VERINT SYSTEMS INC
Form 10-Q
September 06, 2012

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

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

For the quarterly period ended July 31, 2012

OR

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

For the transition period from to .

Commission File No. 001-34807
Verint Systems Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware	11-3200514
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
330 South Service Road, Melville, New York	11747
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

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

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

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

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

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Cautionary Note on Forward-Looking Statements

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

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

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

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

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

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

See notes to condensed consolidated financial statements.

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

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

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

See notes to condensed consolidated financial statements.

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

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

See notes to condensed consolidated financial statements.
VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity
Six Months Ended July 31, 2012 and 2011
(Unaudited)

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

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

See notes to condensed consolidated financial statements.

VERINT SYSTEMS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Six Months Ended July 31, 2012 and 2011

(Unaudited)

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

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

See notes to condensed consolidated financial statements.

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

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

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

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

Condensed Consolidated Financial Statements Preparation

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

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

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Verint Systems Inc., our wholly owned subsidiaries, and a joint venture in which we hold a 50% equity interest. This joint venture functions as a systems integrator for Asian markets and is a variable interest entity in which we are the primary beneficiary.

Investments in companies in which we have less than a 20% ownership interest and do not exercise significant influence are accounted for at cost. We include the results of operations of acquired companies from the date of acquisition. All significant intercompany transactions and balances are eliminated.

Use of Estimates

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

Significant Accounting Policies

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

Net Income Per Common Share Attributable to Verint Systems Inc.

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

Recent Accounting Pronouncements

New Accounting Pronouncements Implemented:

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

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

New Accounting Pronouncements To Be Implemented:

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

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

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

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

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

	Three Months Ended	Six Months Ended

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

3. BUSINESS COMBINATIONS

Six Months Ended July 31, 2012

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

Year Ended January 31, 2012

Vovici Corporation

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

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

For the three and six months ended July 31, 2012, we recorded benefits of $4.0 million and $3.7 million, respectively, within selling, general and administrative expenses for changes in the fair value of the Vovici contingent consideration obligation, which primarily reflected the impacts of revised expectations of achieving the performance targets. As of July 31, 2012, the fair value of this contingent consideration was $3.5 million, and no payments had been made to the former Vovici shareholders under this arrangement.

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

Global Management Technologies

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

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

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

Other Business Combinations

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

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

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

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

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

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

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

Purchase Price Allocations

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

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

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

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

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

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

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

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

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

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(in thousands)	Vovici	Other Acquisitions
Components of Purchase Price:		
Cash	$55,708	$33,835
Fair value of contingent consideration	9,900	20,504
Fair value of stock options	60	—
Bank debt, repaid at closing	435	—
Other purchase price adjustments	—	816
Total purchase price	$66,103	$55,155
Allocation of Purchase Price:		
Net tangible assets (liabilities):		
Accounts receivable	$1,106	$842
Other current assets	5,398	15,650
Other assets	913	5,579
Current and other liabilities	(2,931)	(15,419)
Deferred revenue	(2,264)	(944)
Bank debt	—	(3,330)
Deferred income taxes - current and long-term	(6,021)	186
Net tangible assets (liabilities)	(3,799)	2,564
Identifiable intangible assets:		
Developed technology	11,300	9,743
Customer relationships	15,400	7,040
Trademarks and trade names	1,700	1,350
In-process research and development assets	—	2,500
Other identifiable intangible assets	—	1,421
Total identifiable intangible assets	28,400	22,054
Goodwill	41,502	30,537
Total purchase price	$66,103	$55,155

Year Ended January 31, 2011

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

For the three and six months ended July 31, 2011, increases of $0.1 million and $0.2 million, respectively, in the fair value of this contingent consideration obligation were recorded as charges to selling, general and administrative expenses.

In December 2010, we acquired certain technology and other assets in a transaction that qualified as a business combination. The fair value of our liability for contingent consideration related to this acquisition increased by $1.9 million during the six months ended July 31, 2011, resulting in a corresponding charge recorded within selling, general and administrative expenses for that period. Substantially all of the increase occurred during the three months ended April 30, 2011. The earned contingent consideration related to this acquisition was paid to the sellers during the three months ended July 31, 2011.

Pro Forma Information

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

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results. The pro forma impact of the other business combinations completed during the year ended January 31, 2012 were not material to our historical consolidated operating results and is therefore not presented.

(in thousands)	Three Months Ended July 31, 2011	Six Months Ended
Revenue	$199,803	$379,512
Net income (loss) attributable to Verint Systems Inc. common shares	$1,875	$(8,918)

4. INTANGIBLE ASSETS AND GOODWILL

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

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

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

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

(in thousands)	July 31, 2012	January 31, 2012
Enterprise Intelligence	$142,761	$160,258
Video Intelligence	4,469	5,059

Communications Intelligence	15,668	18,913
Total	$162,898	$184,230

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

Total amortization expense recorded for acquisition-related intangible assets was $9.7 million and $19.7 million for the three and six months ended July 31, 2012, respectively, and $8.1 million and $16.3 million for the three and six months ended July 31, 2011, respectively. The reported amount of net acquisition-related intangible assets can fluctuate from the impact of changes in foreign exchange rates on intangible assets not denominated in U.S. dollars.

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

(in thousands) Years Ending January 31,	Amount
2013 (Remainder of year)	$19,661
2014	34,183
2015	30,696
2016	29,321
2017	26,650
2018 and thereafter	19,887
Total	$160,398

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

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

		Reportable Segment		
(in thousands)	Total	Enterprise Intelligence	Video Intelligence	Communications Intelligence
Goodwill, gross, at January 31, 2012:				
As previously reported	$898,552	$770,532	$76,214	$51,806
Measurement period adjustments identified during the three months ended April 30, 2012	(2,929)	(234)	—	(2,695)
As retrospectively adjusted	895,623	770,298	76,214	49,111
Accumulated impairment losses through January 31, 2012	(66,865)	(30,791)	(36,074)	—
Goodwill, net, at January 31, 2012	828,758	739,507	40,140	49,111
Foreign currency translation and other	(3,689)	(1,715)	(911)	(1,063)
Goodwill, net, at July 31, 2012	$825,069	$737,792	$39,229	$48,048
Balance at July 31, 2012				
Goodwill, gross, at July 31, 2012	$891,934	$768,583	$75,303	$48,048
Accumulated impairment losses through July 31, 2012	(66,865)	(30,791)	(36,074)	—

Goodwill, net, at July 31, 2012	$825,069	$737,792	$39,229	$48,048

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

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

We test our goodwill for impairment at least annually as of November 1, or more frequently if an event occurs or circumstances exist indicating the potential for impairment. No events or circumstances indicating the potential for goodwill impairment were identified during either the six months ended July 31, 2012 or the six months ended July 31, 2011.

5. LONG-TERM DEBT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The following table summarizes future scheduled principal payments on our term loan as of July 31, 2012:

(in thousands)

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

In connection with a business combination completed during the three months ended October 31, 2011, we assumed approximately $3.3 million of development bank and government debt in the Americas region. This debt is payable in periods through February 2017 and bears interest at varying rates. As of July 31, 2012, the majority of this debt bears interest at an annual rate of 7.00%. The carrying value of this debt was approximately $2.4 million at July 31, 2012.

6. SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENT INFORMATION

Condensed Consolidated Balance Sheets

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

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

Condensed Consolidated Statements of Operations

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

	Three Months Ended July 31,		Six Months Ended July 31,	
(in thousands)	2012	2011	2012	2011
Foreign currency gains (losses), net	$(711)	$796	$123	$3,787
Gains (losses) on derivative financial instruments, net	271	26	131	(1,907)
Other, net	(43)	(84)	(103)	(130)

Total other income (expense), net	$(483)	$738	$151	$1,750

Condensed Consolidated Statements of Cash Flows

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

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

7. CONVERTIBLE PREFERRED STOCK

On May 25, 2007, in connection with our acquisition of Witness Systems, Inc. (“Witness”), we entered into a Securities Purchase Agreement with Comverse Technology, Inc. ("CTI"), whereby CTI purchased, for cash, an aggregate of 293,000 shares of our Series A Convertible Preferred Stock, for an aggregate purchase price of $293.0 million. Proceeds from the issuance of the Preferred Stock were used to partially finance the acquisition.

The terms of the Preferred Stock provide that upon a fundamental change, as defined, the holders of the Preferred Stock have the right to require us to repurchase the Preferred Stock for 100% of the liquidation preference then in effect. Therefore, the Preferred Stock has been classified as mezzanine equity on our condensed consolidated balance sheets as of July 31, 2012 and January 31, 2012, separate from permanent equity, because the occurrence of such a fundamental change, and thus a potential required repurchase of the Preferred Stock, however remote in likelihood, is not solely under our control. Fundamental change events include the sale of substantially all of our assets and certain changes in beneficial ownership, board of directors’ composition, and business reorganizations.

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

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

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

We concluded that, as of July 31, 2012, the occurrence of a fundamental change and the associated potential required repurchase of the Preferred Stock were not probable. We therefore did not adjust the carrying amount of the Preferred

Stock to its redemption amount, which is its liquidation preference, at July 31, 2012. Through July 31, 2012, cumulative, undeclared dividends on the Preferred Stock were $65.9 million and, as a result, the liquidation preference of the Preferred Stock was $358.9 million at that date.

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

8. STOCKHOLDERS' EQUITY

Treasury Stock

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

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

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

Accumulated Other Comprehensive Loss

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

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

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

9. INCOME TAXES

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

For the three months ended July 31, 2012, we recorded a $4.8 million provision for income taxes on pre-tax income of $18.0 million, which represented an effective income tax rate of 26.5%. This effective income tax rate was lower than the 35% U.S. federal statutory rate primarily due to the mix and levels of income and losses among taxing jurisdictions. Although we did not recognize U.S. federal income tax benefits on losses incurred by certain domestic operations where we maintain valuation allowances, income from certain foreign subsidiaries was taxed at rates lower than the U.S. federal statutory rate.

For the three months ended July 31, 2011, we recorded a $3.2 million provision for income taxes on pre-tax income of $14.4 million, which represented an effective income tax rate of 21.9%, which was lower than the U.S. federal statutory rate of 35%. The effective income tax rate was significantly impacted by the mix and levels of income and losses among taxing jurisdictions. We recorded income tax provisions on income from certain foreign subsidiaries, which are taxed at rates lower than the U.S. federal statutory rate, but we did not recognize U.S. federal income tax benefits on losses incurred by certain domestic operations where we maintain valuation allowances against deferred tax assets, including those assets related to loss carry forwards.

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

For the six months ended July 31, 2011, we recorded an income tax provision of $4.7 million on pre-tax income of $17.5 million, which represented an effective tax rate of 26.7%. The effective tax rate was lower than the U.S. federal statutory rate of 35% primarily due to the mix and levels of income and losses by jurisdiction. Although we did not recognize U.S. federal income tax benefits on losses incurred by certain domestic operations where we maintain valuation allowances, income from certain foreign subsidiaries was taxed at rates lower than the U.S. federal statutory rate.

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

We had unrecognized tax benefits of $35.8 million and $36.4 million (excluding interest and penalties) as of July 31, 2012 and January 31, 2012, respectively. The accrued liability for interest and penalties was $7.1 million and $8.2 million at July 31, 2012 and January 31, 2012, respectively. Interest and penalties are recorded as a component of the provision for income taxes in our condensed consolidated statements of operations. As of July 31, 2012 and January 31, 2012, the total amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate were approximately $30.3 million and $30.7 million, respectively. We regularly assess the adequacy of our provisions for income tax contingencies in accordance with the applicable authoritative guidance on accounting for income taxes. As a result, we may adjust the reserves for unrecognized tax benefits for the impact of new facts and developments, such as changes to interpretations of relevant tax law, assessments from taxing authorities, settlements with taxing authorities, and lapses of statutes of limitation. Further, we believe that it is reasonably possible that the total amount of unrecognized tax benefits at July 31, 2012 could decrease by approximately $3.5 million in the next twelve months as a result of settlement of certain tax audits or lapses of statutes of limitation. Such decreases may involve the payment of additional taxes, the adjustment of deferred taxes including the need for additional valuation allowances, and the recognition of tax benefits. Our income tax returns are subject to ongoing tax examinations in several jurisdictions in which we operate. We also believe that it is reasonably possible that new issues may be raised by tax authorities or developments in tax audits may occur which would require increases or decreases to the balance of reserves for unrecognized tax benefits; however, an estimate of such changes cannot reasonably be made.

10. FAIR VALUE MEASUREMENTS

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

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

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

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. We review the fair value hierarchy classification of our applicable assets and liabilities on a quarterly basis. Changes in the observability of valuation inputs may result in transfers within the fair value measurement hierarchy. We did not identify any transfers between levels of the fair value measurement hierarchy during the six months ended July 31, 2012.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	July 31, 2012		
	Fair Value Hierarchy Category		
(in thousands)	Level 1	Level 2	Level 3
Assets:			
Money market funds	$34,619	$—	$—
Foreign currency forward contracts	—	241	—
Total assets	$34,619	$241	$—

Liabilities:			
Foreign currency forward contracts	$—	$2,732	$—
Contingent consideration - business combinations	—	—	25,204
Total liabilities	$—	$2,732	$25,204

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

The following table presents the change in the estimated fair value of our liability for contingent consideration measured using significant unobservable inputs (Level 3) for the six months ended July 31, 2012 and 2011:

	Six Months Ended July 31,	
(in thousands)	2012	2011
Fair value measurement at beginning of period	$38,646	$3,686
Contingent consideration liabilities recorded for business combinations	—	904
Changes in fair values, recorded in operating expenses	(7,540)	1,881
Payments of contingent consideration	(5,902)	(4,107)
Fair value measurement at end of period	$25,204	$2,364

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

Fair Value Measurements

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

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

Contingent Consideration — Business Combinations - The fair value of the contingent consideration related to business combinations is estimated using a probability-adjusted discounted cash flow model. These fair value measurements are based on significant inputs not observable in the market. The key internally developed assumptions used in these models are discount rates and the probabilities assigned to the milestones to be achieved. We remeasure the fair value of the contingent consideration at each reporting period, and any changes in fair value resulting from either the passage of time or events occurring after the acquisition date, such as changes in discount rates, or in the expectations of achieving the performance targets, are recorded in earnings. Increases or decreases in discount rates would have inverse impacts on the related fair value measurements, while favorable or unfavorable changes in expectations of achieving performance targets would result in corresponding increases or decreases in the related fair value measurements. We utilized discount rates ranging from 3.7% to 17.5% in our calculations of the estimated fair values of our contingent consideration liabilities as of July 31, 2012.

Other Financial Instruments

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

The estimated fair value of our term loan borrowings was $591.0 million and $597.0 million at July 31, 2012 and January 31, 2012, respectively. The estimated fair values of the term loan are based upon indicative bid and ask prices as determined by the agent responsible for the syndication of our term loan. We consider these inputs to be within Level 3 of the fair value hierarchy, because we cannot reasonably observe activity in the limited market in which participations in our term loan are traded. The indicative prices provided to us as at each of July 31, 2012 and January 31, 2012 were approximately at or slightly below par value.

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

In addition to assets and liabilities that are measured at fair value on a recurring basis, we also measure certain assets and liabilities at fair value on a nonrecurring basis. Our non-financial assets, including goodwill, intangible assets and property, plant and equipment, are measured at fair value when there is an indication of impairment and the carrying amount exceeds the asset's projected undiscounted cash flows. These assets are recorded at fair value only when an impairment charge is recognized. No such impairment charges were recorded during the six months ended July 31, 2012 and 2011.

11. DERIVATIVE FINANCIAL INSTRUMENTS

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

Foreign Currency Forward Contracts

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

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

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

Notional Amounts of Derivative Financial Instruments

Our outstanding derivative financial instruments consisted only of foreign currency forward contracts with notional amounts of $93.4 million and $94.1 million as of July 31, 2012 and January 31, 2012, respectively.

Fair Values of Derivative Financial Instruments

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

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

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

		Accrued expenses and other liabilities	
Total derivative financial instruments not designated as hedging instruments	$—		$303

Derivative Financial Instruments in Cash Flow Hedging Relationships

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

	Net Gains (Losses)Recognized in Accumulated Other Comprehensive Loss		Classification of Net Gains (Losses) Reclassified from Other Comprehensive Loss into the Condensed Consolidated	Net Gains (Losses) Reclassified from Other Comprehensive Loss into the Condensed Consolidated Statements of Operations			
	July 31,	January 31,	Statements of	Three Months Ended July 31,		Six Months Ended July 31,	
(in thousands)	2012	2012	Operations	2012	2011	2012	2011
Foreign currency forward contracts	$ (2,346)	$ 666	Operating Expenses	$(559)	$979	$(765)	$1,786

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

Derivative Financial Instruments Not Designated as Hedging Instruments

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

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

12. STOCK-BASED COMPENSATION

We recognized stock-based compensation expense in the following line items on the condensed consolidated statements of operations for the three and six months ended July 31, 2012 and 2011:

	Three Months Ended July 31,		Six Months Ended July 31,	
(in thousands)	2012	2011	2012	2011
Cost of revenue - product	$192	$179	$326	$440
Cost of revenue - service and support	377	448	967	1,156
Research and development, net	642	737	1,137	1,586

Selling, general and administrative	4,711	5,277	9,203	11,009
Total stock-based compensation expense	$5,922	$6,641	$11,633	$14,191

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

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

Awards under our stock bonus program are accounted for as liability-classified awards, because the obligations are based predominantly on fixed monetary amounts that are generally known at inception of the obligation, to be settled with a variable number of shares of our common stock. Our other liability-classified awards include our phantom stock awards, the values of which track the market price of our common stock and are therefore subject to volatility, and which are settled with cash payments equivalent to the market value of our common stock upon vesting. Upon settlement of other liability-classified awards with equity, compensation expense associated with those awards is reported within equity-classified awards in the table above.

The decrease in stock-based compensation expense in the three and six months ended July 31, 2012, compared to the corresponding periods in the prior year, resulted primarily from the impact of a shift in the mix of outstanding restricted stock units from awards with two-year vesting periods to awards with three-year vesting periods and a decrease in outstanding phantom stock awards.

Stock Options

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

During the three and six months ended July 31, 2012, approximately 22,000 and 59,000 common shares were issued pursuant to stock option exercises, respectively, for total proceeds of $0.3 million and $1.0 million, respectively. During the three and six months ended July 31, 2011, approximately 174,000 and 432,000 common shares were issued pursuant to stock option exercises, respectively, for total proceeds of $3.5 million and $8.7 million, respectively. As of July 31, 2012, we had approximately 1.0 million stock options outstanding, of which all but 22,000 were exercisable as of such date.

Restricted Stock Units and Restricted Stock Awards

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

During the six months ended July 31, 2012 and 2011, we granted 1.2 million and 0.9 million restricted stock units, respectively, substantially all of which were granted during the three months ended April 30, 2012 and 2011, respectively. Forfeitures of restricted stock units in each period were not significant. As of July 31, 2012 and 2011, we had 1.9 million and 1.5 million of restricted stock units outstanding, respectively, with weighted-average grant date fair values of $30.72 and $30.24 per unit, respectively. We did not grant any restricted stock awards during the six months ended July 31, 2012 and 2011, and there were no unvested restricted stock awards outstanding at July 31, 2012.

Substantially all of the restricted stock units granted during the six months ended July 31, 2012 include a provision which allows these awards to be settled with cash payments upon vesting, rather than with delivery of common stock, at the discretion of our board of directors. As of July 31, 2012, settlement of these awards with cash payments was not considered probable, and therefore these awards have been accounted for as equity-classified awards.

As of July 31, 2012, there was approximately $39.6 million of total unrecognized compensation expense, net of estimated forfeitures, related to unvested restricted stock units, which is expected to be recognized over a weighted-average period of 2.3 years.

Phantom Stock Units

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

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

Stock Bonus Program

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

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

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

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

13. RELATED PARTY TRANSACTIONS

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

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

14. LEGAL PROCEEDINGS

On March 26, 2009, a motion to approve a class action lawsuit (the “Labor Motion”), and the class action lawsuit itself (the “Labor Class Action”) (Labor Case No. 4186/09), were filed against our subsidiary, Verint Systems Limited (“VSL”), by a former employee of VSL, Orit Deutsch, in the Tel Aviv Labor Court. Ms. Deutsch purports to represent a class of our employees and ex-employees who were granted options to buy shares of Verint and to whom allegedly damages were caused as a result of the blocking of the ability to exercise Verint options by our employees or ex-employees during our previous extended filing delay period. The Labor Class Action seeks compensatory damages for the entire class in an unspecified amount. On July 9, 2009, we filed a motion for summary dismissal and alternatively for the stay of the Labor Motion. On February 8, 2010, the Tel Aviv Labor Court dismissed the case for lack of material jurisdiction and ruled that it would be transferred to the District Court in Tel Aviv. On October 11, 2011, the District Court in Tel Aviv ordered a stay of proceedings until legal proceedings in the United States brought by stockholders of CTI who had opted-out of CTI’s class action settlement were concluded. On December 7, 2011, Ms. Deutsch sought, unsuccessfully, to consolidate her action with a related action against CTI filed by another plaintiff in Israel. Following the settlement of the CTI opt-out proceeding in the United States, Ms. Deutsch and the other Israeli plaintiff filed motions on March 23, 2012 and April 4, 2012, respectively, to (a) consolidate and amend their claims and (b) lift the stay on their proceedings before the District Court in Tel Aviv. We did not contest this motion but plan to continue to vigorously defend the action on the merits. On July 12, 2012, the plaintiffs filed a motion requesting that the District Court order CTI to set aside up to $150 million in assets to secure any future judgment. The District Court ruled that it would not rule on this motion until the Labor Motion is heard. On August 16, 2012 , in light of the announcement of the signing of the Merger Agreement, the plaintiffs filed a motion for leave to appeal the District Court ruling to the Israeli Supreme Court. We and the other defendants are obligated to respond to this latest motion by September 6, 2012. We and the other defendants are obligated to respond to the Labor Motion and the Labor Class Action by October 24, 2012. A pre-trial hearing for the case has been scheduled for late December 2012.

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

15. SEGMENT INFORMATION

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

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

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

Revenue adjustments for the three and six months ended July 31, 2012 and 2011 represent revenue of acquired companies which is included within segment revenue reviewed by the CODM, but not recognizable within GAAP revenue. These adjustments primarily relate to the acquisition-date excess of the historical carrying value over the fair value of acquired companies' future maintenance and service performance obligations. As the obligations are satisfied, we report our segment revenue using the historical carrying values of these obligations, which we believe better reflects our ongoing maintenance and service revenue streams, whereby GAAP revenue is reported using the obligations' acquisition-date fair values.

With the exception of goodwill and acquired intangible assets, we do not identify or allocate our assets by operating segment. Consequently, it is not practical to present assets by operating segment. There were no material changes in the allocation of goodwill and acquired intangible assets by operating segment during the six months ended July 31, 2012 and 2011. The allocations of goodwill and acquired intangible assets by operating segment appear in Note 4, "Intangible Assets and Goodwill".

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

	Three Months Ended July 31,		Six Months Ended July 31,	
(in thousands)	2012	2011	2012	2011
Revenue:				
Enterprise Intelligence				
Segment revenue	$117,634	$105,654	$229,414	$202,923
Revenue adjustments	(1,259)	—	(3,212)	—
	116,375	105,654	226,202	202,923
Video Intelligence				
Segment revenue	38,871	40,666	68,329	70,936
Revenue adjustments	(712)	(727)	(1,492)	(962)

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

16. SUBSEQUENT EVENTS

Verint and CTI Merger Agreement

Overview

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

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

The share exchange provision of the Merger Agreement provides that each holder of CTI common shares will receive new shares of our common stock representing such holder's pro rata portion of an aggregate number of shares of our common stock equal to the sum of (1) the shares of our common stock held by CTI immediately prior to the completion of the Merger (including the shares of our common stock issuable upon conversion of the shares of Preferred Stock held by CTI at a conversion price of $32.66), plus (2) additional shares of our common stock, the number of which is equal to the dollar value described below (the “Target Amount”) divided by the average of the daily volume weighted average of the trading prices of our common stock during the 20 consecutive trading days ending on the second trading day prior to the closing date of the Merger, plus (3) additional shares of our common stock based on the positive net worth of CTI (as determined in accordance with the Merger Agreement) immediately prior to the completion of the Merger, up to a maximum dollar value of $10.0 million. The Target Amount will be $25.0 million if the CNS share distribution or a CNS disposition occurs on or prior to October 31, 2012 and will be reduced (a) to $15.0 million if the CNS share distribution or a CNS disposition occurs after October 31, 2012 but on or prior to January 31, 2013, (b) to $5.0 million if the CNS share distribution or a CNS disposition occurs after January 31, 2013 but on or prior to April 30, 2013 and (c) to zero if the CNS share distribution or a CNS disposition occurs after April 30, 2013 or, if as of the completion of the Merger, CTI beneficially owns less than 50% of the outstanding shares of our common stock (on an as-exercised and fully diluted basis), unless such level of ownership results from our issuance of new shares of voting securities after the date of the Merger Agreement.

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

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

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

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

Conditions of and Timing of the Merger

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

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

Termination Rights

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

Voting Agreement

In connection entering into the Merger Agreement, we entered into a Voting Agreement with CTI pursuant to which CTI agreed, among other things, to vote the shares of our common stock and Preferred Stock beneficially owned by CTI in favor of the adoption of the Merger Agreement. CTI also agreed to comply with certain restrictions on the disposition of such shares, including requiring any transferee of CTI's voting securities to be bound by the terms of the Voting Agreement. The Voting Agreement will terminate upon the earlier of the completion of the Merger or the termination of the Merger Agreement in accordance with its terms.

Governance and Repurchase Rights Agreement

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

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

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

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

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

Stock Bonus Program

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

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

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

Business Overview

Verint® is a global leader in Actionable Intelligence® solutions and value-added services. Our solutions enable organizations of all sizes to make more timely and effective decisions to improve enterprise performance and make the world a safer place.

More than 10,000 organizations in over 150 countries — including over 85 percent of the Fortune 100 — use Verint solutions to capture, distill, and analyze complex and underused information sources, such as voice, video, and unstructured text. In the enterprise intelligence market, our workforce optimization and voice of the customer solutions help organizations enhance the customer service experience, increase customer loyalty, enhance products and services, reduce operating costs, and drive revenue. In the security intelligence market, our communications and cyber intelligence, video and situation intelligence, and public safety solutions help government and commercial organizations in their efforts to protect people and property and neutralize terrorism and crime.

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

Recent Developments

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

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

Critical Accounting Policies and Estimates

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

- Revenue recognition;
- Accounting for business combinations;
- Impairment of goodwill and other intangible assets;
- Accounting for income taxes;
- Contingencies;

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- Accounting for stock-based compensation; and
- Allowance for doubtful accounts.

We did not identify any significant changes to our critical accounting policies and estimates during the six months ended July 31, 2012.

Results of Operations

Seasonality and Cyclicality

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

Overview of Operating Results

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

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

Three Months Ended July 31, 2012 compared to Three Months Ended July 31, 2011. Our revenue increased approximately 9%, or $17.4 million, to $212.4 million in the three months ended July 31, 2012 from $195.0 million in three months ended July 31, 2011. In our Enterprise Intelligence segment, revenue increased approximately 10%, or $10.7 million, to $116.4 million in the three months ended July 31, 2012 from $105.7 million in the three months ended July 31, 2011. The increase consisted of a $12.1 million increase in service and support revenue and a $1.4 million decrease in product revenue. In our Communications Intelligence segment, revenue increased approximately 17%, or $8.5 million, to $57.9 million in the three months ended July 31, 2012 from $49.4 million in the three months ended July 31, 2011. The increase consisted of a $4.8 million increase in product revenue and a $3.7 million increase in service and support revenue. In our Video Intelligence segment, revenue decreased approximately 4%, or $1.7 million, to $38.2 million in the three months ended July 31, 2012 from $39.9 million in the three months ended July 31, 2011, due primarily to a decrease in product revenue. For more details on our revenue by segment, see "—Revenue by Operating Segment". Revenue in the Americas, Europe, the Middle East, and Africa

("EMEA"), and the Asia-Pacific region (“APAC”) represented approximately 57%, 24%, and 19% of our total revenue, respectively, in the three months ended July 31, 2012, compared to approximately 54%, 27%, and 19%, respectively, in the three months ended July 31, 2011.

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

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

Net income attributable to Verint Systems Inc. common shares was $8.7 million, and diluted net income per common share was $0.22, in the three months ended July 31, 2012 compared to net income attributable to Verint Systems Inc. common shares of $6.8 million, and diluted net income per common share of $0.17, in the three months ended July 31, 2011. The increase in net income attributable to Verint Systems Inc. common shares and diluted net income per common share in the three months ended July 31, 2012 was primarily due to our increased operating income, as described above, partially offset by a $1.3 million increase in total other expense, net, due primarily to foreign currency losses during the three months ended July 31, 2012. Further details of changes in total other expense, net, are provided below.

A portion of our business is conducted in currencies other than the U.S. dollar, and therefore our revenue and operating expenses are affected by fluctuations in applicable foreign currency exchange rates. When comparing average exchange rates for the three months ended July 31, 2012 to average exchange rates for the three months ended July 31, 2011, the U.S. dollar strengthened relative to the British pound sterling, euro, Israeli shekel, and Brazilian real, which are the major foreign currencies in which we transacted business, resulting in decreases in our revenue, cost of revenue and operating expenses on a dollar-denominated basis. For the three months ended July 31, 2012, had foreign exchange rates remained unchanged from rates in effect for the three months ended July 31, 2011, our revenue would have been approximately $6.4 million higher and our cost of revenue and operating expenses would have been approximately $7.2 million higher, which would have resulted in a $0.8 million decrease in operating income.

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

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

Operating income was $47.2 million in the six months ended July 31, 2012 compared to $40.2 million in the six months ended July 31, 2011. The increase in operating income was primarily due to an $18.0 million increase in gross profit to $264.8 million, from $246.8 million, partially offset by an increase in operating expenses of $10.9 million to $217.5 million, from $206.6 million. The increase in gross profit was primarily due to increased gross profit in our Enterprise Intelligence segment. The increase in operating expenses was primarily due to a $5.4 million increase in net research and development expenses due primarily to an increase in employee headcount and merit increases to employee salaries, and an increase in selling, general and administrative expense due primarily to increased employee compensation and related expenses, increased contractor costs, and higher professional fees.

These increases were partially offset by decreases in the change in fair value of obligations under our contingent consideration arrangements and stock-based compensation expense. Further details of changes in operating income are provided below.

Net income attributable to Verint Systems Inc. common shares was $15.0 million, and diluted net income per common share was $0.38, in the six months ended July 31, 2012 compared to net income attributable to Verint Systems Inc. common shares of $3.1 million, and diluted net income per common share of $0.08, in the six months ended July 31, 2011. The increase in net income attributable to Verint Systems Inc. common shares and diluted net income per common share in the six months ended July 31, 2012 was primarily due to our increased operating income, as described above, and a decrease in total other expense, net, due primarily to an $8.1 million loss upon termination of our Prior Credit Agreement and repayment of the prior term loan recognized during the six months ended July 31, 2011. There were no such losses recognized during the six months ended July 31, 2012.

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

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ended July 31, 2011, the U.S. dollar strengthened relative to the British pound sterling, euro, Israeli shekel, and Brazilian real, which are the major foreign currencies in which we transacted business, resulting in decreases in our revenue, cost of revenue and operating expenses on a dollar-denominated basis. For the six months ended July 31, 2012, had foreign exchange rates remained unchanged from rates in effect for the six months ended July 31, 2011, our revenue would have been approximately $8.6 million higher and our cost of revenue and operating expenses would have been approximately $9.9 million higher, which would have resulted in a $1.3 million decrease in operating income.

Revenue by Operating Segment

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

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

Enterprise Intelligence Segment

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

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

Video Intelligence Segment

Three Months Ended July 31, 2012 compared to Three Months Ended July 31, 2011. Video Intelligence revenue decreased approximately 4%, or $1.7 million, to $38.2 million in the three months ended July 31, 2012 from $39.9

million in the three months ended July 31, 2011. The decrease was primarily attributable to a $1.9 million decrease in product revenue resulting primarily from a reduction in volume of product deliveries associated with a few large transactions, partially offset by an increase in product deliveries to other customers, in the three months ended July 31, 2012.

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

Communications Intelligence Segment

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Three Months Ended July 31, 2012 compared to Three Months Ended July 31, 2011. Communications Intelligence revenue increased approximately 17%, or $8.5 million, to $57.9 million in the three months ended July 31, 2012 from $49.4 million in the three months ended July 31, 2011. The increase consisted of a $4.8 million increase in product revenue and a $3.7 million increase in service and support revenue. The increase in product revenue was due to an increase in progress on projects being accounted for under the Percentage of Completion method, some of which commenced in the previous fiscal year, and to a lesser extent, the inclusion of product revenue from an acquisition in our Communications Intelligence segment that was consummated subsequent to July 31, 2011. In addition, there was an increase in product deliveries to customers. The increase in service and support revenue was primarily attributable to the progress realized during the current-year period on projects recognized using the Percentage of Completion method, some of which commenced in the previous fiscal year, and an increase in the customer install base.

Six Months Ended July 31, 2012 compared to Six Months Ended July 31, 2011. Communications Intelligence revenue increased approximately 18%, or $17.6 million, to $116.0 million in the six months ended July 31, 2012 from $98.4 million in the six months ended July 31, 2011. The increase consisted of a $11.5 million increase in product revenue and a $6.1 million increase in service and support revenue. The increase in product revenue was due to an increase in progress on projects being accounted for under the Percentage of Completion method, some of which commenced in the previous fiscal year, and to a lesser extent, the inclusion of product revenue from an acquisition in our Communications Intelligence segment that was consummated subsequent to July 31, 2011. In addition, there was an increase in product deliveries to customers. The increase in service and support revenue was primarily attributable to the progress realized during the current-year period on projects recognized using the Percentage of Completion method, some of which commenced in the previous fiscal year, and an increase in the customer install base.

Volume and Price

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

Revenue by Product Revenue and Service and Support Revenue

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

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

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

Product Revenue

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

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

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

Service and Support Revenue

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

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

Cost of Revenue

The following table sets forth cost of revenue by product and service and support, as well as amortization of acquired technology and backlog for the three and six months ended July 31, 2012 and 2011:

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

Cost of Product Revenue

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

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

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

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

Cost of Service and Support Revenue

Cost of service and support revenue primarily consists of employee compensation and related expenses, contractor costs, and travel expenses relating to installation, training, consulting, and maintenance services. Cost of service and support revenue also includes stock-based compensation expenses, facility costs, and other overhead expenses. In accordance with GAAP
and our accounting policy, the cost of revenue associated with the services is generally expensed as incurred in the period in which the services are performed, with the exception of certain transactions accounted for under the Percentage of Completion Method.

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

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

Amortization of Acquired Technology and Backlog

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

Three Months Ended July 31, 2012 compared to Three Months Ended July 31, 2011. Amortization of acquired technology and backlog increased approximately 36% to $3.6 million in the three months ended July 31, 2012, from $2.7 million in the three months ended July 31, 2011 primarily due to an increase in amortization expense of acquired technology-based intangible assets associated with business combinations that closed during the year ended January 31, 2012, subsequent to July 31, 2011. Further discussion regarding our business combinations appears in Note 3, “Business Combinations” of the Notes to Condensed Consolidated Financial Statements included under Part I, Item 1.

Six Months Ended July 31, 2012 compared to Six Months Ended July 31, 2011. Amortization of acquired technology and backlog increased approximately 39% to $7.4 million in the six months ended July 31, 2012, from $5.3 million in the six months ended July 31, 2011 primarily due to an increase in amortization expense of acquired technology-based intangible assets associated with business combinations that closed during the year ended January 31, 2012, subsequent to July 31, 2011. Further discussion regarding our business combinations appears in Note 3, “Business Combinations” of the Notes to Condensed Consolidated Financial Statements included under Part I, Item 1.

Research and Development, Net

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

The following table sets forth research and development, net for the three and six months ended July 31, 2012 and 2011:

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

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

Six Months Ended July 31, 2012 compared to Six Months Ended July 31, 2011. Research and development, net increased approximately 10%, or $5.4 million, to $58.6 million in the six months ended July 31, 2012 from $53.2 million in the six months ended July 31, 2011. The increase was primarily attributable to a $5.6 million increase in employee compensation and related expenses, which was attributable to an increase in employee headcount and merit increases to employee salaries. We also recorded a $0.4 million decrease in stock-based compensation resulting from a decrease in the number of outstanding stock based compensation arrangements accounted for as liability awards and lower average amounts of outstanding restricted stock units compared to the six months ended July 31, 2011, in each case associated with our research and development employees.

Selling, General and Administrative Expenses

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

The following table sets forth selling, general and administrative expenses for the three and six months ended July 31, 2012 and 2011:

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

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

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

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based compensation expense primarily due to a decrease in the number of outstanding stock-based compensation arrangements accounted for as liability awards and lower average amounts of outstanding restricted stock units compared to the six months ended July 31, 2011.

Amortization of Other Acquired Intangible Assets

Amortization of other acquired intangible assets consists of amortization of certain intangible assets acquired in connection with business combinations, including customer relationships, distribution networks, trade names and non-compete agreements.
The following table sets forth amortization of other acquired intangible assets for the three and six months ended July 31, 2012 and 2011:

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

Three Months Ended July 31, 2012 compared to Three Months Ended July 31, 2011. Amortization of other acquired intangible assets increased approximately 11% to $6.0 million in the three months ended July 31, 2012 from $5.4 million in the three months ended July 31, 2011 primarily due to an increase in amortization associated with business combinations that closed during the year ended January 31, 2012, subsequent to July 31, 2011. Further discussion regarding our business combinations appears in Note 3, “Business Combinations” of the Notes to Condensed Consolidated Financial Statements included under Part I, Item 1.

Six Months Ended July 31, 2012 compared to Six Months Ended July 31, 2011. Amortization of other acquired intangible assets increased approximately 12% to $12.2 million in the six months ended July 31, 2012 from $11.0 million in the six months ended July 31, 2011 primarily due to an increase in amortization associated with business combinations that closed during the year ended January 31, 2012, subsequent to July 31, 2011. Further discussion regarding our business combinations appears in Note 3, “Business Combinations” of the Notes to Condensed Consolidated Financial Statements included under Part I, Item 1.

Other Income (Expense), Net

The following table sets forth total other expense, net for the three and six months ended July 31, 2012 and 2011:

	Three Months Ended July 31,	Six Months Ended