VERINT SYSTEMS INC
Form 10-Q
June 05, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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 April 30, 2014
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 54,039,751 shares of the registrant's common stock outstanding on May 15, 2014.

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Verint Systems Inc. and Subsidiaries
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April 30, 2014

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Cautionary Note on Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, the provisions of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include financial projections, statements of plans and objectives for future operations, statements of future economic performance, and statements of assumptions relating thereto. Forward-looking statements may appear throughout this report, including without limitation, Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and are often identified by future or conditional words such as "will", "plans", "expects", "intends", "believes", "seeks", "estimates", or "anticipates", or by variations of such words or by similar expressions. There can be no assurances that forward-looking statements will be achieved. By their very nature, forward-looking statements involve known and unknown risks, uncertainties, assumptions, and other important factors that could cause our actual results or conditions to differ materially from those expressed or implied by such forward-looking statements. Important risks, uncertainties, assumptions, and other factors that could cause our actual results or conditions to differ materially from our forward-looking statements include, among others:

- uncertainties regarding the impact of general economic conditions in the United States and abroad, particularly in information technology spending and government budgets, on our business;
- risks associated with our ability to keep pace with technological changes and evolving industry standards in our product offerings and to successfully develop, launch, and drive demand for new and enhanced, innovative, high-quality products that meet or exceed customer needs;
- risks due to aggressive competition in all of our markets, including with respect to maintaining margins and sufficient levels of investment in our business;
- risks created by the continued consolidation of our competitors or the introduction of large competitors in our markets with greater resources than we have;
- risks associated with our ability to successfully compete for, consummate, and implement mergers and acquisitions, including risks associated with capital constraints, valuations, costs and expenses, maintaining profitability levels, management distraction, post-acquisition integration activities, and potential asset impairments;
- risks relating to our ability to effectively and efficiently execute on our growth strategy, including managing investments in our business and operations and enhancing and securing our internal and external operations;
- risks associated with our ability to effectively and efficiently allocate limited financial and human resources to business, development, strategic, or other opportunities that may not come to fruition or produce satisfactory returns;
- risks that we may be unable to maintain and enhance relationships with key resellers, partners, and systems integrators;
- risks associated with the mishandling or perceived mishandling of sensitive or confidential information, security lapses, or with information technology system failures or disruptions;
- risks associated with our significant international operations, including, among others, in Israel, Europe, and Asia, exposure to regions subject to political or economic instability, and fluctuations in foreign exchange rates;
- risks associated with a significant amount of our business coming from domestic and foreign government customers, including the ability to maintain security clearances for certain projects;
- risks associated with complex and changing local and foreign regulatory environments in the jurisdictions in which we operate;
- risks associated with our ability to recruit and retain qualified personnel in regions in which we operate;
- challenges associated with selling sophisticated solutions, long sales cycles, and emphasis on larger transactions, including in assisting customers in realizing the benefits of our solutions and in accurately forecasting revenue and expenses and in maintaining profitability;
- risks that our intellectual property rights may not be adequate to protect our business or assets or that others may make claims on our intellectual property or claim infringement on their intellectual property rights;

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- risks that our products may contain defects, which could expose us to substantial liability;
- risks associated with our dependence on a limited number of suppliers or original equipment manufacturers ("OEMs") for certain components of our products, including companies that may compete with us or work with our competitors;
- risks that our customers or partners delay or cancel orders or are unable to honor contractual commitments due to liquidity issues, challenges in their business, or otherwise;
- risks that we may experience liquidity or working capital issues and related risks that financing sources may be unavailable to us on reasonable terms or at all;
- risks associated with significant leverage resulting from our current debt position, including with respect to covenant limitations and compliance, fluctuations in interest rates, and our ability to maintain our credit ratings;
- risks arising as a result of contingent or other obligations or liabilities assumed in our acquisition of our former parent company, Comverse Technology, Inc. (“CTI”), or associated with formerly being consolidated with, and part of a consolidated tax group with, CTI, or as a result of CTI's former subsidiary, Comverse, Inc. ("Comverse"), being unwilling or unable to provide us with certain indemnities or transition services to which we are entitled;
- 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; and
- risks associated with changing tax rates, tax laws and regulations, and the continuing availability of expected tax benefits, including those expected as a result of acquisitions.

These risks, uncertainties, assumptions, and challenges, as well as other factors, are discussed in greater detail in "Risk Factors" under Item 1A of our Annual Report on Form 10-K for the year ended January 31, 2014. 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

Item 1. Financial Statements
VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Unaudited)

(in thousands, except share and per share data)	April 30, 2014	January 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	$187,316	$378,618
Restricted cash and bank time deposits	19,949	6,423
Short-term investments	35,875	32,049
Accounts receivable, net of allowance for doubtful accounts of $1.1 million and $1.2 million, respectively	238,747	194,312
Inventories	16,739	10,693
Deferred cost of revenue	10,097	10,818
Prepaid expenses and other current assets	77,110	61,478
Total current assets	585,833	694,391
Property and equipment, net	53,507	40,145
Goodwill	1,242,960	853,389
Intangible assets, net	383,722	132,847
Capitalized software development costs, net	6,913	8,483
Long-term deferred cost of revenue	10,872	9,843
Other assets	39,473	33,809
Total assets	$2,323,280	$1,772,907
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$71,733	$65,656
Accrued expenses and other current liabilities	229,657	179,148
Current maturities of long-term debt	9,496	6,555
Deferred revenue	183,027	162,124
Total current liabilities	493,913	413,483
Long-term debt	1,020,365	635,830
Long-term deferred revenue	13,547	13,661
Other liabilities	100,065	76,815
Total liabilities	1,627,890	1,139,789
Commitments and Contingencies		
Stockholders' Equity:		
Preferred Stock - $0.001 par value; authorized 2,207,000 shares at April 30, 2014 and January 31, 2014; none issued.	—	—
Common stock - $0.001 par value; authorized 120,000,000 shares. Issued 54,339,000 and 53,907,000 shares; outstanding 54,037,000 and 53,605,000 shares at April 30, 2014 and January 31, 2014, respectively.	54	54
Additional paid-in capital	941,174	924,663
Treasury stock, at cost - 302,000 shares at April 30, 2014 and January 31, 2014.	(8,013)	(8,013)
Accumulated deficit	(222,049)	(250,005)
Accumulated other comprehensive loss	(22,809)	(39,725)

Total Verint Systems Inc. stockholders' equity	688,357	626,974
Noncontrolling interest	7,033	6,144
Total stockholders' equity	695,390	633,118
Total liabilities and stockholders' equity	$2,323,280	$1,772,907

See notes to condensed consolidated financial statements.

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

	Three Months Ended April 30,	
(in thousands, except per share data)	2014	2013
Revenue:		
Product	$108,136	$87,350
Service and support	149,257	117,436
Total revenue	257,393	204,786
Cost of revenue:		
Product	39,477	31,172
Service and support	56,988	38,498
Amortization of acquired technology and backlog	6,358	3,638
Total cost of revenue	102,823	73,308
Gross profit	154,570	131,478
Operating expenses:		
Research and development, net	41,323	30,028
Selling, general and administrative	101,048	81,704
Amortization of other acquired intangible assets	11,203	6,033
Total operating expenses	153,574	117,765
Operating income	996	13,713
Other income (expense), net:		
Interest income	225	155
Interest expense	(10,226)	(7,188)
Losses on extinguishment of debt	(7,092)	(9,706)
Other income (expense), net	2,828	(1,808)
Total other expense, net	(14,265)	(18,547)
Loss before (benefit from) provision for income taxes	(13,269)	(4,834)
(Benefit from) provision for income taxes	(42,088)	3,103
Net income (loss)	28,819	(7,937)
Net income attributable to noncontrolling interest	863	1,216
Net income (loss) attributable to Verint Systems Inc.	27,956	(9,153)
Dividends on preferred stock	—	(174)
Net income (loss) attributable to Verint Systems Inc. common shares	$27,956	$(9,327)
Net income (loss) per common share attributable to Verint Systems Inc.:		
Basic	$0.52	$(0.18)
Diluted	$0.51	$(0.18)
Weighted-average common shares outstanding:		
Basic	53,737	51,970
Diluted	55,018	51,970

See notes to condensed consolidated financial statements.

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

	Three Months Ended April 30,	
(in thousands)	2014	2013
Net income (loss)	$28,819	$(7,937)
Other comprehensive income (loss), net of reclassification adjustments:		
Foreign currency translation adjustments	16,736	(4,664)
Net unrealized losses on available-for-sale securities	(3)	—
Net unrealized gains on derivative financial instruments designated as hedges	311	2,072
Provision for income taxes on net unrealized gains on derivative financial instruments designated as hedges	(102)	(186)
Other comprehensive income (loss)	16,942	(2,778)
Comprehensive income (loss)	45,761	(10,715)
Comprehensive income attributable to noncontrolling interest	889	1,149
Comprehensive income (loss) attributable to Verint Systems Inc.	$44,872	$(11,864)

See notes to condensed consolidated financial statements.

VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders’ Equity
(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, 2013	40,158	$40	$580,762	$(8,013)	$(303,762)	$(44,225)	$224,802	$4,874	$229,676
Net income (loss)	—	—	—	—	(9,153)	—	(9,153)	1,216	(7,937)
Other comprehensive loss	—	—	—	—	—	(2,711)	(2,711)	(67)	(2,778)
Stock-based compensation - equity portion	—	—	5,719	—	—	—	5,719	—	5,719
Exercises of stock options	76	—	1,687	—	—	—	1,687	—	1,687
Common stock issued for stock awards and stock bonuses	179	—	74	—	—	—	74	—	74
Stock issued for CTI Merger	12,274	13	299,626	—	—	—	299,639	—	299,639
Tax effects from stock award plans	—	—	15	—	—	—	15	—	15
Balances as of April 30, 2013	52,687	$53	$887,883	$(8,013)	$(312,915)	$(46,936)	$520,072	$6,023	$526,095
Balances as of January 31, 2014	53,605	$54	$924,663	$(8,013)	$(250,005)	$(39,725)	$626,974	$6,144	$633,118
Net income	—	—	—	—	27,956	—	27,956	863	28,819
Other comprehensive income	—	—	—	—	—	16,916	16,916	26	16,942
Stock-based compensation - equity portion	—	—	10,228	—	—	—	10,228	—	10,228
Exercises of stock options	181	—	6,259	—	—	—	6,259	—	6,259
Common stock issued for stock awards and stock bonuses	251	—	—	—	—	—	—	—	—
Tax effects from stock award plans	—	—	24	—	—	—	24	—	24

Balances as of April 30, 2014	54,037	$54	$941,174	$(8,013)	$(222,049)	$(22,809)	$688,357	$7,033	$695,390

See notes to condensed consolidated financial statements.

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

(in thousands)	Three Months Ended April 30, 2014	2013
Cash flows from operating activities:		
Net income (loss)	$28,819	$(7,937)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	23,324	14,459
Stock-based compensation - equity portion	10,228	5,719
Reduction of valuation allowance resulting from acquisition of KANA	(45,171)	—
Non-cash losses (gains) on derivative financial instruments, net	737	(430)
Losses on extinguishment of debt	7,092	9,706
Other non-cash items, net	5,146	4,661
Changes in operating assets and liabilities, net of effects of business combinations:		
Accounts receivable	(25,412)	(9,654)
Inventories	(2,449)	3,097
Deferred cost of revenue	(210)	841
Prepaid expenses and other assets	4,613	(294)
Accounts payable and accrued expenses	36,735	(1,331)
Deferred revenue	11,133	6,435
Other, net	(550)	884
Net cash provided by operating activities	54,035	26,156
Cash flows from investing activities:		
Cash paid for business combinations, including adjustments, net of cash acquired	(603,614)	—
Purchases of property and equipment	(3,781)	(2,490)
Purchases of investments	(3,339)	(49,586)
Sales and maturities of investments	350	—
Cash paid for capitalized software development costs	(1,473)	(487)
Change in restricted cash and bank time deposits, including long-term portion, and other investing activities, net	(13,316)	3,361
Net cash used in investing activities	(625,173)	(49,202)
Cash flows from financing activities:		
Proceeds from borrowings, net of original issuance discounts	1,103,750	646,750
Repayments of borrowings and other financing obligations	(719,289)	(578,276)
Payments of debt issuance and other debt-related costs	(8,895)	(6,972)
Proceeds from exercises of stock options	6,239	1,686
Cash received in CTI Merger	—	10,370
Payments of contingent consideration for business combinations (financing portion)	(2,856)	(3,451)
Net cash provided by financing activities	378,949	70,107
Effect of exchange rate changes on cash and cash equivalents	887	(870)
Net (decrease) increase in cash and cash equivalents	(191,302)	46,191
Cash and cash equivalents, beginning of period	378,618	209,973
Cash and cash equivalents, end of period	$187,316	$256,164

See notes to condensed consolidated financial statements.

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

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. Actionable Intelligence is a necessity in a dynamic world of massive information growth because it empowers organizations with crucial insights and enables decision makers to anticipate, respond, and take action. With Verint solutions and value-added services, organizations of all sizes and across many industries can make more timely and effective decisions. Today, more than 10,000 organizations in over 180 countries, including over 80 percent of the Fortune 100, use Verint solutions to improve enterprise performance and make the world a safer place.

Our Actionable Intelligence solutions help organizations address three important challenges: Customer Engagement Optimization; Security Intelligence; and Fraud, Risk, and Compliance. We help our customers capture large amounts of information from numerous data types and sources, use analytics to glean insights from the information, and leverage the resulting Actionable Intelligence to help achieve their customer engagement, enhanced security, and risk mitigation goals.

Headquartered in Melville, New York, we support our customers around the globe directly and with an extensive network of selling and support partners.

We conduct our business through three operating segments—Enterprise Intelligence, Communications and Cyber Intelligence ("Communications Intelligence"), and Video and Situation Intelligence ("Video Intelligence"). Organizing our business through three operating segments allows us to align our resources and domain expertise to effectively address the Actionable Intelligence market. We address the Customer Engagement Optimization market opportunity through solutions from our Enterprise Intelligence segment. We address the Security Intelligence market opportunity through solutions from our Communications Intelligence segment and Video Intelligence segment, and we address the Fraud, Risk, and Compliance market opportunity through solutions from all three operating segments.

Preparation of Condensed Consolidated Financial Statements

The condensed consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and on the same basis as the audited consolidated financial statements included in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (“SEC”) for the year ended January 31, 2014. The condensed consolidated statements of operations, comprehensive income, stockholders’ equity, and cash flows for the periods ended April 30, 2014 and 2013, and the condensed consolidated balance sheet as of April 30, 2014, 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, 2014 is derived from the audited consolidated financial statements presented in our Annual Report on Form 10-K for the year ended January 31, 2014. 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, 2014. The results for interim periods are not necessarily indicative of a full year's results.

Principles of Consolidation

The accompanying 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.

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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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant Accounting Policies

Our significant accounting policies are described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended January 31, 2014. There were no significant changes to our significant accounting policies during the three months ended April 30, 2014.

Recent Accounting Pronouncements

New Accounting Pronouncements Implemented

In March 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. This new standard is intended to resolve diversity in practice regarding the release into net income of a cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. ASU No. 2013-05 was effective prospectively for us on February 2, 2014. The adoption of this standard did not impact our condensed consolidated financial statements.

New Accounting Pronouncements To Be Implemented

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. It is effective for annual reporting periods beginning on or after December 15, 2014. Early adoption is permitted but only for disposals that have not been reported in previously issued financial statements. We are currently reviewing this standard, but we do not expect its adoption to materially impact our condensed consolidated financial statements, absent any disposals of components or groups of components that have a material effect on our financial results in future periods.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific revenue recognition guidance throughout the Industry Topics of the Accounting Standards Codification. Additionally, this update supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It is effective for the first interim period within annual reporting periods beginning after December 15, 2016, and early adoption is not permitted. We are currently reviewing this standard to assess the impact on our future condensed consolidated financial statements.

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

The following table summarizes the calculation of basic and diluted net income (loss) per common share attributable to Verint Systems Inc. for the three months ended April 30, 2014 and 2013:

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	Three Months Ended April 30,	
(in thousands, except per share amounts)	2014	2013
Net income (loss)	$28,819	$(7,937)
Net income attributable to noncontrolling interest	863	1,216
Net income (loss) attributable to Verint Systems Inc.	27,956	(9,153)
Dividends on preferred stock	—	(174)
Net income (loss) attributable to Verint Systems Inc. for basic net loss per common share	27,956	(9,327)
Dilutive effect of dividends on preferred stock	—	—
Net income (loss) attributable to Verint Systems Inc. for diluted net loss per common share	$27,956	$(9,327)
Weighted-average shares outstanding:		
Basic	53,737	51,970
Dilutive effect of employee equity award plans	1,281	—
Dilutive effect of assumed conversion of preferred stock	—	—
Diluted	55,018	51,970
Net income (loss) per common share attributable to Verint Systems Inc.:		
Basic	$0.52	$(0.18)
Diluted	$0.51	$(0.18)

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

	Three Months Ended April 30,	
(in thousands)	2014	2013
Common shares excluded from calculation:		
Stock options and restricted stock-based awards	289	694
Series A Convertible Preferred Stock	—	504

Our Series A Convertible Preferred Stock was canceled in conjunction with the CTI Merger on February 4, 2013, as further discussed in Note 9, "Convertible Preferred Stock" and Note 14, "Merger with CTI". The weighted-average common shares underlying the assumed conversion of the Series A Convertible Preferred Stock for the three months ended April 30, 2013 in the table above reflect the Series A Convertible Preferred Stock as outstanding for only four days during that period.

3. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

The following tables summarize our cash, cash equivalents and short-term investments as of April 30, 2014 and January 31, 2014:

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(in thousands)	April 30, 2014 Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash and bank time deposits	$186,780	$—	$—	$186,780
Money market funds	536	—	—	536
Total cash and cash equivalents	$187,316	$—	$—	$187,316
Short-term investments:				
Commercial paper and corporate debt securities (available-for-sale)	$9,548	$6	$—	$9,554
Bank time deposits	26,321	—	—	26,321
Total short-term investments	$35,869	$6	$—	$35,875

(in thousands)	January 31, 2014 Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash and bank time deposits	$314,604	$—	$—	$314,604
Money market funds	14,023	—	—	14,023
Commercial paper	49,986	5	—	49,991
Total cash and cash equivalents	$378,613	$5	$—	$378,618
Short-term investments:				
Commercial paper and corporate debt securities (available-for-sale)	$9,402	$4	$—	$9,406
Bank time deposits	22,643	—	—	22,643
Total short-term investments	$32,045	$4	$—	$32,049

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

As of April 30, 2014 and January 31, 2014, all of our available-for-sale investments had contractual maturities of less than one year. We report our available-for-sale securities at fair value, based on quoted market prices or other readily available market information. Unrealized gains and losses, net of applicable income taxes, are included in accumulated other comprehensive income (loss) within stockholders' equity on our condensed consolidated balance sheets. Realized gains or losses, if applicable, are recorded in other income (expense), net in our condensed consolidated statement of operations, using the specific identification method. Gains and losses on sales of available-for-sale securities during the three months ended April 30, 2014 and 2013 were not significant.

During the three months ended April 30, 2014, proceeds from sales and maturities of available-for-sale securities were $0.4 million. There were no proceeds from sales and maturities of available-for-sale securities during the three months ended April 30, 2013.

We periodically review our investment portfolios to determine if any investment is other-than-temporarily impaired due to changes in credit risk or other potential valuation concerns. We believe that the investments we held at April 30, 2014 were not other-than-temporarily impaired. We held no available-for-sale securities with unrealized losses at

April 30, 2014. We do not intend to sell our available-for-sale securities and it is not more likely than not that we will be required to sell them before recovery at par, which may be at maturity.

4. BUSINESS COMBINATIONS

Three Months Ended April 30, 2014

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KANA Software, Inc.

On February 3, 2014, we completed the acquisition of KANA Software, Inc. and its subsidiaries through the merger of KANA Software, Inc.'s parent holding company, Kay Technology Holdings, Inc. (collectively, "KANA"), with an indirect, wholly owned subsidiary of Verint, with KANA continuing as the surviving company and as our wholly owned subsidiary. The purchase price consisted of $542.4 million of cash paid at the closing, partially offset by $25.1 million of KANA’s cash received in the acquisition, and a $0.7 million post-closing purchase price adjustment, resulting in net cash consideration of $516.6 million. The post-closing purchase price adjustment resulted from the final determination of KANA's February 3, 2014 cash, debt, net working capital, transaction expenses and taxes, and was received in cash in May 2014.

The merger consideration was funded by a combination of cash on hand, $300.0 million of incremental term loans incurred in connection with an amendment to our Credit Agreement, and $125.0 million of borrowings under our 2013 Revolving Credit Facility (further details for which appear in Note 6, "Long-Term Debt").

KANA, based in Sunnyvale, California and with global operations, is a leading provider of on-premises and cloud-based solutions which create differentiated, personalized, and integrated customer experiences for large enterprises and mid-market organizations. KANA is being integrated into our Enterprise Intelligence operating segment.

Among the factors contributing to the recognition of goodwill as a component of the KANA purchase price allocation were synergies in products and technologies, and the addition of a skilled, assembled workforce. This goodwill has been assigned to our Enterprise Intelligence segment and while generally not deductible for income tax purposes, certain goodwill related to previous business combinations by KANA will be deductible for income tax purposes.

In connection with the purchase price allocation for KANA, the estimated fair value of undelivered performance obligations under customer contracts assumed in the merger was determined utilizing a cost build-up approach. The cost build-up approach calculates fair value by estimating the costs required to fulfill the obligations plus a reasonable profit margin, which approximates the amount that we believe would be required to pay a third party to assume the performance obligations. The estimated costs to fulfill the performance obligations were based on the historical direct costs for delivering similar services. As a result, in allocating the purchase price, we recorded $7.9 million of current and long-term deferred revenue, representing the estimated fair value of undelivered performance obligations for which payment had been received, which will be recognized as revenue as the underlying performance obligations are delivered. For undelivered performance obligations for which payment had not yet been received, we recorded an $18.6 million asset within prepaid expenses and other current assets as a component of the purchase price allocation, representing the estimated fair value of these obligations. We are amortizing this asset over the underlying delivery periods, as a reduction to revenue.

Revenue reported in our condensed consolidated statements of operations for the three months ended April 30, 2014 included $29.9 million attributable to KANA since the February 3, 2014 acquisition date. As a result of the ongoing integration of KANA into our Enterprise Intelligence operating segment, it is impracticable to determine the impact on net income attributable to KANA.

Transaction and related costs, consisting primarily of professional fees and integration expenses, directly related to the merger, totaled $1.5 million for the three months ended April 30, 2014, and were expensed as incurred.

UTX Technologies Limited

On March 31, 2014, we completed the acquisition of all of the outstanding shares of UTX Technologies Limited ("UTX"), a provider of certain mobile device tracking solutions for security applications, from UTX Limited. UTX Limited was our supplier of these products to our Communications Intelligence operating segment prior to the acquisition. The purchase price consisted of $82.9 million of cash paid at closing, subject to adjustment, and we agreed to make potential additional future cash payments to UTX Limited of up to $1.5 million, contingent upon the achievement of certain performance targets over the period from closing through June 30, 2014. The cash paid at closing was funded with cash on hand. The fair value of the contingent consideration obligation was estimated to be $1.3 million as of the acquisition date and at April 30, 2014.

UTX is based in the Europe, the Middle East and Africa ("EMEA") region and is being integrated into our Communications Intelligence operating segment.

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Among the factors contributing to the recognition of goodwill as a component of the UTX purchase price allocation were synergies in products and technologies, and the addition of a skilled, assembled workforce. This goodwill has been assigned to our Communications Intelligence segment and is not deductible for income tax purposes.

Revenue and income before provision for income taxes attributable to UTX from March 31, 2014 through April 30, 2014 were not significant.

Transaction and related costs, consisting primarily of professional fees and integration expenses, directly related to the acquisition of UTX, totaled $2.6 million for the three months ended April 30, 2014, and were expensed as incurred.

As a result of the UTX acquisition, we recorded a $2.6 million charge for the impairment of certain capitalized software development costs during the three months ended April 30, 2014, reflecting strategy changes in certain product development initiatives. This charge is reflected within cost of product revenue.

Other Business Combination

On April 16, 2014, we completed the acquisition of certain technology and other assets for use in our Communications Intelligence operating segment in a transaction that qualified as a business combination. This business combination was not material to our condensed consolidated financial statements.

Purchase Price Allocations

The purchase price allocations for the business combinations completed during the three months ended April 30, 2014 have been prepared on a preliminary basis and changes to those allocations may occur as additional information becomes available during the respective measurement periods (up to one year from the respective acquisition dates). Fair values still under review include values assigned to identifiable intangible assets, deferred income taxes and reserves for uncertain income tax positions.

The purchase prices were allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition dates, with the remaining unallocated purchase prices recorded as goodwill. The fair values assigned to identifiable intangible assets acquired were determined primarily by using the income approach, which discounts expected future cash flows to present value using estimates and assumptions determined by management.

The following table sets forth the components and the allocations of the purchase prices for our acquisitions of KANA and UTX.

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(in thousands)	KANA	UTX
Components of Purchase Prices:		
Cash, including post-closing adjustments	$541,685	$82,939
Fair value of contingent consideration	—	1,347
Total purchase prices	$541,685	$84,286
Allocation of Purchase Prices:		
Net tangible assets (liabilities):		
Accounts receivable	$18,473	$—
Other current assets	48,595	4,157
Other assets, including cash acquired	12,661	977
Current and other liabilities	(15,643)	(244)
Deferred revenue - current and long-term	(7,932)	(340)
Deferred income taxes - current and long-term	(62,516)	(5,020)
Net tangible liabilities	(6,362)	(470)
Identifiable intangible assets:		
Customer relationships	151,900	2,000
Developed technology	55,500	37,400
Trademarks and trade names	11,500	—
Other intangible assets	—	1,100
Total identifiable intangible assets	218,900	40,500
Goodwill	329,147	44,256
Total purchase price allocations	$541,685	$84,286

The weighted-average estimated useful life of all finite-lived identifiable intangible assets acquired during the three months ended April 30, 2014 is 7.4 years.

For the acquisition of KANA, the acquired customer relationships, developed technology, and trademarks and trade names were assigned estimated useful lives of five to ten years, three to five years, and five years, respectively, the weighted average of which is approximately 8.1 years.

For the acquisition of UTX, the acquired customer relationships, developed technology and other intangible assets were assigned estimated useful lives of three years, four years, and four years, respectively, the weighted average of which is approximately 4.0 years.

The acquired identifiable intangible assets are being amortized on a straight-line basis, which we believe approximates the pattern in which the assets are utilized, over their estimated useful lives.

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

Pro Forma Information

The following table provides unaudited pro forma operating results for the three months ended April 30, 2014 and 2013, as if KANA and UTX had been acquired on February 1, 2013. These unaudited pro forma results reflect certain adjustments related to these acquisitions, including amortization expense on finite-lived intangible assets acquired from KANA and UTX, interest expense and fees associated with additional long-term debt incurred to partially fund the acquisition of KANA, and adjustments to recognize the fair value of revenue associated with performance obligations assumed in the acquisition of KANA.

For purposes of the following unaudited pro forma operating results, a $45.2 million income tax benefit resulting from a reduction of valuation allowances associated from the acquisition of KANA is reflected in the pro forma operating results for the three months ended April 30, 2013. The actual tax benefit was recorded during the three months ended April 30, 2014, as further described in Note 10, "Income Taxes".

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

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actually would have occurred had the acquisitions been completed on February 1, 2013, nor are they indicative of future operating results.

	Three Months Ended April 30,	
(in thousands, except per share amounts)	2014	2013
Revenue	$269,713	$227,162
Net (loss) income	$(2,808)	$12,419
Net (loss) income attributable to Verint Systems Inc.	$(3,671)	$11,203
Net (loss) income per common share attributable to Verint Systems Inc.:		
Basic	$(0.07)	$0.21
Diluted	$(0.07)	$0.21

Business Combinations in Prior Periods

In connection with certain business combinations completed in prior periods, we have agreed to make contingent cash payments to the former shareholders or asset holders of the acquired businesses based upon achievement of performance targets following the acquisition dates. These obligations are measured at fair value at each reporting date.

For the three months ended April 30, 2014 and 2013, we recorded a benefit of $0.2 million and a charge of $0.8 million, respectively, within selling, general and administrative expenses for changes in the fair values of these obligations, which primarily reflected the impacts of revised expectations of achieving the performance targets. Payments of contingent consideration earned under these agreements were $3.1 million and $3.9 million for the three months ended April 30, 2014 and 2013, respectively.

For a certain business combination completed during the year ended January 31, 2012, the purchase price allocation included liabilities for uncertain tax positions and certain other liabilities associated with pre-acquisition business activities of the acquired company. Corresponding indemnification assets were also recorded as components of the purchase price allocation for this acquisition, 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, 2014 and January 31, 2014, the combined current and long-term liabilities for these matters were $3.5 million and $3.4 million, respectively. The corresponding current and long-term indemnification assets associated with these liabilities were $2.3 million at both April 30, 2014 and January 31, 2014.

5. INTANGIBLE ASSETS AND GOODWILL

Acquisition-related intangible assets consisted of the following as of April 30, 2014 and January 31, 2014:

	April 30, 2014		
(in thousands)	Cost	Accumulated Amortization	Net
Intangible assets with finite lives:			
Customer relationships	$397,005	$(152,758)	$244,247
Acquired technology	204,799	(83,924)	120,875
Trade names	25,249	(12,351)	12,898
Non-competition agreements	6,619	(5,166)	1,453
Distribution network	4,440	(1,957)	2,483
Backlog	386	(320)	66

Total intangible assets with finite lives	638,498	(256,476)	382,022
In-process research and development, with indefinite lives	1,700	—	1,700
Total	$640,198	$(256,476)	$383,722

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(in thousands)	January 31, 2014 Cost	Accumulated Amortization	Net
Intangible assets with finite lives:			
Customer relationships	$240,208	$(141,714)	$98,494
Acquired technology	106,361	(76,922)	29,439
Trade names	13,378	(11,378)	2,000
Non-competition agreements	5,514	(4,970)	544
Distribution network	2,440	(1,840)	600
Backlog	386	(316)	70
Total intangible assets with finite lives	368,287	(237,140)	131,147
In-process research and development, with indefinite lives	1,700	—	1,700
Total	$369,987	$(237,140)	$132,847

The following table presents net acquisition-related intangible assets by reportable segment as of April 30, 2014 and January 31, 2014:

(in thousands)	April 30, 2014	January 31, 2014
Enterprise Intelligence	$324,423	$115,928
Communications Intelligence	57,521	14,856
Video Intelligence	1,778	2,063
Total	$383,722	$132,847

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.

Total amortization expense recorded for acquisition-related intangible assets was $17.6 million and $9.7 million for the three months ended April 30, 2014 and 2013, respectively.

Estimated future amortization expense on finite-lived acquisition-related intangible assets as of April 30, 2014 is as follows:

(in thousands) Years Ending January 31,	Amount
2015 (remainder of year)	$61,112
2016	78,605
2017	75,012
2018	55,164
2019	26,016
2020 and thereafter	86,113
Total	$382,022

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and identifiable intangible assets acquired. At the acquisition date, goodwill resulting from a business combination is assigned to those reporting units expected to benefit from the synergies of the combination. Reporting units may either be at, or one level below, our operating segment level.

Goodwill activity for the three months ended April 30, 2014, in total and by reportable segment, was as follows:

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(in thousands)	Total	Reportable Segment Enterprise Intelligence	Communications Intelligence	Video Intelligence
Year Ended January 31, 2014:				
Goodwill, gross, at January 31, 2014	$920,254	$795,722	$47,838	$76,694
Accumulated impairment losses through January 31, 2014	(66,865)	(30,791)	—	(36,074)
Goodwill, net, at January 31, 2014	853,389	764,931	47,838	40,620
Business combinations	377,479	329,147	48,332	—
Foreign currency translation and other	12,092	11,217	427	448
Goodwill, net, at April 30, 2014	$1,242,960	$1,105,295	$96,597	$41,068
Balance at April 30, 2014:				
Goodwill, gross, at April 30, 2014	$1,309,825	$1,136,086	$96,597	$77,142
Accumulated impairment losses through April 30, 2014	(66,865)	(30,791)	—	(36,074)
Goodwill, net, at April 30, 2014	$1,242,960	$1,105,295	$96,597	$41,068

No events or circumstances indicating the potential for goodwill impairment were identified during the three months ended April 30, 2014.

6. LONG-TERM DEBT

The following table summarizes our long-term debt at April 30, 2014 and January 31, 2014:

(in thousands)	April 30, 2014	January 31, 2014
February 2014 Term Loans:		
Gross borrowings	$300,000	$—
Unamortized debt discount	(720)	—
February 2014 Term Loans, net	299,280	—
March 2014 Term Loans	643,500	—
March 2013 Term Loans:		
Gross borrowings	—	645,125
Unamortized debt discount	—	(2,827)
March 2013 Term Loans, net	—	642,298
Borrowings under 2013 Revolving Credit Facility	87,000	—
Other debt	81	87
Total debt	1,029,861	642,385
Less: current maturities	9,496	6,555
Long-term debt	$1,020,365	$635,830

In April 2011, we entered into a credit agreement (together with the subsequent amendments discussed herein, the “Credit Agreement") with our lenders and concurrently terminated a prior credit agreement. The Credit Agreement provided for $770.0 million of secured credit facilities, comprised of $600.0 million of term loans maturing in October 2017 (the “April 2011 Term Loans) and a $170.0 million revolving credit facility maturing in April 2016 (the “2011 Revolving Credit Facility”), subject to increase (up to a maximum increase of $300.0 million) and reduction from time to time.

The April 2011 Term Loans were subject to an original issuance discount of 0.50%, or $3.0 million, resulting in net proceeds of $597.0 million. The discount was being amortized as interest expense over the term of the April 2011 Term Loans using the effective interest method. We incurred debt issuance costs of $14.8 million associated with the Credit Agreement, which were deferred and were classified within other assets, and were being amortized as interest expense over the term of the Credit Agreement.

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On March 6, 2013, we entered into an amendment and restatement agreement with our lenders, providing for the amendment and restatement of the Credit Agreement. This amendment and restatement agreement provided for $850.0 million of senior secured credit facilities, comprised of (i) $650.0 million of term loans maturing in September 2019 (the "March 2013 Term Loans") and (ii) a $200.0 million revolving credit facility maturing in March 2018 (the “2013 Revolving Credit Facility”), subject to increase (up to a maximum increase of $300.0 million) and reduction from time to time.

The March 2013 Term Loans were subject to an original issuance discount of 0.50%, or $3.3 million, resulting in net proceeds of $646.7 million. The discount was being amortized as interest expense over the term of the March 2013 Term Loans using the effective interest method.

The majority of the proceeds of the March 2013 Term Loans were used to repay all $576.0 million of outstanding April 2011 Term Loans at the March 6, 2013 closing date of the amendment and restatement agreement. There were no outstanding borrowings under the 2011 Revolving Credit Facility at the closing date.

As further described below, on March 7, 2014, the March 2013 Term Loans were extinguished and replaced with the March 2014 Term Loans, and the basis for determining the interest rate on borrowings under the 2013 Revolving Credit Facility was also amended.

From March 6, 2013 through March 6, 2014, the March 2013 Term Loans and borrowings under the 2013 Revolving Credit Facility, if any, incurred interest, payable quarterly or, in the case of Eurodollar loans with an interest period of three months or shorter, at the end of any interest period, at a per annum rate of, at our election:

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

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

As of January 31, 2014, the interest rate on the March 2013 Term Loans was 4.00%.

At the March 6, 2013 closing date of the amendment and restatement agreement, there were $11.0 million of unamortized deferred fees and $2.2 million of unamortized original issuance discount associated with the April 2011 Term Loans and the 2011 Revolving Credit Facility. Of these $11.0 million of unamortized deferred fees, $3.5 million were associated with commitments under the 2011 Revolving Credit Facility provided by lenders that continued to provide revolving credit commitments under the 2013 Revolving Credit Facility and therefore continued to be deferred, and were being amortized over the remaining term of the Credit Agreement. The remaining $7.5 million of unamortized deferred fees and the $2.2 million unamortized original issuance discount, all of which related to the April 2011 Term Loans, were written off as a $9.7 million loss on extinguishment of debt in the year ended January 31, 2014.

We incurred debt issuance costs of approximately $7.5 million associated with the March 2013 Term Loans and the 2013 Revolving Credit Facility, which were deferred and classified within other assets and were being amortized as interest expense over the remaining term of the Credit Agreement. Of these deferred costs, $5.0 million were associated with the March 2013 Term Loans and were being amortized using the effective interest rate method, and $2.5 million were associated with the 2013 Revolving Credit Facility and were being amortized on a straight-line basis.

We are required to pay a commitment fee equal to 0.50% per annum of the undrawn portion on the 2013 Revolving Credit Facility, payable quarterly, and customary administrative agent and letter of credit fees. These fees were unchanged from the 2011 Revolving Credit Facility.

We were required to make principal payments of $1.6 million per quarter on the March 2013 Term Loans through August 1, 2019, with the remaining balance due in September 2019.

During the three months ended April 30, 2014, we entered into four separate amendments to the Credit Agreement as described below. On February 3, 2014, in connection with the acquisition of KANA, we borrowed $125.0 million under the 2013 Revolving Credit Facility and entered into Amendment No. 1 pursuant to which, on such date, we incurred $300.0 million of incremental term loans (the “February 2014 Term Loans”). The net proceeds of these borrowings were used to fund a portion of the KANA purchase price.

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The February 2014 Term Loans were subject to an original issuance discount of 0.25%, or $0.8 million, which is being amortized as interest expense over the term of the February 2014 Term Loans using the effective interest method.

The February 2014 Term Loans bear interest, payable quarterly or, in the case of Eurodollar loans with an interest period of three months or less, at the end of the applicable interest period, at a per annum rate of, at our election:

(a) in the case of Eurodollar loans, the Adjusted LIBO Rate plus 2.75%. The Adjusted LIBO Rate is the greater of (i) 0.75% per annum and (ii) the product of (x) the LIBO Rate and (y) Statutory Reserves (both as defined in the Credit Agreement), and

(b) in the case of Base Rate loans, the Base Rate plus 1.75%. The Base Rate is the greatest of (i) the administrative agent's prime rate, (ii) the Federal Funds Effective Rate (as defined in the Credit Agreement) plus 0.50% and (iii) the Adjusted LIBO Rate for a one-month interest period plus 1.00%.

As of April 30, 2014, the interest rate on the February 2014 Term Loans was 3.50%. Including the impact of the 0.25% original issuance discount and related deferred debt issuance costs, the effective interest rate on the February 2014 Term Loans was approximately 4.02% at such date.

We incurred debt issuance costs of approximately $7.0 million associated with the February 2014 Term Loans, which have been deferred and are classified within other assets and are being amortized as interest expense over the term of the February 2014 Term Loans using the effective interest rate method.

We are required to make principal payments of $0.8 million per quarter on the February 2014 Term Loans commencing on May 1, 2014 and continuing through August 1, 2019, with the remaining balance due in September 2019. Optional prepayments of the February 2014 Term Loans are permitted without premium or penalty, other than customary breakage costs associated with the prepayment of loans bearing interest based on LIBO Rates and a 1.0% premium applicable in the event of specified repricing transactions prior to September 8, 2014.

On February 3, 2014, we also entered into Amendment No. 2 to, among other things, (i) permit us to increase the permitted amount of additional incremental term loans and revolving credit commitments under the Credit Agreement (beyond the February 2014 Term Loans borrowed under Amendment No. 1) by up to, in the aggregate, $200.0 million plus an additional amount such that the First Lien Leverage Ratio (as defined in Amendment No. 2) would not exceed the specified maximum ratio set forth therein, (ii) increase the size of certain negative covenant basket carve-outs, (iii) permit us to issue Permitted Convertible Indebtedness (as defined in Amendment No. 2), and (iv) permit us to refinance all or a portion of any existing class of term loans under the Credit Agreement with replacement term loans.

Further, on February 3, 2014, we entered into Amendment No. 3 to extend by one year, to January 31, 2016, the step-down date of the leverage ratio covenant applicable to our 2013 Revolving Credit Facility and, subject to the effectiveness of Amendment No. 4 (as described below), reprice the interest rate applicable to borrowings under the 2013 Revolving Credit Facility to the interest rate applicable to the February 2014 Term Loans.

On March 7, 2014, we entered into Amendment No. 4 to refinance all $643.5 million of outstanding March 2013 Term Loans at that date with $643.5 million of new term loans (the "March 2014 Term Loans"). The provisions for determining the interest rate on the March 2014 Term Loans is identical to such provisions for the February 2014 Term Loans. The repricing of the interest rate applicable to borrowings under the 2013 Revolving Credit Facility contemplated by Amendment No. 3 became effective on March 7, 2014, upon the effectiveness of Amendment No. 4.

As of April 30, 2014, the interest rate on the March 2014 Term Loans was 3.50%. Including the impact the related deferred debt issuance costs, the effective interest rate on the March 2014 Term Loans was approximately 3.58% at such date.

We are required to make principal payments of $1.6 million per quarter on the March 2014 Term Loans through August 1, 2019, with the remaining balance due in September 2019. Optional prepayments of the loans are permitted without premium or penalty, other than customary breakage costs associated with the prepayment of loans bearing interest based on LIBO Rates. The March 2014 Term Loans otherwise retained all of the terms and conditions of the March 2013 Term Loans.

The loans under the Credit Agreement are subject to mandatory prepayment requirements with respect to certain asset sales, excess cash flows (as defined in the Credit Agreement), and certain other events. Prepayments are applied first to the eight

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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.

The refinancing of the March 2013 Term Loans with the March 2014 Term Loans pursuant to Amendment No. 4 was accounted for as an extinguishment of the March 2013 Term Loans, and as a result, $4.3 million of unamortized deferred fees and $2.8 million of unamortized original issuance discount associated with the March 2013 Term Loans as of the March 7, 2014 effective date of Amendment No. 4 were written off as a $7.1 million loss on extinguishment of debt for the three months ended April 30, 2014.

We incurred $2.5 million of fees in consideration of Amendment No. 4, which have been deferred and are classified within other assets and are being amortized as interest expense over the remaining term of the March 2014 Term Loans using the effective interest rate method. There was no original issuance discount on the March 2014 Term Loans.

Borrowings under the 2013 Revolving Credit Facility were $87.0 million at April 30, 2014. The initial interest rate on the February 3, 2014 borrowings under the 2013 Revolving Credit Facility was 4.00%, but was adjusted to 3.50% on March 7, 2014, as further described above, and remained at 3.50% at April 30, 2014.

As of April 30, 2014, future scheduled principal payments on the February 2014 Term Loans and March 2014 Term Loans are as presented in the following table:

(in thousands)	February 2014	March 2014
Years Ending January 31,	Term Loans	Term Loans
2015 (remainder of year)	$2,250	$4,826
2016	3,000	6,435
2017	3,000	6,435
2018	3,000	6,435
2019	3,000	6,435
2020	285,750	612,934
Total	$300,000	$643,500

We incurred interest on borrowings under our credit facilities of $9.2 million and $6.4 million during the three months ended April 30, 2014 and 2013, respectively. In addition, we recorded $0.7 million and $0.6 million during the three months ended April 30, 2014 and 2013, respectively, for amortization of our deferred debt issuance costs, which is also reported within interest expense on our condensed consolidated statements of operations. We also recorded $0.1 million during each of the three months ended April 30, 2014 and 2013 for amortization of original issuance term loan discounts, which is also reported within interest expense on our condensed consolidated statements of operations.

Our 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 documents.

The Credit Agreement contains certain customary affirmative and negative covenants for credit facilities of this type, which include limitations on us and our subsidiaries with respect to indebtedness, liens, nature of business, investments and loans, distributions, acquisitions, dispositions of assets, sale-leaseback transactions and transactions with affiliates. The 2013 Revolving Credit Facility also contains a financial covenant that requires us to maintain a ratio of Consolidated Total Debt to Consolidated EBITDA (each as defined in the Credit Agreement) of no greater than 5.00 to 1 until January 31, 2016 (as amended on February 3, 2014 by Amendment No. 3, as described above) and no greater than 4.50 to 1 thereafter (the "Leverage Ratio Covenant"). The limitations imposed by the covenants are subject to certain exceptions as detailed in the Credit Agreement.

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

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itself, result in an event of default under the February 2014 Term Loans or March 2014 Term Loans but may trigger a cross-default under the term loans in the event we are required to repay outstanding borrowings under the 2013 Revolving Credit Facility. Upon the occurrence of other events of default, the lenders may require us to immediately repay all outstanding borrowings under the Credit Agreement and the lenders under our 2013 Revolving Credit Facility may terminate their commitments to provide loans under the facility.

Our other debt at April 30, 2014 consisted of $0.1 million of development bank and government debt, related to a past business combination.

7. SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENT INFORMATION

Condensed Consolidated Balance Sheets

Inventories consisted of the following as of April 30, 2014 and January 31, 2014:

(in thousands)	April 30, 2014	January 31, 2014
Raw materials	$7,522	$3,190
Work-in-process	7,576	5,645
Finished goods	1,641	1,858
Total inventories	$16,739	$10,693

Condensed Consolidated Statements of Operations

Other income (expense), net consisted of the following for the three months ended April 30, 2014 and 2013:

	Three Months Ended April 30,	
(in thousands)	2014	2013
Foreign currency gains (losses), net	$3,195	$(1,720)
(Losses) gains on derivative financial instruments, net	(737)	430
Other, net	370	(518)
Total other income (expense), net	$2,828	$(1,808)

Condensed Consolidated Statements of Cash Flows

The following table provides supplemental information regarding our condensed consolidated cash flows for the three months ended April 30, 2014 and 2013:

	Three Months Ended April 30,	
(in thousands)	2014	2013
Cash paid for interest	$9,850	$6,985
Cash payments of income taxes, net of refunds received	$3,477	$2,685
Non-cash investing and financing transactions:		
Net non-cash assets acquired in CTI Merger	$—	$3,727
Accrued but unpaid purchases of property and equipment	$780	$792
Inventory transfers to property and equipment	$25	$153
Liabilities for contingent consideration in business combinations	$4,947	$—
Stock options exercised, proceeds received subsequent to period end	$106	$1
Purchases under supplier financing arrangements	$280	$—

Accrued but unpaid debt issuance and other debt-related costs	$363	$741

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8. STOCKHOLDERS' EQUITY

Dividends on Common Stock

We did not declare or pay any dividends on our common stock during the three months ended April 30, 2014 and 2013. Commencing in May 2007, with our issuance of Series A Convertible Preferred Stock and our entry into a prior credit agreement, and continuing under the terms of our current Credit Agreement, we are subject to certain restrictions on declaring and paying dividends on our common stock. Our Series A Convertible Preferred Stock was canceled on February 4, 2013 in connection with the CTI Merger, further details of which appear in Note 14, "Merger with CTI".

Treasury Stock

Repurchased shares of common stock are recorded as treasury stock, at cost. At April 30, 2014 and January 31, 2014, we held approximately 302,000 shares of treasury stock with a cost of $8.0 million.

We did not acquire any treasury stock during the three months ended April 30, 2014 and 2013.

Accumulated Other Comprehensive Loss

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

The following table summarizes changes in the components of our accumulated other comprehensive loss by component for the three months ended April 30, 2014:

(in thousands)	Unrealized Gains on Derivative Financial Instruments Designated as Hedges	Unrealized Gains on Available-for-Sale Investments	Foreign Currency Translation Adjustments	Total
Accumulated other comprehensive income (loss) at January 31, 2014	$1,485	$ 9	$(41,219)	$(39,725)
Other comprehensive income (loss) before reclassifications	1,004	(3)	16,710	17,711
Amounts reclassified out of accumulated other comprehensive income (loss)	(795)	—	—	(795)
Net other comprehensive income (loss), current period	209	(3)	16,710	16,916
Accumulated other comprehensive income (loss) at April 30, 2014	$1,694	$ 6	$(24,509)	$(22,809)

All amounts presented in the table above are net of income taxes, if applicable.

The amounts reclassified out of accumulated other comprehensive loss into the condensed consolidated statements of operations, with presentation location, for the three months ended April 30, 2014 and 2013 were as follows:

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(in thousands)	Three Months Ended April 30, 2014	2013	Affected Line Items in the Condensed Consolidated Statement of Operations
Unrealized (gains) on derivative financial instruments:			
Foreign currency forward contracts	$(65)	$(66)	Cost of product revenue
	(61)	(66)	Cost of service revenue
	(481)	(438)	Research and development, net
	(223)	(210)	Selling, general and administrative
	(830)	(780)	Total before provision for income taxes
	35	70	Provision for income taxes
	$(795)	$(710)	Total, net of income taxes

Noncontrolling Interest

The noncontrolling interest presented in our condensed consolidated financial statements reflects a 50% noncontrolling equity interest in a joint venture which functions as a systems integrator for Asian markets.

9. CONVERTIBLE PREFERRED STOCK

On May 25, 2007, we entered into an agreement with CTI whereby CTI purchased 293,000 shares of our Series A Convertible Preferred Stock for an aggregate cash purchase price of $293.0 million.

On February 4, 2013, the CTI Merger was completed and eliminated CTI's majority ownership and control of us. Each of the 293,000 outstanding shares of Series A Convertible Preferred Stock, all of which was held by CTI, was canceled upon completion of the CTI Merger. Upon cancellation of these 293,000 shares of Series A Convertible Preferred Stock, our authorized shares of preferred stock were reduced from 2,500,000 shares to 2,207,000 shares, in accordance with the certificate of designation for the Series A Convertible Preferred Stock.

Further details regarding the CTI Merger appear in Note 14, "Merger Agreement with CTI".

10. INCOME TAXES

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

For the three months ended April 30, 2014, we recorded an income tax benefit of $42.1 million on a pre-tax loss of $13.3 million, which represented an effective income tax benefit rate of 317.2%. The current period income tax benefit is primarily attributable to the release of $45.2 million of Verint valuation allowances. We maintain valuation allowances on our net U.S. deferred income tax assets related to federal and certain state jurisdictions. In connection with the acquisition of KANA, we recorded deferred income tax liabilities primarily attributable to acquired intangible assets to the extent the amortization will not be deductible for tax purposes. Under accounting guidelines, because the amortization of the intangible assets in future periods provides a source of taxable income, we expect to realize a portion of our existing deferred income tax assets. As such, we have reduced the valuation allowance recorded on our deferred income tax assets to the extent of the deferred income tax liabilities recorded. Because the valuation allowance related to existing Verint deferred income tax assets, the impact of the release is reflected as a discrete income tax benefit and not as a component of the KANA acquisition accounting. The effective income tax rate was also affected by the mix and levels of income and losses among taxing jurisdictions. Pre-tax income in our profitable jurisdictions, where we recorded tax provisions, was less than our domestic losses where we maintain valuation allowances and did not record the related tax benefits. Excluding the income tax benefit attributable to the valuation allowance release, the result was an income tax provision of $3.1 million on a pre-tax loss $13.3 million, resulting in a negative effective tax rate of 23.2%.

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For the three months ended April 30, 2013, we recorded a $3.1 million provision for income taxes on a pre-tax loss of $4.8 million, which represented a negative effective income tax rate of 64.2%. The income tax provision does not include income tax benefits on losses incurred by certain domestic operations where we maintain valuation allowances and is mainly the result of the activities of profitable jurisdictions. Our pre-tax income in profitable jurisdictions, where we record tax provisions, was lower than domestic losses where we maintain valuation allowances and do not record tax benefits, resulting in a negative effective income tax rate.

As required by the authoritative guidance on accounting for income taxes, we evaluate the realizability of deferred income 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 income tax assets will not be realized. In circumstances where there is sufficient negative evidence indicating that the deferred income 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 income 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 $151.5 million and $145.4 million (excluding interest and penalties) as of April 30, 2014 and January 31, 2014, respectively. The accrued liability for interest and penalties was $10.2 million and $8.7 million at April 30, 2014 and January 31, 2014, respectively. Interest and penalties are recorded as a component of the provision for income taxes in our condensed consolidated statements of operations. As of April 30, 2014 and January 31, 2014, the total amount of unrecognized tax benefits that, if recognized, would impact our effective tax rate were approximately $145.8 million and $139.7 million, respectively. We regularly assess the adequacy of our provisions for income tax contingencies in accordance with the applicable authoritative guidance on accounting for income taxes. As a result, we may adjust the reserves for unrecognized tax benefits for the impact of new facts and developments, such as changes to interpretations of relevant tax law, assessments from taxing authorities, settlements with taxing authorities, and lapses of statutes of limitation. Further, we believe that it is reasonably possible that the total amount of unrecognized tax benefits at April 30, 2014 could decrease by approximately $3.2 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 income 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.

11. FAIR VALUE MEASUREMENTS

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

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

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

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We review the fair value hierarchy classification of our applicable assets and liabilities at each reporting period. Changes in the observability of valuation inputs may result in transfers within the fair value measurement hierarchy. There were no transfers between levels of the fair value measurement hierarchy during the three months ended April 30, 2014 and 2013.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Our assets and liabilities measured at fair value on a recurring basis consisted of the following as of April 30, 2014 and January 31, 2014:

	April 30, 2014		
	Fair Value Hierarchy Category		
(in thousands)	Level 1	Level 2	Level 3
Assets:			
Money market funds	$536	$—	$—
Short-term investments, classified as available-for-sale	—	9,554	—
Foreign currency forward contracts	—	2,154	—
Total assets	$536	$11,708	$—
Liabilities:			
Foreign currency forward contracts	$—	$920	$—
Contingent consideration - business combinations	—	—	19,119
Total liabilities	$—	$920	$19,119

	January 31, 2014		
	Fair Value Hierarchy Category		
(in thousands)	Level 1	Level 2	Level 3
Assets:			
Money market funds	$14,023	$—	$—
Commercial paper (1)	—	49,991	—
Short-term investments, classified as available for sale	—	9,406	—
Foreign currency forward contracts	—	2,466	—
Total assets	$14,023	$61,863	$—
Liabilities:			
Foreign currency forward contracts	$—	$846	$—
Contingent consideration - business combinations	—	—	17,307
Total liabilities	$—	$846	$17,307

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

The following table presents the changes in the estimated fair values of our liabilities for contingent consideration measured using significant unobservable inputs (Level 3) for the three months ended April 30, 2014 and 2013:

	Three Months Ended April 30,	
(in thousands)	2014	2013
Fair value measurement at beginning of period	$17,307	$25,041
Contingent consideration liabilities recorded for business combinations	4,947	—
Changes in fair values, recorded in operating expenses	(194)	757
Payments of contingent consideration	(3,080)	(3,928)

Foreign exchange translation and other	139	—
Fair value measurement at end of period	$19,119	$21,870

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.

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Fair Value Measurements

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

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

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

Contingent Consideration - Business Combinations - The fair value of the contingent consideration related to business combinations is estimated using a probability-adjusted discounted cash flow model. These fair value measurements are based on significant inputs not observable in the market. The key internally developed assumptions used in these models are discount rates and the probabilities assigned to the milestones to be achieved. We remeasure the fair value of the contingent consideration at each reporting period, and any changes in fair value resulting from either the passage of time or events occurring after the acquisition date, such as changes in discount rates, or in the expectations of achieving the performance targets, are recorded within selling, general, and administrative expenses. Increases or decreases in discount rates would have inverse impacts on the related fair value measurements, while favorable or unfavorable changes in expectations of achieving performance targets would result in corresponding increases or decreases in the related fair value measurements. We utilized discount rates ranging from 1.1% to 40.0% in our calculations of the estimated fair values of our contingent consideration liabilities as of April 30, 2014. We utilized discount rates ranging from 1.1% to 27.0% in our calculations of the estimated fair values of our contingent consideration liabilities as of January 31, 2014.

Other Financial Instruments

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

The estimated fair values of our term loans and our revolving credit borrowings at April 30, 2014 were approximately $941 million and $80 million, respectively. The estimated fair value of our term loans at January 31, 2014 was $647 million. We had no revolving credit borrowings at January 31, 2014. The estimated fair values of our term loans are based upon indicative bid and ask prices as determined by the agent responsible for the syndication of our term loans. 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 loans are traded. The indicative prices of our term loans provided to us as at each of April 30, 2014 and January 31, 2014 did not significantly differ from par value. The estimated fair value of our revolving credit borrowings is based upon indicative market values provided by one of our lenders.

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. Further details regarding our regular impairment reviews appear in Note 1, "Summary of Significant Accounting Policies".

12. DERIVATIVE FINANCIAL INSTRUMENTS

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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 currency forward contracts to hedge certain operational cash flow exposures resulting from changes in foreign currency exchange rates. These cash flow exposures result from portions of our forecasted operating expenses, primarily compensation and related expenses, which are transacted in currencies other than the U.S. dollar, primarily the Israeli shekel and the Canadian dollar. We also periodically utilize foreign currency forward contracts to manage exposures resulting from forecasted customer collections to be remitted in currencies other than the applicable functional currency, and exposures from cash, cash equivalents and short-term investments denominated in currencies other than the applicable functional currency. Our joint venture, which has a Singapore dollar functional currency, also utilizes foreign exchange forward contracts to manage its exposure to exchange rate fluctuations related to settlements of liabilities denominated in U.S. dollars. These foreign currency forward contracts are reported at fair value on our 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 $131.8 million and $127.6 million as of April 30, 2014 and January 31, 2014, respectively.

Fair Values of Derivative Financial Instruments

The fair values of our derivative financial instruments as of April 30, 2014 and January 31, 2014 were as follows:

	April 30, 2014			
	Assets		Liabilities	
(in thousands)	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
Derivative financial instruments designated as hedging instruments:				
Foreign currency forward contracts	Prepaid expenses and other current assets	$2,147	Accrued expenses and other liabilities	$319
		$2,147		$319

Total derivative financial instruments designated as hedging instruments				
Derivative financial instruments not designated as hedging instruments:				
Foreign currency forward contracts	Prepaid expenses and other current assets	$7	Accrued expenses and other liabilities	$601
Total derivative financial instruments not designated as hedging instruments		$7		$601

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	January 31, 2014			
(in thousands)	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	$2,245	Accrued expenses and other liabilities	$769
Total derivative financial instruments designated as hedging instruments		$2,245		$769
Derivative financial instruments not designated as hedging instruments:				
Foreign currency forward contracts	Prepaid expenses and other current assets	$221	Accrued expenses and other liabilities	$77
Total derivative financial instruments not designated as hedging instruments		$221		$77

Derivative Financial Instruments in Cash Flow Hedging Relationships

The effects of derivative financial instruments designated as cash flow hedging instruments as of April 30, 2014 and January 31, 2014, and for the three months ended April 30, 2014 and 2013 were as follows:

	Net Gains Recognized in Accumulated Other Comprehensive Income (Loss)		Classification of Net Gains Reclassified from Other Comprehensive Loss into the Condensed Consolidated Statements of Operations	Net Gains Reclassified from Other Comprehensive Income (Loss) into the Consolidated Statements of Operations	
	April 30,	January 31,		Three Months Ended April 30,	
(in thousands)	2014	2014		2014	2013
Foreign currency forward contracts	$1,694	$1,485	Operating Expenses	$830	$780

There were no gains or losses from ineffectiveness of these hedges recorded for the three months ended April 30, 2014 and 2013. All of the foreign currency forward contracts underlying the $1.7 million of net unrealized gains recorded in our accumulated other comprehensive loss at April 30, 2014 mature within twelve months, and therefore we expect all such gains to be reclassified into earnings within the next twelve months.

Derivative Financial Instruments Not Designated as Hedging Instruments

Gains (losses) recognized on derivative financial instruments not designated as hedging instruments in our condensed consolidated statements of operations for the three months ended April 30, 2014 and 2013 were as follows:

	Classification in Condensed Consolidated Statements of	Three Months Ended April 30,	
(in thousands)	Operations	2014	2013

Foreign currency forward contracts	Other income (expense), net	$(737)	$430
Total		$(737)	$430

13. STOCK-BASED COMPENSATION

We recognized stock-based compensation expense in the following line items on the condensed consolidated statements of operations for the three months ended April 30, 2014 and 2013:

(in thousands)	Three Months Ended April 30, 2014	2013
Component of condensed consolidated statements of operations:		
Cost of revenue - product	$198	$130
Cost of revenue - service and support	887	267
Research and development, net	1,202	613
Selling, general and administrative	9,202	5,223
Stock-based compensation expense	$11,489	$6,233

The following table summarizes stock-based compensation expense by type of award for the three months ended April 30, 2014 and 2013:

(in thousands)	Three Months Ended April 30, 2014	2013
Component of stock-based compensation expense:		
Restricted stock units and restricted stock awards	$10,389	$5,361
Stock options	15	53
Phantom stock units	21	31
Stock bonus program	1,064	788
Stock-based compensation expense	$11,489	$6,233

Total stock-based compensation expense by classification was as follows for the three months ended April 30, 2014 and 2013:

(in thousands)	Three Months Ended April 30, 2014	2013
Equity-classified awards	$10,228	$5,719
Liability-classified awards	1,261	514
Total stock-based compensation expense	$11,489	$6,233

The increase in stock-based compensation expense in the three months ended April 30, 2014, compared to the corresponding prior-year period, resulted primarily from the combination of an increase in the number of outstanding RSUs along with a general increase in the price of our common stock, which is used to determine the grant-date fair value of an RSU.

Stock Options

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

The following table summarizes stock option activity and related information for the three months ended April 30, 2014:

(in thousands, except per share data)	Stock Options	Weighted-Average Exercise Price
Options outstanding, January 31, 2014	516	$ 34.60
Options exercised	(181	