in accordance with Section 5 (the “Consulting Period”).

2. Services.

(a) During the Consulting Period, Consultant will make himself available to perform consulting services on an as-need basis, as requested by the Company (the “Services”), for 32 hours each calendar month (pro-rated for partial months from the date of this Agreement). The Services may be assigned only by the President of EIS or VIS. The Services shall be performed during regular business hours at locations as are reasonably requested by the Company. Consultant will be entitled during the Consulting Period to undertake employment and to engage in other business and other activities, subject to compliance with the terms and conditions of this Agreement and restrictive covenants under other applicable agreements, provided that such employment or business or other activities do not affect Consultant’s ability to perform the Services in accordance with the terms hereof. For the avoidance of doubt, provided such activities do not breach other provisions of this Agreement (or any other agreement with the Company), the Consultant shall be permitted to conduct such activities with clients, customers and supplier of the Company but shall notify the President of EIS or VIS in advance of any such dealings.

(b) Consultant acknowledges and agrees that the Company has engaged him as a Consultant specifically for his own personal knowledge of and experience with the business of the Company and/or its affiliates and as such, the Consultant may not substitute others in his capacity in the performance of the Services or otherwise assign or delegate his duties hereunder other than as provided in Section 12.

(c) Consultant will at all times during the Consulting Period discharge all his duties and responsibilities conscientiously, in good faith and to the best of his ability, giving to

the Company the full benefit of his knowledge, expertise, skill and judgment. Consultant will at all times in the performance of the Services observe and comply with all rules and regulations of the Company and all directives, instructions or other actions of the Company, provided that such compliance does not jeopardize or otherwise alter Consultant's status as an independent contractor.

(d) During the Consulting Period, Consultant will not perform services for any person or legal entity that competes with the Company or its Affiliates.

3. Compensation; Expenses.

(a) During the Consulting Period, the Company shall pay Consultant a consulting fee of £110 per hour for the performance of the Services.

(b) Provided that Consultant provides the services hereunder for at least 32 hours each month, his Verint Systems Inc. equity awards will continue to vest and his vested stock options will remain exercisable in accordance with the rules of the applicable Verint Systems Inc. equity plans and the applicable award documentation.

(c) During the Consulting Period, Consultant shall be reimbursed for all reasonable travel and other reasonable business expenses incurred by Consultant in connection with the performance of the Services (but not for travel from the Consultant's home to the Company). All such expenses must be approved in advance in writing by the Company.

(d) Consultant will submit invoices monthly in respect of the consulting fee and reimbursable expenses, together with receipts, vouchers and other evidence to substantiate the expenses incurred by Consultant in the performance of the Services. Payment of the consulting fee and reimbursement of substantiated expenses will be made within 30 days after receipt of an invoice.

4. Independent Contractor Status. The parties acknowledge that Consultant will not be treated as an employee but rather as a consultant and independent contractor. As such, Consultant shall pay all estimated and other applicable taxes due to any taxing authorities, and the Company will not withhold any taxes from the amounts due to Consultant pursuant to this Agreement. During the Consulting Period, Consultant will not have any authority to bind the Company and will not hold himself out as having such authority. Consultant agrees to indemnify and keep indemnified the Company and its Affiliates in respect of any tax or other levy which any responsible taxing authority requires the Company or its Affiliates to pay in respect of fees payable under this Agreement. Consultant agrees that any sum so levied may be withheld from any sums otherwise due to him from the Company.

5. Termination of Consulting Status.

(a) This Agreement will terminate at the end of the Consulting Period save that either Consultant or the Company may terminate this Agreement at any time where the other party shall be in fundamental breach of contract after having given the party in breach due notice

of the alleged breach and a period of not less than 10 business days to allow such party the opportunity to remedy such breach. Upon the termination of this Agreement by either party in accordance with the above, the Company shall have no further obligation to Consultant under this Agreement except to distribute to Consultant any earned and unpaid consulting fee and reimbursable expenses up to the effective date of termination. The Company may terminate this Agreement where the Consultant shall be in material breach of the Settlement Agreement with the Company dated 30 September, 2013.

6. Confidentiality.

(a) Consultant covenants and agrees that Consultant will not (whether during or after the Consulting Period), except as required by law or in the performance of Consultant's obligations to the Company (or its Affiliates) hereunder or with the Company's prior written consent, directly or indirectly, disclose any secret or confidential information that he may learn or has learned by reason of his association with the Company or its Affiliates, or use any such information to the detriment of the Company or its Affiliates.

(b) The term "confidential information" as used herein means information not previously disclosed to the public by the Company's (or an Affiliate's) management or otherwise generally known to the public with respect to the Company's finances, services, operational procedures, strategies, products, proprietary information, intellectual property, customer and vendor lists, business plans, prospects or opportunities.

(c) Consultant confirms that all confidential information is the exclusive property of the Company or its Affiliates. All business records, including, but not limited to, papers and documents kept or made by Consultant relating to the business of the Company or its Affiliates shall be and remain the property of the Company or its Affiliates during the Consulting Period and at all times thereafter. Upon the termination of this Agreement or upon the request of the Company at any time, Consultant shall promptly deliver to the Company, and shall retain no copies of, any written materials, records and documents made by Consultant or coming into his possession concerning the business or affairs of the Company or its Affiliates other than personal calendars, notes or correspondence of Consultant not containing proprietary information relating to such business or affairs.

(d) Consultant acknowledges that a breach of any of the covenants contained in this Section 6 may result in irreparable injury to the Company or an Affiliate for which there is no adequate remedy of law, and that, in the event of such a breach, the Company and its Affiliates shall be entitled to seek a temporary restraining order and/or a preliminary or permanent injunction restraining Consultant from engaging in activities prohibited by this Section 6 or such other relief as may be required to specifically enforce any of the covenants in this Section 6.

7. Inventions and Ideas.

(a) Although the primary purpose of the Services are to transition Consultant's knowledge, any Inventions (as defined below) which do result from the provision of the Services shall be "works made for hire" belonging solely to the Company and, to the extent that such Inventions may not be considered "works made for hire" under applicable law, Consultant hereby assigns all right, title and interest in and to any such Inventions to the Company without further consideration. Because of the difficulty in establishing the exact date on which an invention was made, items which by their nature would come under the definition of "Inventions" but for the fact that Consultant was no longer in the service of the Company at the time the Company became aware of such item will be presumed to be "Inventions" for purposes of this Agreement if they relate to the Company's or its Affiliates' business and are developed, put into practice or otherwise exploited by Consultant within one year after the termination of the Services hereunder, unless Consultant can prove that such presumption is incorrect.

(b) "Inventions" shall mean: inventions, creations, original works of authorship, developments, improvements, know-how, plans, processes, strategies, and trade secrets (including, without limitation, all ideas, processes, software, algorithms, designs, technical or business plans, formulas and discoveries), whether or not subject to intellectual property protection, made in contemplation of the business of the Company or its Affiliates (including, without limitation, any and all intellectual property rights therein), which Consultant may solely or jointly have conceived or develop or reduced to practice, or caused to be conceived or developed or reduced to practice, during the Consulting Period.

8. Restrictions post-termination

Consultant will have access to key clients of the Company and its Affiliates in the course of providing the Services hereunder. Consultant therefore undertakes with the Company that for the period of 12 (twelve) months after the termination of this Agreement and whether on his own behalf or for any other person, firm or company, he will not (except with the prior written consent of the Company):

- (A) in competition with the Company directly or indirectly entice, solicit or endeavour to entice or solicit away from the Company or an Affiliate the business of any person, firm or company who at anytime during the period of 12 months preceding the date of such termination was a customer of the Company or Affiliate and with whom Consultant had significant contact; and/or
- (B) in competition with the Company directly or indirectly deal with or accept business from any person, firm or company who at anytime during the period of 12 months preceding the date of such termination was a customer of the Company or Affiliate and with whom Consultant had significant contact,

And for the purposes of this Section 8, "customer" shall include any third party with whom the Company or Affiliate was (during the said period of 12 months) in negotiation in respect of the provision of goods or services or to whom the Company or an Affiliate (during the said period) made or had been requested to make an offer to provide goods or services. The

restrictions set out in this clause 8 shall not prevent Consultant from soliciting or dealing with customers for a purpose not connected with or not in competition with the business of the Company or an Affiliate.

9. Cooperation. Notwithstanding any termination of this Agreement, Consultant shall provide such reasonable cooperation as the Company may request in connection with any litigation, disputes or otherwise to which the Company or any of its Affiliates may be a party; provided, however, the Company shall reimburse Consultant for all reasonable travel expenses associated with Consultant's cooperation as requested by the Company. Further, Consultant shall ensure that the Company has possession of any and all documents, files, records, materials or otherwise, whether electronic or paper, irrespective of the media, related to any current litigation to which the Company or any of its Affiliates is a party.

10. Indemnification. The Consultant will indemnify and hold harmless the Company and its Affiliates, and all of their respective officers, directors, employees, and shareholders from and against any and all claims, losses, costs, liabilities and expenses (including without limitation reasonable attorney's fees) in connection with any third party claim or proceeding arising, in whole or in part, from Consultant's performance of the Services under this Agreement.

11. Representations and Warranties of Consultant. Consultant represents and warrants that: (i) the execution and delivery of this Agreement and the fulfillment of the terms hereof will not constitute a default under or breach of any agreement or other instrument to which Consultant is a party or by which Consultant is bound, including without limitation, any confidentiality or non-competition agreement, nor will it require the consent of any person or entity, and (ii) Consultant shall not utilize during the provision of the Services any proprietary or confidential information of any third party.

12. Notices. All notices and other communications hereunder shall be in writing and shall be deemed given when delivered personally or by telecopier, or three days after being mailed by registered or certified mail (return receipt requested), if to the Company, at 330 South Service Road, Melville, NY 11747, Attention: Chief Legal Officer, and, if to Consultant, at the address listed on the signature page hereto.

13. Miscellaneous. No change, amendment or modification of this Agreement shall be effective unless made in writing and signed by all parties. Headings used in this Agreement are for convenience only and have no substantive import. This Agreement shall be construed and enforced in accordance with, the laws of England. If any provisions hereof shall be determined to be invalid or unenforceable in any respect, such determination shall not affect such provision in any other respect or any other provision of this Agreement which shall remain in full force and effect. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, personal representatives, successors and assigns; provided, however, that the rights, duties and obligations of Consultant under this Agreement may not be assigned by Consultant to any third party without the prior written consent of the Company. This Agreement may be executed in one or more counterparts, all of which will be considered one and the same agreement. Nothing in this Agreement affects the effect or enforceability of any of Consultant's

obligations under any other agreement between Consultant and the Company (or its Affiliates) which shall continue to be in full force and effect. The Company is entering into this Agreement on its own behalf and on behalf of each Affiliate. Each Affiliate may enforce any provision in this Agreement of which it is a beneficiary as if it were a party to it.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Consulting Agreement as of the date first written above.

VERINT SYSTEMS UK LIMITED

By: /s/ Peter Fante

Name: Peter Fante

Title: Director

Consultant:

Signature: /s/ David Parcell

Name: David Parcell

Date: 30th September 2013

Address:

[REDACTED]

[REDACTED]

[REDACTED]

Phone: [REDACTED]

Fax: [REDACTED]

Email: [REDACTED]

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: December 4, 2013

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 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: December 4, 2013

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 October 31, 2013 (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: December 4, 2013

/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 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 October 31, 2013 (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: December 4, 2013

/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.