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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended October 31, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File No. 001-34807



**Verint Systems Inc.**

(Exact Name of Registrant as Specified in its Charter)

Delaware	11-3200514
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

175 Broadhollow 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  No

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

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

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

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

There were 62,253,779 shares of the registrant's common stock outstanding on November 13, 2015.

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**Verint Systems Inc. and Subsidiaries**  
**Index to Form 10-Q**  
**As of and For the Period Ended October 31, 2015**

	<u>Page</u>
Cautionary Note on Forward-Looking Statements	ii
<b>Part I. Financial Information</b>	<b>1</b>
Item 1. Financial Statements (Unaudited)	1
Condensed Consolidated Balance Sheets	2
Condensed Consolidated Statements of Operations	3
Condensed Consolidated Statements of Comprehensive Income (Loss)	4
Condensed Consolidated Statements of Stockholders' Equity	5
Condensed Consolidated Statements of Cash Flows	6
Notes to Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	35
Item 3. Quantitative and Qualitative Disclosures About Market Risk	51
Item 4. Controls and Procedures	52
<b>Part II. Other Information</b>	<b>53</b>
Item 1. Legal Proceedings	53
Item 1A. Risk Factors	53
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	53
Item 3. Defaults Upon Senior Securities	53
Item 4. Mine Safety Disclosures	53
Item 5. Other Information	53
Item 6. Exhibits	54
<b>Signature</b>	<b>55</b>

## 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, customer challenges, and evolving industry standards in our product offerings, adapt to changing market potential from area to area within our markets and successfully develop, launch, and drive demand for new, 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 valuations, capital constraints, costs and expenses, maintaining profitability levels, expansion into new areas of growth, management distraction, post-acquisition integration activities, and potential asset impairments;
- risks relating to our ability to effectively and efficiently enhance our existing operations and 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, developmental, strategic, or other opportunities, and risk that such investments may not come to fruition or produce satisfactory returns;
- risks that we may be unable to establish and maintain relationships with key resellers, partners, and systems integrators;
- risks associated with our reliance on third-party suppliers, partners, or original equipment manufacturers ("OEMs") for certain components, products, or services, including companies that may compete with us or work with our competitors;
- risks associated with the mishandling or perceived mishandling of sensitive or confidential information or with security lapses, including information technology system breaches, failures, or disruptions;
- risks that our products or services, or those of third-party suppliers, partners, or OEMs which we incorporate into our offerings or otherwise rely on, may contain defects or may be vulnerable to cyber-attacks;
- 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 currency 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 applicable projects;

## [Table of Contents](#)

- risks associated with complex and changing local and foreign regulatory environments in the jurisdictions in which we operate;
- risks associated with our ability to retain and recruit qualified personnel in regions in which we operate, including in new markets and growth areas we may enter;
- challenges associated with selling sophisticated solutions, including with respect to educating our customers on the benefits of our solutions or assisting them in realizing such benefits;
- challenges associated with our strategy of pursuing larger sales opportunities that often involve longer sales cycles, including with respect to transaction reductions, deferrals, or cancellations during the sales cycle, ability to accurately forecast when a sales opportunity will convert to an order, or to forecast revenue and expenses, and increased volatility of our operating results from period to period;
- risks that our intellectual property rights may not be adequate to protect our business or assets, or that others may make claims on our intellectual property or claim infringement on their intellectual property rights;
- risks that our 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 liquidity considerations, covenant limitations and compliance, fluctuations in interest rates, dilution considerations (with respect to our convertible notes), 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, Xura, Inc. (formerly, Comverse, Inc., ("Xura")), being unwilling or unable to provide us with certain indemnities or transition services to which we are entitled;
- risks relating to the adequacy of our existing infrastructure, systems, processes, policies, procedures, and personnel and our ability to successfully implement and maintain adequate systems and internal controls for our current and future operations and reporting needs, including 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.

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, 2015. You are cautioned not to place undue reliance on forward-looking statements, which reflect our management's view only as of the date of this report. We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances after the date any such statement is made, except as otherwise required under the federal securities laws. If we were in any particular instance to update or correct a forward-looking statement, investors and others should not conclude that we would make additional updates or corrections thereafter except as otherwise required under the federal securities laws.

**Part I**

**Item 1. Financial Statements**

**VERINT SYSTEMS INC. AND SUBSIDIARIES**

**Index to Condensed Consolidated Financial Statements (Unaudited)**

	<u>Page</u>
Condensed Consolidated Balance Sheets as of October 31, 2015 and January 31, 2015	2
Condensed Consolidated Statements of Operations for the Three and Nine Months Ended October 31, 2015 and 2014	3
Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended October 31, 2015 and 2014	4
Condensed Consolidated Statements of Stockholders' Equity for the Nine Months Ended October 31, 2015 and 2014	5
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended October 31, 2015 and 2014	6
Notes to Condensed Consolidated Financial Statements	7

[Table of Contents](#)

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

(in thousands, except share and per share data)	October 31, 2015	January 31, 2015
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 272,260	\$ 285,072
Restricted cash and bank time deposits	17,910	36,920
Short-term investments	94,897	35,751
Accounts receivable, net of allowance for doubtful accounts of \$0.8 million and \$1.1 million, respectively	254,668	262,092
Inventories	17,827	17,505
Deferred cost of revenue	3,460	6,722
Prepaid expenses and other current assets	73,649	66,130
<b>Total current assets</b>	<b>734,671</b>	<b>710,192</b>
Property and equipment, net	64,482	62,490
Goodwill	1,232,529	1,200,817
Intangible assets, net	274,504	311,894
Capitalized software development costs, net	11,530	10,112
Long-term deferred cost of revenue	13,311	14,555
Other assets	38,365	40,936
<b>Total assets</b>	<b>\$ 2,369,392</b>	<b>\$ 2,350,996</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 66,631	\$ 72,885
Accrued expenses and other current liabilities	211,552	223,744
Deferred revenue	141,748	181,259
<b>Total current liabilities</b>	<b>419,931</b>	<b>477,888</b>
Long-term debt	743,311	736,779
Long-term deferred revenue	21,434	20,544
Other liabilities	111,021	110,882
<b>Total liabilities</b>	<b>1,295,697</b>	<b>1,346,093</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity:</b>		
Preferred stock - \$0.001 par value; authorized 2,207,000 shares at October 31, 2015 and January 31, 2015, respectively; none issued.	—	—
Common stock - \$0.001 par value; authorized 120,000,000 shares. Issued 62,601,000 and 61,253,000 shares; outstanding 62,253,000 and 60,905,000 shares at October 31, 2015 and January 31, 2015, respectively.	63	61
Additional paid-in capital	1,373,775	1,321,455
Treasury stock, at cost - 348,000 shares at October 31, 2015 and January 31, 2015.	(10,251)	(10,251)
Accumulated deficit	(218,941)	(219,074)
Accumulated other comprehensive loss	(80,849)	(94,335)
<b>Total Verint Systems Inc. stockholders' equity</b>	<b>1,063,797</b>	<b>997,856</b>
Noncontrolling interest	9,898	7,047
<b>Total stockholders' equity</b>	<b>1,073,695</b>	<b>1,004,903</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,369,392</b>	<b>\$ 2,350,996</b>

See notes to condensed consolidated financial statements.

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

(in thousands, except per share data)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
<b>Revenue:</b>				
Product	\$ 115,573	\$ 118,346	\$ 340,139	\$ 339,657
Service and support	168,481	164,228	509,333	477,126
<b>Total revenue</b>	<b>284,054</b>	<b>282,574</b>	<b>849,472</b>	<b>816,783</b>
<b>Cost of revenue:</b>				
Product	34,982	32,925	111,756	104,524
Service and support	61,475	60,082	188,576	178,939
Amortization of acquired technology	9,060	8,096	26,896	23,018
<b>Total cost of revenue</b>	<b>105,517</b>	<b>101,103</b>	<b>327,228</b>	<b>306,481</b>
<b>Gross profit</b>	<b>178,537</b>	<b>181,471</b>	<b>522,244</b>	<b>510,302</b>
<b>Operating expenses:</b>				
Research and development, net	45,443	43,008	134,741	128,408
Selling, general and administrative	99,870	102,738	314,489	310,946
Amortization of other acquired intangible assets	10,896	11,367	32,366	34,124
<b>Total operating expenses</b>	<b>156,209</b>	<b>157,113</b>	<b>481,596</b>	<b>473,478</b>
<b>Operating income</b>	<b>22,328</b>	<b>24,358</b>	<b>40,648</b>	<b>36,824</b>
<b>Other income (expense), net:</b>				
Interest income	335	208	992	683
Interest expense	(8,467)	(8,494)	(25,365)	(28,103)
Losses on early retirements of debt	—	—	—	(12,546)
Other (expense) income, net	(4,175)	167	(7,715)	1,266
<b>Total other expense, net</b>	<b>(12,307)</b>	<b>(8,119)</b>	<b>(32,088)</b>	<b>(38,700)</b>
<b>Income (loss) before provision (benefit) for income taxes</b>	<b>10,021</b>	<b>16,239</b>	<b>8,560</b>	<b>(1,876)</b>
Provision (benefit) for income taxes	1,551	4,766	5,119	(31,788)
<b>Net income</b>	<b>8,470</b>	<b>11,473</b>	<b>3,441</b>	<b>29,912</b>
Net income attributable to noncontrolling interest	836	803	3,308	3,564
<b>Net income attributable to Verint Systems Inc.</b>	<b>\$ 7,634</b>	<b>\$ 10,670</b>	<b>\$ 133</b>	<b>\$ 26,348</b>
<b>Net income per common share attributable to Verint Systems Inc.:</b>				
Basic	\$ 0.12	\$ 0.18	\$ 0.00	\$ 0.46
Diluted	<b>\$ 0.12</b>	<b>\$ 0.17</b>	<b>\$ 0.00</b>	<b>\$ 0.45</b>
<b>Weighted-average common shares outstanding:</b>				
Basic	62,206	60,644	61,666	57,222
Diluted	<b>62,778</b>	<b>61,492</b>	<b>62,803</b>	<b>58,332</b>

See notes to condensed consolidated financial statements.

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

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
<b>Net income</b>	<b>\$ 8,470</b>	<b>\$ 11,473</b>	<b>\$ 3,441</b>	<b>\$ 29,912</b>
<b>Other comprehensive income (loss), net of reclassification adjustments:</b>				
Foreign currency translation adjustments	(6,568)	(28,355)	4,854	(13,363)
Net unrealized (losses) gains on available-for-sale securities	(156)	—	(112)	13
Net unrealized (losses) gains on derivative financial instruments designated as hedges	(686)	(9,632)	9,343	(9,047)
Benefit (provision) for income taxes on net unrealized (losses) gains on derivative financial instruments designated as hedges	35	998	(1,056)	840
<b>Other comprehensive (loss) income</b>	<b>(7,375)</b>	<b>(36,989)</b>	<b>13,029</b>	<b>(21,557)</b>
<b>Comprehensive income (loss)</b>	<b>1,095</b>	<b>(25,516)</b>	<b>16,470</b>	<b>8,355</b>
Comprehensive income attributable to noncontrolling interest	468	627	2,851	3,491
<b>Comprehensive income (loss) attributable to Verint Systems Inc.</b>	<b>\$ 627</b>	<b>\$ (26,143)</b>	<b>\$ 13,619</b>	<b>\$ 4,864</b>

See notes to condensed consolidated financial statements.

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

Verint Systems Inc. Stockholders' Equity										
(in thousands)	Common Stock			Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Verint Systems Inc. Stockholders' Equity	Non-controlling Interest	Total Stockholders' Equity	
	Shares	Par Value	Additional Paid-in Capital							
<b>Balances at January 31, 2014</b>	<b>53,605</b>	<b>\$ 54</b>	<b>\$ 924,663</b>	<b>\$ (8,013)</b>	<b>\$ (250,005)</b>	<b>\$ (39,725)</b>	<b>\$ 626,974</b>	<b>\$ 6,144</b>	<b>\$ 633,118</b>	
Net income	—	—	—	—	26,348	—	26,348	3,564	29,912	
Other comprehensive loss	—	—	—	—	—	(21,484)	(21,484)	(73)	(21,557)	
Common stock issued in public offering, net of issuance costs	5,750	6	264,927	—	—	—	264,933	—	264,933	
Equity component of convertible notes, net of issuance costs	—	—	78,209	—	—	—	78,209	—	78,209	
Purchase of convertible note hedges	—	—	(60,800)	—	—	—	(60,800)	—	(60,800)	
Issuance of warrants	—	—	45,188	—	—	—	45,188	—	45,188	
Stock-based compensation - equity portion	—	—	35,702	—	—	—	35,702	—	35,702	
Exercises of stock options	378	—	13,135	—	—	—	13,135	—	13,135	
Common stock issued for stock awards and stock bonuses	1,020	1	4,531	—	—	—	4,532	—	4,532	
Purchases of treasury stock	(46)	—	—	(2,238)	—	—	(2,238)	—	(2,238)	
Tax effects from stock award plans	—	—	328	—	—	—	328	—	328	
<b>Balances at October 31, 2014</b>	<b>60,707</b>	<b>\$ 61</b>	<b>\$1,305,883</b>	<b>\$ (10,251)</b>	<b>\$ (223,657)</b>	<b>\$ (61,209)</b>	<b>\$ 1,010,827</b>	<b>\$ 9,635</b>	<b>\$ 1,020,462</b>	
<b>Balances at January 31, 2015</b>	<b>60,905</b>	<b>\$ 61</b>	<b>\$1,321,455</b>	<b>\$ (10,251)</b>	<b>\$ (219,074)</b>	<b>\$ (94,335)</b>	<b>\$ 997,856</b>	<b>\$ 7,047</b>	<b>\$ 1,004,903</b>	
Net income	—	—	—	—	133	—	133	3,308	3,441	
Other comprehensive income (loss)	—	—	—	—	—	13,486	13,486	(457)	13,029	
Stock-based compensation - equity portion	—	—	43,771	—	—	—	43,771	—	43,771	
Exercises of stock options	6	—	229	—	—	—	229	—	229	
Common stock issued for stock awards and stock bonuses	1,342	2	7,743	—	—	—	7,745	—	7,745	
Tax effects from stock award plans	—	—	577	—	—	—	577	—	577	
<b>Balances at October 31, 2015</b>	<b>62,253</b>	<b>\$ 63</b>	<b>\$1,373,775</b>	<b>\$ (10,251)</b>	<b>\$ (218,941)</b>	<b>\$ (80,849)</b>	<b>\$ 1,063,797</b>	<b>\$ 9,898</b>	<b>\$ 1,073,695</b>	

See notes to condensed consolidated financial statements.

[Table of Contents](#)

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

(in thousands)	Nine Months Ended October 31,	
	2015	2014
<b>Cash flows from operating activities:</b>		
Net income	\$ 3,441	\$ 29,912
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	79,469	74,298
Stock-based compensation - equity portion	43,771	35,048
Amortization of discount on convertible notes	7,542	3,565
Reduction of valuation allowance resulting from acquisition of KANA	—	(45,171)
Non-cash gains on derivative financial instruments, net	(583)	(1,666)
Losses on early retirements of debt	—	12,546
Other non-cash items, net	11,220	8,387
<b>Changes in operating assets and liabilities, net of effects of business combinations:</b>		
Accounts receivable	6,241	(41,717)
Inventories	(2,138)	(7,801)
Deferred cost of revenue	4,477	(3,177)
Prepaid expenses and other assets	(5,462)	13,111
Accounts payable and accrued expenses	(10,394)	26,472
Deferred revenue	(40,130)	(10,903)
Other, net	(9,883)	(2,663)
<b>Net cash provided by operating activities</b>	<b>87,571</b>	<b>90,241</b>
<b>Cash flows from investing activities:</b>		
Cash paid for business combinations, including adjustments, net of cash acquired	(31,618)	(602,943)
Purchases of property and equipment	(17,012)	(15,831)
Purchases of investments	(90,689)	(21,175)
Maturities and sales of investments	30,985	11,363
Cash paid for capitalized software development costs	(3,453)	(4,510)
Change in restricted cash and bank time deposits, including long-term portion, and other investing activities, net	16,843	(38,489)
<b>Net cash used in investing activities</b>	<b>(94,944)</b>	<b>(671,585)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings, net of original issuance discount	—	1,526,750
Repayments of borrowings and other financing obligations	(260)	(1,361,777)
Proceeds from public issuance of common stock	—	274,563
Proceeds from issuance of warrants	—	45,188
Payments for convertible note hedges	—	(60,800)
Payments of equity issuance, debt issuance and other debt-related costs	(239)	(29,164)
Proceeds from exercises of stock options	229	13,081
Purchases of treasury stock	—	(2,238)
Payments of contingent consideration for business combinations (financing portion)	(4,792)	(8,684)
<b>Net cash (used in) provided by financing activities</b>	<b>(5,062)</b>	<b>396,919</b>
Effect of foreign currency exchange rate changes on cash and cash equivalents	(377)	(1,858)
<b>Net decrease in cash and cash equivalents</b>	<b>(12,812)</b>	<b>(186,283)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>285,072</b>	<b>378,618</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 272,260</b>	<b>\$ 192,335</b>

See notes to condensed consolidated financial statements.

**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. Verint's vision is to create A Smarter World with Actionable Intelligence®.

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.

***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, 2015. The condensed consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the periods ended October 31, 2015 and 2014, and the condensed consolidated balance sheet as of October 31, 2015, 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, 2015 is derived from the audited consolidated financial statements presented in our Annual Report on Form 10-K for the year ended January 31, 2015. 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, 2015. The results for interim periods are not necessarily indicative of a full year's results.

***Principles of Consolidation***

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

***Use of Estimates***

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

## **Significant Accounting Policies**

Our significant accounting policies are described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended January 31, 2015. There were no material changes to our significant accounting policies during the nine months ended October 31, 2015.

### **Correction of Immaterial Overstatement of Expenses**

During the three months ended October 31, 2015, we identified an overstatement of stock-based compensation expense for the three months ended July 31, 2015, as reported in our previously issued condensed consolidated financial statements as of and for the three and six months ended July 31, 2015. We assessed the materiality of the misstatement, in accordance with guidance provided in SEC Staff Accounting Bulletin No. 99, and concluded that the misstatement was not material to the condensed consolidated financial statements as of and for the three and six months ended July 31, 2015. Nonetheless, the accompanying condensed consolidated financial statements as of and for the three and nine months ended October 31, 2015 reflect the impact of our retroactive correction of this immaterial misstatement in our operating results as of and for the three and six months ended July 31, 2015. We will also reflect the correction of this immaterial misstatement when operating results as of and for the three and six months ended July 31, 2015 are presented as comparable prior period amounts in our future filings.

The impacts of the immaterial misstatement correction on the condensed consolidated statements of operations as of and for the three and six months ended July 31, 2015 consisted of decreases in cost of product revenue, cost of service and support revenue, research and development, net, and selling, general and administrative expenses, of \$0.1 million, \$0.6 million, \$0.8 million, and \$3.2 million, respectively, in each period. As a result, both periods' loss before benefit for income taxes decreased by \$4.7 million, and, after the impact of income taxes, both periods' net loss and net loss attributable to Verint Systems Inc. decreased by \$4.1 million. Basic and diluted net loss per share attributable to Verint Systems Inc. decreased by \$0.07 in both periods, and our comprehensive income increased by \$4.1 million in both periods. The impacts on our condensed consolidated balance sheet at July 31, 2015 consisted of a \$0.6 million decrease in prepaid expenses and other current assets, a \$4.7 million decrease in additional paid-in capital, and a \$4.1 million decrease in accumulated deficit. There was no impact to our cash flows.

### **Change in Functional Currency**

The functional currency for most of our foreign subsidiaries is the applicable local currency, although we have several subsidiaries with functional currencies that differ from their local currency, of which the most notable exceptions are our subsidiaries in Israel, whose functional currencies are the U.S. dollar. During the three months ended July 31, 2015, we changed the functional currency for one of our subsidiaries to the U.S. dollar in anticipation of an increase in U.S. dollar denominated revenue resulting from changes in the subsidiary's business model. This change in functional currency is applied on a prospective basis. Previously, this subsidiary was judged to operate in two economic environments which had differing foreign currency exchange risks, and therefore used a different functional currency (euro and U.S dollar) in each environment.

### **Recent Accounting Pronouncements**

#### **New Accounting Pronouncements Recently Adopted**

In January 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-01, *Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. ASU No. 2015-01 eliminates the concept of an extraordinary item from GAAP. As a result, an entity is no longer required to separately present an extraordinary item on its statement of operations, net of tax, after income from continuing operations or to disclose income taxes and net income per share data applicable to an extraordinary item. However, ASU No. 2015-01 still retains the presentation and disclosure guidance for items that are unusual in nature and occur infrequently. ASU No. 2015-01 was effective for us on February 1, 2015. The adoption of this standard did not impact our condensed consolidated financial statements.

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 No. 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 was effective for us on February 1, 2015. The adoption of this standard did not impact our condensed consolidated financial statements.

## New Accounting Pronouncements Not Yet Effective

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. Under existing standards, deferred taxes for each tax-paying jurisdiction are presented as a net current asset or liability and net long-term asset or liability. To simplify presentation, the new guidance will require that all deferred tax assets and liabilities, along with related valuation allowances, be classified as long-term on the balance sheet. As a result, each tax-paying jurisdiction will now only have one net long-term deferred tax asset or liability. The new guidance does not change the existing requirement that prohibits offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. The provisions of ASU No. 2015-17 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, although early adoption is permitted. We are currently reviewing this standard to assess the impact on our future condensed consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*, which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Under existing standards, an acquirer in a business combination reports provisional amounts with respect to acquired assets and liabilities when their measurements are incomplete as of the end of the reporting period. Prior to the effectiveness of this ASU, an acquirer is required to adjust provisional amounts (and the related impact on earnings) by restating prior period financial statements during the measurement period, which cannot exceed one year from the date of acquisition. The new guidance requires that the cumulative impact of a measurement-period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The provisions of ASU No. 2015-16 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, and are applied prospectively to measurement-period adjustments that occur after the effective date. We are currently reviewing this standard to assess the impact on our future condensed consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. ASU No. 2015-11 requires measurement of most inventory at the lower of cost and net realizable value, thereby simplifying the current guidance under which inventory is measured at the lower of cost or market, with market defined as replacement cost, net realizable value, or net realizable value less a normal profit margin. ASU No. 2015-11 is effective for interim and annual periods beginning after December 15, 2016. We are currently reviewing this standard to assess the impact on our future condensed consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. The amendments in this update provide guidance to customers about whether a cloud computing arrangement includes a software license. The provisions of ASU No. 2015-05 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, although early adoption is permitted. We are currently reviewing this standard to assess the impact on our future condensed consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, and in August 2015 issued ASU No. 2015-15, *Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*. ASU No. 2015-03 requires an entity to present debt issuance costs related to a recognized debt liability in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. While ASU No. 2015-03 addresses costs related to term debt, ASU No. 2015-15 provides clarification regarding costs to secure revolving lines of credit, and indicates that the SEC staff would not object to an entity deferring and presenting costs associated with line-of-credit arrangements as an asset and subsequently amortizing them ratably over the term of the revolving debt arrangement. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in these updates. The provisions of these ASUs are effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, although early adoption is permitted. When adopted, this guidance must be applied on a retrospective basis. We plan to adopt the provisions of these ASUs effective on February 1, 2016. As of October 31, 2015, we had \$12.8 million of net deferred debt issuance costs which are reported within Other assets on our condensed consolidated balance sheet, \$3.4 million of which related to our Revolving Credit Facility and will continue to be reported within Other assets.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. This ASU defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The provisions of ASU No. 2014-15 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, although early adoption is permitted. The adoption of ASU No. 2014-15 is not expected to have a material effect on our future condensed consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, *Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*, which requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. ASU No. 2014-12 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, although early adoption is permitted. We are currently reviewing this standard to assess the impact on our future condensed consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-10, *Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation*. ASU No. 2014-10 removes the financial reporting distinction between development stage entities and other reporting entities from GAAP and it eliminates an exception provided in the consolidation guidance for development stage enterprises. It is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, although early adoption is permitted. We are currently reviewing this standard to assess the impact on our future condensed consolidated financial statements.

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. As originally issued, this guidance was effective for interim and annual reporting periods beginning after December 15, 2016, and early adoption was not permitted. In July 2015, the FASB deferred the effective date by one year, to interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, but not before the original effective date of December 15, 2016. Entities may choose from two adoption methods, with certain practical expedients. We are currently reviewing this standard to assess the impact on our future condensed consolidated financial statements and evaluating the available adoption methods.

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

The following table summarizes the calculation of basic and diluted net income per common share attributable to Verint Systems Inc. for the three and nine months ended October 31, 2015 and 2014:

(in thousands, except per share amounts)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Net income	\$ 8,470	\$ 11,473	\$ 3,441	\$ 29,912
Net income attributable to noncontrolling interest	836	803	3,308	3,564
<b>Net income attributable to Verint Systems Inc.</b>	<b>\$ 7,634</b>	<b>\$ 10,670</b>	<b>\$ 133</b>	<b>\$ 26,348</b>
<b>Weighted-average shares outstanding:</b>				
<b>Basic</b>	<b>62,206</b>	<b>60,644</b>	<b>61,666</b>	<b>57,222</b>
Dilutive effect of employee equity award plans	572	848	1,137	1,110
Dilutive effect of 1.50% convertible senior notes	—	—	—	—
Dilutive effect of warrants	—	—	—	—
<b>Diluted</b>	<b>62,778</b>	<b>61,492</b>	<b>62,803</b>	<b>58,332</b>
<b>Net income per common share attributable to Verint Systems Inc.:</b>				
<b>Basic</b>	<b>\$ 0.12</b>	<b>\$ 0.18</b>	<b>\$ 0.00</b>	<b>\$ 0.46</b>
<b>Diluted</b>	<b>\$ 0.12</b>	<b>\$ 0.17</b>	<b>\$ 0.00</b>	<b>\$ 0.45</b>

We excluded the following weighted-average potential common shares from the calculations of diluted net income per common share during the applicable periods because their inclusion would have been anti-dilutive:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
<b>Common shares excluded from calculation:</b>				
Stock options and restricted stock-based awards	1,466	464	650	403
1.50% convertible senior notes	6,205	6,205	6,205	3,091
Warrants	6,205	6,205	6,205	3,091

Our 1.50% convertible senior notes ("Notes") will not impact the calculation of diluted net income per share unless the average price of our common stock, as calculated in accordance with the terms of the indenture governing the Notes, exceeds the conversion price of \$64.46 per share. Likewise, diluted net income per share will not include any effect from the Warrants (as defined in Note 6, "Long-Term Debt") unless the average price of our common stock, as calculated under the terms of the Warrants, exceeds the exercise price of \$75.00 per share.

Our Note Hedges (as defined in Note 6, "Long-Term Debt") do not impact the calculation of diluted net income per share, because their effect would be anti-dilutive. In the event of an actual conversion of any or all of the Notes, the common shares that would be delivered to us under the Note Hedges are designed to neutralize the dilutive effect of the common shares that we would issue under the Notes. Further details regarding the Notes, Note Hedges, and the Warrants appear in Note 6, "Long-Term Debt".

### **3. CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS**

The following tables summarize our cash, cash equivalents, and short-term investments as of October 31, 2015 and January 31, 2015:

(in thousands)	October 31, 2015			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Cash and cash equivalents:</b>				
Cash and bank time deposits	\$ 272,104	\$ —	\$ —	\$ 272,104
Money market funds	156	—	—	156
<b>Total cash and cash equivalents</b>	<b>\$ 272,260</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 272,260</b>
<b>Short-term investments:</b>				
Commercial paper and corporate debt securities (available-for-sale)	\$ 55,957	\$ —	\$ (11)	\$ 55,946
Bank time deposits	38,951	—	—	38,951
<b>Total short-term investments</b>	<b>\$ 94,908</b>	<b>\$ —</b>	<b>\$ (11)</b>	<b>\$ 94,897</b>
(in thousands)	January 31, 2015			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Cash and cash equivalents:</b>				
Cash and bank time deposits	\$ 281,890	\$ —	\$ —	\$ 281,890
Money market funds	183	—	—	183
Commercial paper	2,999	—	—	2,999
<b>Total cash and cash equivalents</b>	<b>\$ 285,072</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 285,072</b>
<b>Short-term investments:</b>				
Commercial paper and corporate debt securities (available-for-sale)	\$ 13,741	\$ 101	\$ —	\$ 13,842
Bank time deposits	21,909	—	—	21,909
<b>Total short-term investments</b>	<b>\$ 35,650</b>	<b>\$ 101</b>	<b>\$ —</b>	<b>\$ 35,751</b>

## [Table of Contents](#)

Bank time deposits which are reported within short-term investments consist of deposits held outside of the U.S. with maturities of greater than 90 days, or without specified maturity dates which we intend to hold for periods in excess of 90 days. All other bank deposits are included within cash and cash equivalents.

As of October 31, 2015 and January 31, 2015, all of our available-for-sale investments had contractual maturities of less than one year. Gains and losses on sales of available-for-sale securities during the nine months ended October 31, 2015 and 2014 were not significant.

During the nine months ended October 31, 2015 and 2014, proceeds from maturities and sales of available-for-sale securities were \$31.0 million and \$11.4 million, respectively.

We believe that the investments we held at October 31, 2015 were not other-than-temporarily impaired. We held available-for-sale securities with aggregate fair values of \$17.2 million which had insignificant unrealized losses at October 31, 2015.

## **4. BUSINESS COMBINATIONS**

### ***Nine Months Ended October 31, 2015***

During the nine months ended October 31, 2015, we completed three business combinations:

- On February 12, 2015, we completed the acquisition of a business that is being integrated into our Enterprise Intelligence operating segment.
- On May 1, 2015, we completed the acquisition of a business that is being integrated into our Communications Intelligence operating segment.
- On August 11, 2015, we acquired certain technology and other assets for use in our Enterprise Intelligence operating segment in a transaction that qualified as a business combination.

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

The combined consideration for these business combinations was approximately \$49.7 million, including \$33.5 million of combined cash paid at the closings. For one of these business combinations, we also agreed to make potential additional cash payments to the respective former shareholders aggregating up to approximately \$30.5 million, contingent upon the achievement of certain performance targets over periods extending through April 2020. The fair value of these contingent consideration obligations was estimated to be \$16.2 million at the applicable acquisition date.

The \$16.2 million acquisition date fair value of the contingent consideration obligations was estimated based on probability adjusted present values of the consideration expected to be transferred using significant inputs that are not observable in the market. Key assumptions used in these estimates included probability assessments with respect to the likelihood of achieving the performance targets and discount rates consistent with the level of risk of achievement. At each reporting date, we revalue the contingent consideration obligations to their fair values and record increases and decreases in fair value within selling, general and administrative expenses in our condensed consolidated statements of operations. Changes in the fair value of the contingent consideration obligations result from changes in discount periods and rates, and changes in probability assumptions with respect to the likelihood of achieving the performance targets.

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

Included among the factors contributing to the recognition of goodwill in these transactions were synergies in products and technologies, and the addition of skilled, assembled workforces. Of the \$29.0 million of goodwill associated with these business combinations, \$8.0 million and \$21.0 million was assigned to our Enterprise Intelligence and Communications Intelligence segments, respectively. For income tax purposes, \$5.4 million of this goodwill is deductible and \$23.6 million is not deductible.

## [Table of Contents](#)

Revenue and the impact on net income attributable to these acquisitions for the nine months ended October 31, 2015 were not significant.

Transaction and related costs, consisting primarily of professional fees and integration expenses, directly related to these acquisitions, totaled \$0.3 million and \$1.0 million for the three and nine months ended October 31, 2015, respectively. All transaction and related costs were expensed as incurred and are included in selling, general and administrative expenses.

The purchase price allocations for the business combinations completed during the nine months ended October 31, 2015 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 following table sets forth the components and the allocations of the combined purchase prices for the business combinations completed during the nine months ended October 31, 2015:

(in thousands)	<b>Amount</b>
<b>Components of Purchase Prices:</b>	
Cash	\$ 33,482
Fair value of contingent consideration	16,237
<b>Total purchase prices</b>	<b>\$ 49,719</b>
<b>Allocation of Purchase Prices:</b>	
<b>Net tangible assets (liabilities):</b>	
Accounts receivable	\$ 992
Other current assets, including cash acquired	4,274
Other assets	395
Current and other liabilities	(3,037)
Deferred revenue - current and long-term	(1,872)
Deferred income taxes - current and long-term	(2,922)
<b>Net tangible liabilities</b>	<b>(2,170)</b>
<b>Identifiable intangible assets:</b>	
Customer relationships	1,212
Developed technology	20,300
Trademarks and trade names	300
In-process research and development	1,100
<b>Total identifiable intangible assets</b>	<b>22,912</b>
<b>Goodwill</b>	<b>28,977</b>
<b>Total purchase price allocations</b>	<b>\$ 49,719</b>

For these acquisitions, customer relationships, developed technology, and trademarks and trade names were assigned estimated useful lives of from five years to ten years, from four years to five years, and three years, respectively, the weighted average of which is approximately 4.4 years.

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

**Year Ended January 31, 2015**

### KANA Software, Inc.

On February 3, 2014, we completed the acquisition of KANA Software, Inc. and its affiliates (collectively, "KANA"), a leading global provider of on-premises and cloud-based solutions which create differentiated, personalized, and integrated customer experiences for large enterprises and mid-market organizations. KANA, based in Sunnyvale, California, was acquired for \$516.6 million of cash, which was net of KANA's cash acquired. KANA has been integrated into our Enterprise Intelligence operating segment.

## [Table of Contents](#)

The purchase price for KANA 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 Revolving Credit Facility, further details for which appear in Note 6, "Long-Term Debt".

Transaction and related costs directly related to the acquisition of KANA, consisting primarily of professional fees and integration expenses, were \$0.1 million and \$3.0 million for the three and nine months ended October 31, 2015, respectively. Such costs totaled \$1.8 million and \$6.4 million for the three and nine months ended October 31, 2014, respectively. All transaction and related costs were expensed as incurred, and the vast majority of these expenses are included in selling, general and administrative expenses.

### **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, and \$1.5 million paid subsequent to closing during the year ended January 31, 2015, upon UTX's achievement of certain performance targets. The acquisition date fair value of the contingent consideration was estimated to be \$1.3 million.

UTX is based in the EMEA region and has been integrated into our Communications Intelligence operating segment.

Transaction and related costs directly related to the acquisition of UTX, consisting primarily of professional fees, integration expenses and related adjustments, were negligible and \$0.3 million for the three and nine months ended October 31, 2015, respectively. Such costs were a benefit of \$0.9 million and a charge of \$2.1 million for the three and nine months ended October 31, 2014, respectively. All transaction and related costs were expensed as incurred, and the vast majority of these expenses are included in selling, general and administrative expenses.

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 Combinations**

We completed two separate acquisitions of certain technologies and other assets for use in our Communications Intelligence operating segment on April 16, 2014 and January 15, 2015, respectively, in transactions that qualified as business combinations. These business combinations were not material to our condensed consolidated financial statements, individually or in the aggregate.

### **Purchase Price Allocations**

As of January 31, 2015, the purchase price allocation for UTX was preliminary, subject to change as additional information became available during the measurement period (up to one year from the acquisition date). During the nine months ended October 31, 2015, there were no changes to the purchase price allocation for UTX, which is now complete.

### ***Pro Forma Information***

The following table provides unaudited pro forma operating results for the three and nine months ended October 31, 2014, 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 recorded during the three months ended April 30, 2014 resulting from a reduction of valuation allowances associated from the acquisition of KANA is not reflected in the pro forma operating results for the nine months ended October 31, 2014.

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

[Table of Contents](#)

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

(in thousands, except per share amounts)	<b>Three Months Ended October 31, 2014</b>	<b>Nine Months Ended October 31, 2014</b>
Revenue	\$ 288,279	\$ 842,784
Net income	\$ 17,650	\$ 15,281
Net income attributable to Verint Systems Inc.	\$ 16,847	\$ 11,717
Net income per common share attributable to Verint Systems Inc.: Basic	\$ 0.28	\$ 0.20
Diluted	\$ 0.27	\$ 0.20

#### ***Other Business Combination Information***

We include the financial results of all business combinations in our condensed consolidated financial statements from their respective acquisition dates.

For the three and nine months ended October 31, 2015, we recorded benefits of \$1.0 million and \$0.1 million, respectively, within selling, general and administrative expenses for changes in the fair values of contingent consideration obligations associated with business combinations. For the three and nine months ended October 31, 2014, we recorded charges of \$0.3 million and \$0.6 million, respectively, within selling, general and administrative expenses for changes in the fair values of these obligations. The aggregate fair value of the remaining contingent consideration obligations associated with business combinations was \$25.7 million at October 31, 2015.

Payments of contingent consideration earned under these agreements were \$1.9 million and \$4.9 million for the three and nine months ended October 31, 2015, respectively. Payments of contingent consideration earned under these agreements were \$3.1 million and \$10.0 million for the three and nine months ended October 31, 2014, respectively.

In connection with a business combination completed during the year ended January 31, 2012, we assumed approximately \$5.2 million of long-term liabilities associated with uncertain tax positions of the acquired company. A corresponding indemnification asset of \$5.2 million was also recorded, recognizing the selling shareholders' contractual obligation to indemnify us for these pre-acquisition liabilities. As of October 31, 2015 and January 31, 2015, these liabilities were \$1.1 million and \$1.4 million, respectively, and were included within other liabilities. The corresponding indemnification assets as of October 31, 2015 and January 31, 2015 were \$0.3 million and \$0.4 million, respectively, and were included within other assets. There was no activity in these accounts during the nine months ended October 31, 2015 and 2014. The carrying values of these assets and liabilities were impacted by foreign currency exchange rate fluctuations.

#### ***5. INTANGIBLE ASSETS AND GOODWILL***

Acquisition-related intangible assets consisted of the following as of October 31, 2015 and January 31, 2015:

(in thousands)	<b>October 31, 2015</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
<b>Intangible assets, with finite lives:</b>			
Customer relationships	\$ 381,829	\$ (206,619)	\$ 175,210
Acquired technology	215,923	(127,686)	88,237
Trade names	19,081	(11,241)	7,840
Non-competition agreements	3,047	(2,047)	1,000
Distribution network	4,440	(3,323)	1,117
<b>Total intangible assets with finite lives</b>	<b>624,320</b>	<b>(350,916)</b>	<b>273,404</b>
In-process research and development, with indefinite lives	1,100	—	1,100
<b>Total intangible assets</b>	<b>\$ 625,420</b>	<b>\$ (350,916)</b>	<b>\$ 274,504</b>

[Table of Contents](#)

(in thousands)	January 31, 2015		
	Cost	Accumulated Amortization	Net
<b>Intangible assets, all with finite lives:</b>			
Customer relationships	\$ 378,756	\$ (176,796)	\$ 201,960
Acquired technology	201,294	(104,117)	97,177
Trade names	18,799	(9,131)	9,668
Non-competition agreements	3,625	(2,331)	1,294
Distribution network	4,440	(2,645)	1,795
<b>Total intangible assets</b>	<b>\$ 606,914</b>	<b>\$ (295,020)</b>	<b>\$ 311,894</b>

The following table presents net acquisition-related intangible assets by reportable segment as of October 31, 2015 and January 31, 2015:

(in thousands)	October 31,	January 31,
	2015	2015
Enterprise Intelligence	\$ 223,800	\$ 261,354
Communications Intelligence	50,246	49,670
Video Intelligence	458	870
<b>Total</b>	<b>\$ 274,504</b>	<b>\$ 311,894</b>

Total amortization expense recorded for acquisition-related intangible assets was \$20.0 million and \$59.3 million for the three and nine months ended October 31, 2015, respectively, and \$19.5 million and \$57.1 million for the three and nine months ended October 31, 2014, respectively. The reported amount of net acquisition-related intangible assets can fluctuate from the impact of changes in foreign currency exchange rates on intangible assets not denominated in U.S. dollars.

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

(in thousands)	Years Ending January 31,	Amount
2016 (remainder of year)		\$ 20,078
2017		78,148
2018		59,072
2019		30,814
2020		21,182
2021 and thereafter		64,110
<b>Total</b>		<b>\$ 273,404</b>

During the three months ended July 31, 2015, we recorded a \$2.3 million impairment of an acquired technology asset, which is included within cost of product revenue. No other impairments of acquired intangible assets were recorded during the nine months ended October 31, 2015 and 2014.

Goodwill activity for the nine months ended October 31, 2015, in total and by reportable segment, was as follows:

(in thousands)	Total	Reportable Segment		
		Enterprise Intelligence	Communications Intelligence	Video Intelligence
<b>Year Ended January 31, 2015:</b>				
Goodwill, gross, at January 31, 2015	\$ 1,267,682	\$ 1,092,313	\$ 101,261	\$ 74,108
Accumulated impairment losses through January 31, 2015	(66,865)	(30,791)	—	(36,074)
Goodwill, net, at January 31, 2015	1,200,817	1,061,522	101,261	38,034
Business combinations	28,977	7,955	21,022	—
Foreign currency translation and other	2,735	4,489	(1,420)	(334)
<b>Goodwill, net, at October 31, 2015</b>	<b>\$ 1,232,529</b>	<b>\$ 1,073,966</b>	<b>\$ 120,863</b>	<b>\$ 37,700</b>
<b>Balance at October 31, 2015:</b>				
Goodwill, gross, at October 31, 2015	\$ 1,299,394	\$ 1,104,757	\$ 120,863	\$ 73,774
Accumulated impairment losses through October 31, 2015	(66,865)	(30,791)	—	(36,074)
<b>Goodwill, net, at October 31, 2015</b>	<b>\$ 1,232,529</b>	<b>\$ 1,073,966</b>	<b>\$ 120,863</b>	<b>\$ 37,700</b>

No events or circumstances indicating the potential for goodwill impairment were identified during the nine months ended October 31, 2015.

## 6. LONG-TERM DEBT

The following table summarizes our long-term debt at October 31, 2015 and January 31, 2015:

(in thousands)	October 31, 2015		January 31, 2015	
<b>1.50% Convertible Senior Notes:</b>				
Principal amount	\$ 400,000	\$ 400,000		
Unamortized debt discount	(66,544)	(74,086)		
1.50% Convertible Senior Notes, net	333,456	325,914		
<b>February 2014 Term Loans:</b>				
Gross amount	130,729	130,729		
Unamortized debt discount	(235)	(277)		
February 2014 Term Loans, net	130,494	130,452		
<b>March 2014 Term Loans</b>	<b>280,413</b>	<b>280,413</b>		
Other debt	—	23		
<b>Total debt</b>	<b>744,363</b>	<b>736,802</b>		
Less: current maturities	1,052	23		
<b>Long-term debt</b>	<b>\$ 743,311</b>	<b>\$ 736,779</b>		

Current maturities of long-term debt are reported within accrued expenses and other current liabilities on the condensed consolidated balance sheet.

### 1.50% Convertible Senior Notes

On June 18, 2014, we issued \$400.0 million in aggregate principal amount of 1.50% convertible senior notes ("Notes") due June 1, 2021, unless earlier converted by the holders pursuant to their terms. Net proceeds from the Notes after underwriting discounts were \$391.9 million. The Notes pay interest in cash semiannually in arrears at a rate of 1.50% per annum.

The Notes were issued concurrently with our issuance of 5,750,000 shares of common stock, the majority of the combined net proceeds of which were used to partially repay certain indebtedness under our Credit Agreement.

The Notes are unsecured and rank senior in right of payment to our indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to our indebtedness that is not so subordinated; effectively subordinated in

## [Table of Contents](#)

right of payment to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally subordinated to indebtedness and other liabilities of our subsidiaries.

The Notes are convertible into, at our election, cash, shares of common stock, or a combination of both, subject to satisfaction of specified conditions and during specified periods, as described below. If converted, we currently intend to pay cash in respect of the principal amount of the Notes.

The conversion price of the Notes at any time is equal to \$1,000 divided by the then-applicable conversion rate. The Notes have a conversion rate of 15.5129 shares of common stock per \$1,000 principal amount of Notes, which represents an effective conversion price of approximately \$64.46 per share of common stock and would result in the issuance of approximately 6,205,000 shares if all of the Notes were converted. The conversion rate has not changed since issuance of the Notes, although throughout the term of the Notes, the conversion rate may be adjusted upon the occurrence of certain events.

Holders may surrender their Notes for conversion at any time prior to the close of business on the business day immediately preceding December 1, 2020, only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter which ended on September 30, 2014, if the closing sale price of our common stock, for at least 20 trading days (whether or not consecutive) in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter, is more than 130% of the conversion price of the Notes in effect on each applicable trading day;
- during the ten consecutive trading-day period following any five consecutive trading-day period in which the trading price for the Notes for each such trading day was less than 98% of the closing sale price of our common stock on such date multiplied by the then-current conversion rate; or
- upon the occurrence of specified corporate events, as described in the indenture governing the Notes, such as a consolidation, merger, or binding share exchange.

On or after December 1, 2020 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may surrender their Notes for conversion regardless of whether any of the foregoing conditions have been satisfied.

As of October 31, 2015, the Notes were not convertible.

In accordance with accounting guidance for convertible debt with a cash conversion option, we separately accounted for the debt and equity components of the Notes in a manner that reflected our estimated nonconvertible debt borrowing rate. We estimated the carrying amount of the debt component of the Notes to be \$319.9 million at the issuance date, assuming a 5.00% non-convertible borrowing rate. The carrying amount of the equity component was determined to be approximately \$80.1 million by deducting the carrying amount of the debt component from the principal amount of the Notes, and was recorded as an increase to additional paid-in capital. The excess of the principal amount of the debt component over its carrying amount (the "debt discount") is being amortized as interest expense over the term of the Notes using the effective interest method. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

We allocated transaction costs related to the issuance of the Notes, including underwriting discounts, of \$7.6 million and \$1.9 million to the debt and equity components, respectively. Issuance costs attributable to the debt component were recorded within other assets and are being amortized as interest expense over the term of the Notes, and issuance costs attributable to the equity component were netted with the equity component in additional paid-in capital. The carrying amount of the equity component, net of issuance costs, was \$78.2 million at October 31, 2015. Including the impact of the debt discount and related deferred debt issuance costs, the effective interest rate on the Notes was approximately 5.29% at October 31, 2015.

Based on the closing market price of our common stock on October 31, 2015, the if-converted value of the Notes was less than the aggregate principal amount of the Notes.

### **Note Hedges and Warrants**

Concurrently with the issuance of the Notes, we entered into convertible note hedge transactions (the "Note Hedges") and sold warrants (the "Warrants"). The combination of the Note Hedges and the Warrants serves to increase the effective initial conversion price for the Notes to \$75.00 per share. The Note Hedges and Warrants are each separate instruments from the Notes.

## Note Hedges

Pursuant to the Note Hedges, we purchased call options on our common stock, under which we have the right to acquire from the counterparties up to approximately 6,205,000 shares of our common stock, subject to customary anti-dilution adjustments, at a price of \$64.46, which equals the initial conversion price of the Notes. Our exercise rights under the Note Hedges generally trigger upon conversion of the Notes and the Note Hedges terminate upon maturity of the Notes, or the first day the Notes are no longer outstanding. The Note Hedges may be settled in cash, shares of our common stock, or a combination thereof, at our option, and are intended to reduce our exposure to potential dilution upon conversion of the Notes. We paid \$60.8 million for the Note Hedges, which was recorded as a reduction to additional paid-in capital. As of October 31, 2015, we had not purchased any shares of our common stock under the Note Hedges.

## Warrants

We sold the Warrants to several counterparties. The Warrants provide the counterparties rights to acquire from us up to approximately 6,205,000 shares of our common stock at a price of \$75.00 per share. The Warrants expire incrementally on a series of expiration dates beginning in August 2021. At expiration, if the market price per share of our common stock exceeds the strike price of the Warrants, we will be obligated to issue shares of our common stock having a value equal to such excess. The Warrants could have a dilutive effect on net income per share to the extent that the market value of our common stock exceeds the strike price of the Warrants. Proceeds from the sale of the Warrants were \$45.2 million and were recorded as additional paid-in capital. As of October 31, 2015, no Warrants had been exercised and all Warrants remained outstanding.

The Note Hedges and Warrants both meet the requirements for classification within stockholders' equity, and their respective fair values are not remeasured and adjusted as long as these instruments continue to qualify for stockholders' equity classification.

## Credit Agreement

### Background

In April 2011, we entered into a credit agreement with our lenders, which was amended and restated on March 6, 2013, and further amended on February 3, 2014, March 7, 2014, and June 18, 2014 (the "Credit Agreement"). The Credit Agreement, as amended and restated, provides for senior secured credit facilities, comprised of \$943.5 million of term loans, of which \$300.0 million was borrowed in February 2014 (the "February 2014 Term Loans") and \$643.5 million was borrowed in March 2014 (the "March 2014 Term Loans"), all of which matures in September 2019, and a \$300.0 million revolving credit facility maturing in September 2018 (the "Revolving Credit Facility"), subject to increase and reduction from time to time, as described in the Credit Agreement.

At October 31, 2015, \$130.7 million and \$280.4 million of borrowings were outstanding under the February 2014 Term Loans and March 2014 Term Loans, respectively, and there were no outstanding borrowings under the Revolving Credit Facility.

As further described below, on March 7, 2014, \$643.5 million of term loans previously borrowed under the Credit Agreement (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 Revolving Credit Facility was also amended.

From March 6, 2013 through March 6, 2014, the March 2013 Term Loans and borrowings under the 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:

- 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
- 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%.

Debt issuance costs incurred in connection with the Credit Agreement, as well as costs incurred for debt modifications, are deferred. These costs are amortized as adjustments to interest expense over the remaining contractual life of the associated borrowings. Original issuance discounts on term loans are also amortized as adjustments to interest expense over the remaining

contractual life of the associated term loans. Upon early retirement of debt, the associated deferred debt issuance costs and unamortized original issuance discount, if any, are written off as a loss on early retirement of debt.

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

## **2014 Amendments to Credit Agreement**

During the year ended January 31, 2015, we entered into five 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 Revolving Credit Facility and entered into Amendment No. 1 pursuant to which, on such date, we incurred the February 2014 Term Loans of \$300.0 million, maturing in September 2019. The net proceeds of these borrowings were used to fund a portion of the KANA purchase price.

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:

- 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
- 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%.

We incurred debt issuance costs of approximately \$7.1 million associated with the February 2014 Term Loans, which were deferred and classified within other assets. The February 2014 Term Loans were also subject to an original issuance discount of 0.25%, or \$0.8 million.

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.

On February 3, 2014, we also 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 Revolving Credit Facility and, subject to the effectiveness of Amendment No. 4 (as described below), reprice the interest rate applicable to borrowings under the 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 the March 2014 Term Loans of \$643.5 million, maturing in September 2019. The provisions for determining the interest rate on the March 2014 Term Loans are identical to such provisions for the February 2014 Term Loans. The repricing of the interest rate applicable to borrowings under the Revolving Credit Facility contemplated by Amendment No. 3 became effective on March 7, 2014, upon the effectiveness of Amendment No. 4.

The refinancing of the March 2013 Term Loans with the proceeds of the March 2014 Term Loans pursuant to Amendment No. 4 was accounted for as an early retirement of the March 2013 Term Loans and, as a result, \$4.3 million of unamortized deferred debt issuance costs and \$2.8 million of unamortized 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 early retirement of debt.

As of October 31, 2015 and January 31, 2015, the interest rate on both the February 2014 Term Loans and the March 2014 Term Loans was 3.50%. Taking into account the impact of original issuance discounts, if any, and related deferred debt issuance costs, the effective interest rates on the February 2014 Term Loans and March 2014 Term Loans were approximately 4.03% and 3.58%, respectively, at October 31, 2015.

## [Table of Contents](#)

We incurred \$2.4 million of debt issuance costs in consideration of Amendment No. 4. There was no original issuance discount on the March 2014 Term Loans.

On June 18, 2014, we entered into Amendment No. 5, which increased the commitments under the Revolving Credit Facility to \$300.0 million and extended the termination of the Revolving Credit Facility to September 2018.

### **Early Partial Retirement of Term Loans - June 2014**

On June 18, 2014, we utilized the majority of the combined net proceeds from the issuance of the Notes and the concurrent issuance of 5,750,000 shares of common stock to retire \$530.0 million of the February 2014 Term Loans and March 2014 Term Loans, and all \$106.0 million of then-outstanding borrowings under the Revolving Credit Facility. As a result, \$3.8 million and \$1.3 million of deferred debt issuance costs associated with the February 2014 Term Loans and March 2014 Term Loans, respectively, and \$0.4 million of unamortized discount associated with the February 2014 Term Loans, were written off as a \$5.5 million loss on early retirement of debt.

### **Borrowings Under Revolving Credit Facility**

There were no borrowings under the Revolving Credit Facility at October 31, 2015 and January 31, 2015.

### **Other Provisions of the Credit Agreement**

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 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 limitations imposed by the covenants are subject to certain exceptions as detailed in the Credit Agreement.

### ***Future Principal Payments on Term Loans***

Prior to June 2014, we were required to make quarterly principal payments on the February 2014 Term Loans and March 2014 Term Loans of \$0.8 million and \$1.6 million, respectively, through August 1, 2019, with the remaining balances due in September 2019. Following the partial retirements of the February 2014 Term Loans and March 2014 Term Loans in June 2014, future scheduled principal payments on the February 2014 Term Loans and March 2014 Term Loans as of October 31, 2015 were as follows:

Years Ending January 31, (in thousands)	February 2014		March 2014	
	Term Loans	Term Loans	Term Loans	Term Loans
2016 (remainder of year)	\$ —	\$ —	\$ —	\$ —
2017	669	1,434		
2018	1,337	2,869		
2019	1,337	2,869		
2020	127,386	273,241		
<b>Total</b>	<b>\$ 130,729</b>		<b>\$ 280,413</b>	

### ***Interest Expense***

[Table of Contents](#)

The following table presents the components of interest expense incurred on the Notes and on borrowings under our Credit Agreement for the three and nine months ended October 31, 2015 and 2014:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
<b>1.50% Convertible Senior Notes:</b>				
Interest expense at 1.50% coupon rate	\$ 1,500	\$ 1,500	\$ 4,500	\$ 2,217
Amortization of debt discount	2,547	2,417	7,542	3,565
Amortization of deferred debt issuance costs	240	335	711	442
<b>Total Interest Expense - 1.50% Convertible Senior Notes</b>	<b>\$ 4,287</b>	<b>\$ 4,252</b>	<b>\$ 12,753</b>	<b>\$ 6,224</b>
<b>Borrowings under Credit Agreement:</b>				
Interest expense at contractual rates	\$ 3,677	\$ 3,677	\$ 10,912	\$ 19,559
Amortization of debt discounts	14	14	42	102
Amortization of deferred debt issuance costs	547	538	1,616	1,895
<b>Total Interest Expense - Borrowings under Credit Agreement</b>	<b>\$ 4,238</b>	<b>\$ 4,229</b>	<b>\$ 12,570</b>	<b>\$ 21,556</b>

## 7. SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENT INFORMATION

### *Condensed Consolidated Balance Sheets*

Inventories consisted of the following as of October 31, 2015 and January 31, 2015:

(in thousands)	October 31,		January 31,	
	2015	2015	2015	2015
Raw materials	\$ 7,916	\$ 6,203		
Work-in-process	5,141	8,481		
Finished goods	4,770	2,821		
<b>Total inventories</b>	<b>\$ 17,827</b>	<b>\$ 17,505</b>		

### *Condensed Consolidated Statements of Operations*

Other (expense) income, net consisted of the following for the three and nine months ended October 31, 2015 and 2014:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Foreign currency losses, net	\$ (2,517)	\$ (1,949)	\$ (5,434)	\$ (1,035)
Gains on derivative financial instruments, net	309	1,562	583	1,666
Other, net	(1,967)	554	(2,864)	635
<b>Total other (expense) income, net</b>	<b>\$ (4,175)</b>	<b>\$ 167</b>	<b>\$ (7,715)</b>	<b>\$ 1,266</b>

### *Condensed Consolidated Statements of Cash Flows*

The following table provides supplemental information regarding our condensed consolidated cash flows for the nine months ended October 31, 2015 and 2014:

(in thousands)	Nine Months Ended October 31,	
	2015	2014
Cash paid for interest	\$ 13,949	\$ 22,735
Cash payments of income taxes, net	\$ 13,168	\$ 10,275
<b>Non-cash investing and financing transactions:</b>		
Accrued but unpaid purchases of property and equipment	\$ 4,041	\$ 3,625
Inventory transfers to property and equipment	\$ 1,084	\$ 314
Liabilities for contingent consideration in business combinations	\$ 16,237	\$ 4,947
Stock options exercised, proceeds received subsequent to period end	\$ —	\$ 140
Leasehold improvements funded by lease incentive	\$ —	\$ 2,242

## 8. STOCKHOLDERS' EQUITY

### *Dividends on Common Stock*

We did not declare or pay any dividends on our common stock during the nine months ended October 31, 2015 and 2014. Under the terms of our Credit Agreement, we are subject to certain restrictions on declaring and paying dividends on our common stock.

### *Treasury Stock*

Repurchased shares of common stock are recorded as treasury stock, at cost. At October 31, 2015 and January 31, 2015, we held approximately 348,000 shares of treasury stock with a cost of \$10.3 million.

We did not acquire any shares of treasury stock during the nine months ended October 31, 2015. During the nine months ended October 31, 2014, we acquired approximately 46,000 shares of treasury stock at a cost of \$2.2 million.

### *Accumulated Other Comprehensive Income (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 income (loss) by component for the nine months ended October 31, 2015:

(in thousands)	Unrealized (Losses) Gains on Derivative Financial Instruments Designated as Hedges	Unrealized Gains (Losses) on Available-for- Sale Investments	Foreign Currency Translation Adjustments	Total
<b>Accumulated other comprehensive (loss) income at January 31, 2015</b>	\$ (7,992)	\$ 101	\$ (86,444)	\$ (94,335)
Other comprehensive income (loss) before reclassifications	1,212	(112)	5,311	6,411
Losses reclassified out of accumulated other comprehensive income (loss)	(7,075)	—	—	(7,075)
Net other comprehensive income (loss), current period	8,287	(112)	5,311	13,486
<b>Accumulated other comprehensive income (loss) at October 31, 2015</b>	<b>\$ 295</b>	<b>\$ (11)</b>	<b>\$ (81,133)</b>	<b>\$ (80,849)</b>

## [Table of Contents](#)

All amounts presented in the table above are net of income taxes, if applicable. The accumulated net losses in foreign currency translation adjustments primarily reflect the strengthening of the U.S. dollar against the British pound sterling, which has resulted in lower U.S. dollar-translated balances of British pound sterling-denominated goodwill and intangible assets.

The amounts reclassified out of accumulated other comprehensive income (loss) into the condensed consolidated statement of operations, with presentation location, for the three and nine months ended October 31, 2015 and 2014 were as follows:

(in thousands)	<b>Three Months Ended October 31,</b>		<b>Nine Months Ended October 31,</b>		<b>Location</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	
<b>Unrealized (losses) gains on derivative financial instruments:</b>					
Foreign currency forward contracts	\$ (162)	\$ (80)	\$ (703)	\$ 65	Cost of product revenue
	(164)	(68)	(650)	61	Cost of service and support revenue
	(1,029)	(499)	(4,458)	578	Research and development, net
	(527)	(229)	(2,136)	289	Selling, general and administrative
	<u>(1,882)</u>	<u>(876)</u>	<u>(7,947)</u>	<u>993</u>	Total, before income taxes
	187	111	872	(22)	Benefit (provision) for income taxes
	<u><u>\$ (1,695)</u></u>	<u><u>\$ (765)</u></u>	<u><u>\$ (7,075)</u></u>	<u><u>\$ 971</u></u>	<b>Total, net of income taxes</b>

## **9. INCOME TAXES**

Our interim provision (benefit) for income taxes is measured using an estimated annual effective income tax rate, adjusted for discrete items that occur within the periods presented.

For the three months ended October 31, 2015, we recorded an income tax provision of \$1.6 million on pre-tax income of \$10.0 million, which represented an effective income tax rate of 15.5%. The income tax provision does not include income tax benefits on losses incurred by certain domestic and foreign 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 higher than the pre-tax losses in domestic and foreign jurisdictions where we maintain valuation allowances and do not record tax benefits. In addition, following the receipt of an approval from a foreign government agency and of a tax ruling in a foreign jurisdiction, we adjusted certain unrecognized tax benefits and deferred tax items resulting in net discrete income tax benefits of \$3.4 million. We also recorded a discrete income tax benefit of \$1.5 million for the adjustment of certain unrecognized tax benefits established in connection with the KANA acquisition. The adjustment to the KANA acquisition unrecognized tax benefits resulted in a charge within other expense, net due to the write-off of an indemnification asset.

For the three months ended October 31, 2014, we recorded an income tax provision of \$4.8 million on pre-tax income of \$16.2 million, which represented an effective income tax rate of 29.3%. The income tax provision does not include income tax benefits on losses incurred by certain domestic and foreign operations where we maintain valuation allowances and is mainly the result of the activities of profitable jurisdictions. Pre-tax income in our profitable jurisdictions, where we recorded tax provisions, was higher than the pre-tax losses in domestic and foreign jurisdictions where we maintain valuation allowances and did not record the related tax benefits.

For the nine months ended October 31, 2015, we recorded an income tax provision of \$5.1 million on pre-tax income of \$8.6 million, which represented an effective income tax rate of 59.8%. The income tax provision does not include income tax benefits on losses incurred by certain domestic and foreign 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 slightly higher than the pre-tax losses in domestic and foreign jurisdictions where we maintain valuation allowances and do not record tax benefits. In addition, following the receipt in the three months ended October 31, 2015 of an approval from a foreign government agency and of a tax ruling in a foreign jurisdiction, we adjusted certain unrecognized tax benefits and deferred tax items resulting in net discrete income tax benefits of \$3.4 million. During the three months ended October 31, 2015, we also recorded a discrete income tax benefit of \$1.5 million for the adjustment of certain unrecognized tax

## [Table of Contents](#)

benefits established in connection with the KANA acquisition. The adjustment to the KANA acquisition unrecognized tax benefits resulted in a charge within other expense, net due to the write-off of an indemnification asset. Also, following the receipt of a tax ruling in a foreign jurisdiction in the three months ended April 30, 2015, we reorganized certain operations within the foreign jurisdiction, resulting in a discrete income tax benefit of \$3.0 million.

For the nine months ended October 31, 2014, we recorded an income tax benefit of \$31.8 million on a pre-tax loss of \$1.9 million, which represented an effective income tax benefit rate of 1,694.5%. The income tax benefit was primarily attributable to the release of \$45.2 million of Verint valuation allowances in the three months ended April 30, 2014. 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 during the three months ended April 30, 2014, we recorded deferred income tax liabilities primarily attributable to acquired intangible assets to the extent the amortization will not be deductible for income 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, during the three months ended April 30, 2014, we 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 was reflected as a discrete income tax benefit in the three months ended April 30, 2014 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 slightly less than the pre-tax losses in domestic and foreign jurisdictions 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 for the nine months ended October 31, 2014 was an income tax provision of \$13.4 million on a pre-tax loss \$1.9 million, resulting in a negative effective income tax rate of 713.4%.

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 guidance for income taxes requires that a valuation allowance be established when it is more-likely-than-not that all or a portion of the deferred 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 \$167.6 million and \$159.6 million (excluding interest and penalties) as of October 31, 2015 and January 31, 2015, respectively. The accrued liability for interest and penalties was \$10.2 million and \$10.9 million at October 31, 2015 and January 31, 2015, respectively. Interest and penalties are recorded as a component of the provision for income taxes in our condensed consolidated statements of operations. As of October 31, 2015 and January 31, 2015, the total amount of unrecognized tax benefits that, if recognized, would impact our effective income tax rate were approximately \$160.3 million and \$153.1 million, respectively. We regularly assess the adequacy of our provisions for income tax contingencies in accordance with the applicable authoritative guidance on accounting for income taxes. As a result, we may adjust the reserves for unrecognized tax benefits for the impact of new facts and developments, such as changes to interpretations of relevant tax law, assessments from taxing authorities, settlements with taxing authorities, and lapses of statutes of limitation. Further, we believe that it is reasonably possible that the total amount of unrecognized tax benefits at October 31, 2015 could decrease by approximately \$5.8 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.

## **10. FAIR VALUE MEASUREMENTS**

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

[Table of Contents](#)

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.

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. We did not identify any transfers between levels of the fair value measurement hierarchy during the nine months ended October 31, 2015 and 2014.

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

Our assets and liabilities measured at fair value on a recurring basis consisted of the following as of October 31, 2015 and January 31, 2015:

(in thousands)	October 31, 2015		
	Fair Value Hierarchy Category		
	Level 1	Level 2	Level 3
<b>Assets:</b>			
Money market funds	\$ 156	\$ —	\$ —
Short-term investments, classified as available-for-sale	—	94,897	—
Foreign currency forward contracts	—	1,812	—
<b>Total assets</b>	<b>\$ 156</b>	<b>\$ 96,709</b>	<b>\$ —</b>
<b>Liabilities:</b>			
Foreign currency forward contracts	\$ —	\$ 708	\$ —
Contingent consideration - business combinations	—	—	25,669
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ 708</b>	<b>\$ 25,669</b>

(in thousands)	January 31, 2015		
	Fair Value Hierarchy Category		
	Level 1	Level 2	Level 3
<b>Assets:</b>			
Money market funds	\$ 183	\$ —	\$ —
Commercial paper (1)	—	2,999	—
Short-term investments, classified as available-for-sale	—	13,842	—
Foreign currency forward contracts	—	763	—
<b>Total assets</b>	<b>\$ 183</b>	<b>\$ 17,604</b>	<b>\$ —</b>
<b>Liabilities:</b>			
Foreign currency forward contracts	\$ —	\$ 9,540	\$ —
Contingent consideration - business combinations	—	—	14,507
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ 9,540</b>	<b>\$ 14,507</b>

(1) Commercial paper investments with remaining maturities of 90 days 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 nine months ended October 31, 2015 and 2014:

	Nine Months Ended October 31,	
	2015	2014
(in thousands)		
Fair value measurement at beginning of period	\$ 14,507	\$ 17,307
Contingent consideration liabilities recorded for business combinations	16,238	4,947
Changes in fair values, recorded in operating expenses	(132)	618
Payments of contingent consideration	(4,944)	(10,037)
Foreign currency translation and other	—	(56)
<b>Fair value measurement at end of period</b>	<b>\$ 25,669</b>	<b>\$ 12,779</b>

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

#### ***Fair Value Measurements***

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

***Short-term Investments and Commercial Paper*** - The fair values of short-term investments, as well as commercial paper classified as cash equivalents, 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 foreign currency 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 2.0% to 41.7% in our calculations of the estimated fair values of our contingent consideration liabilities as of October 31, 2015. We utilized discount rates ranging from 2.0% to 41.7% in our calculations of the estimated fair values of our contingent consideration liabilities as of January 31, 2015.

#### ***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 loan borrowings were \$411 million and \$409 million at October 31, 2015 and January 31, 2015, respectively. The estimated fair values of the 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 provided to us as at each of October 31, 2015 and January 31, 2015 did not significantly differ from par value. The estimated fair value of our revolving credit borrowings, if any, is based upon indicative market values provided by one of our lenders. We had no revolving credit borrowings at October 31, 2015 and January 31, 2015.

## [Table of Contents](#)

The estimated fair values of our Notes were approximately \$405 million and \$427 million at October 31, 2015 and January 31, 2015, respectively. The estimated fair values of the Notes are determined based on quoted bid and ask prices in the over-the-counter market in which the Notes trade. We consider these inputs to be within Level 2 of the fair value hierarchy.

### ***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.

## **11. DERIVATIVE FINANCIAL INSTRUMENTS**

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

### ***Foreign Currency Forward Contracts***

Under our risk management strategy, we periodically use foreign currency forward contracts to manage our short-term exposures to fluctuations in operational cash flows 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, most notably the Israeli shekel. 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 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.

### ***Notional Amounts of Derivative Financial Instruments***

Our outstanding derivative financial instruments consisted only of foreign currency forward contracts with notional amounts of \$152.4 million and \$156.8 million as of October 31, 2015 and January 31, 2015, respectively.

### ***Fair Values of Derivative Financial Instruments***

The fair values of our derivative financial instruments and their classifications in our condensed consolidated balance sheets as of October 31, 2015 and January 31, 2015 were as follows:

(in thousands)	Balance Sheet Classification	Fair Value at		
		October 31, 2015	January 31, 2015	
<b>Derivative assets:</b>				
Foreign currency forward contracts:				
Designated as cash flow hedges	Prepaid expenses and other current assets	\$ 963	\$ 164	
Not designated as hedging instruments	Prepaid expenses and other current assets	849	599	
<b>Total derivative assets</b>		<b>\$ 1,812</b>	<b>\$ 763</b>	
<b>Derivative liabilities:</b>				
Foreign currency forward contracts:				
Designated as cash flow hedges	Accrued expenses and other current liabilities	\$ 649	\$ 9,194	
Not designated as hedging instruments	Accrued expenses and other current liabilities	59	346	
<b>Total derivative liabilities</b>		<b>\$ 708</b>	<b>\$ 9,540</b>	

### ***Derivative Financial Instruments in Cash Flow Hedging Relationships***

The effects of derivative financial instruments designated as cash flow hedges on other comprehensive income ("OCI") and on the condensed consolidated statements of operations for the three and nine months ended October 31, 2015 and 2014 were as follows:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
<b>Net (losses) gains recognized in OCI:</b>				
Foreign currency forward contracts	\$ (2,568)	\$ (10,508)	\$ 1,396	\$ (8,054)
<b>Net (losses) gains reclassified from OCI to the condensed consolidated statements of operations:</b>				
Foreign currency forward contracts	\$ (1,882)	\$ (876)	\$ (7,947)	\$ 993

For information regarding the line item locations of the net (losses) gains on foreign currency forward contracts reclassified out of OCI into the condensed consolidated condensed statements of operations, see Note 8, "Stockholders' Equity".

There were no gains or losses from ineffectiveness of these cash flow hedges recorded for the three and nine months ended October 31, 2015 and 2014. All of the foreign currency forward contracts underlying the \$0.3 million of net unrealized gains recorded in our accumulated other comprehensive loss at October 31, 2015 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 recognized on derivative financial instruments not designated as hedging instruments in our condensed consolidated statements of operations for the three and nine months ended October 31, 2015 and 2014 were as follows:

(in thousands)	Classification in Condensed Consolidated Statements of Operations	Three Months Ended October 31,		Nine Months Ended October 31,	
		2015	2014	2015	2014
Foreign currency forward contracts	Other (expense) income, net	\$ 309	\$ 1,562	\$ 583	\$ 1,665

## **12. STOCK-BASED COMPENSATION**

### ***Correction of Immaterial Overstatement of Expenses***

Please refer to Note 1, "Basis of Presentation and Significant Accounting Policies" for information regarding the correction of an immaterial overstatement of stock-based compensation expense as reported in our previously issued condensed consolidated financial statements as of and for the three and six months ended July 31, 2015.

### ***2015 Stock-Based Compensation Plan***

On June 25, 2015, our stockholders approved the Verint Systems Inc. 2015 Long-Term Stock Incentive Plan (the "2015 Plan"). The 2015 Plan authorizes our board of directors to provide equity-based compensation in the form of stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), performance awards, other stock-based awards, and performance compensation awards. Subject to adjustment as provided in the 2015 Plan, an aggregate of up to 9,700,000 shares of our common stock may be issued or transferred in connection with awards under the 2015 Plan. Each stock option or stock-settled stock appreciation right granted under the 2015 Plan will reduce the available plan capacity by one share and each other award denominated in shares that is granted under the 2015 Plan will reduce the available plan capacity by 2.29 shares.

Upon approval of the 2015 Plan on June 25, 2015, additional awards are no longer permitted under our other stock-based compensation plans. Awards outstanding at June 25, 2015 under our other stock-based compensation plans were not impacted by approval of the 2015 Plan.

### **Stock-Based Compensation Expense**

We recognized stock-based compensation expense in the following line items on the condensed consolidated statements of operations for the three and nine months ended October 31, 2015 and 2014:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Cost of revenue - product	\$ 431	\$ 224	\$ 1,051	\$ 675
Cost of revenue - service and support	1,761	941	4,023	2,816
Research and development, net	2,583	1,271	6,445	3,881
Selling, general and administrative	11,649	10,190	38,738	31,181
<b>Total stock-based compensation expense</b>	<b>\$ 16,424</b>	<b>\$ 12,626</b>	<b>\$ 50,257</b>	<b>\$ 38,553</b>

The following table summarizes stock-based compensation expense by type of award for the three and nine months ended October 31, 2015, and 2014:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Restricted stock units and restricted stock awards	\$ 14,187	\$ 11,942	\$ 43,771	\$ 35,373
Stock options	—	—	—	15
Phantom stock units	27	40	158	120
Stock bonus program and bonus share program	2,210	644	6,328	3,045
<b>Total stock-based compensation expense</b>	<b>\$ 16,424</b>	<b>\$ 12,626</b>	<b>\$ 50,257</b>	<b>\$ 38,553</b>

Total stock-based compensation expense by classification was as follows for the three and nine months ended October 31, 2015, and 2014:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Equity-classified awards	\$ 14,187	\$ 11,942	\$ 43,771	\$ 35,702
Stock bonus program and other reclassifications	—	—	—	(654)
Total equity-settled awards	14,187	11,942	43,771	35,048
Liability-classified awards	2,237	684	6,486	3,505
<b>Total stock-based compensation expense</b>	<b>\$ 16,424</b>	<b>\$ 12,626</b>	<b>\$ 50,257</b>	<b>\$ 38,553</b>

The increase in stock-based compensation expense during the three and nine months ended October 31, 2015, compared to the corresponding prior-year periods, resulted primarily from the combination of an increase in the number of outstanding RSUs, higher expenses associated with performance-based RSUs, a general increase in the price of our common stock, which is used to determine the grant-date fair value of an RSU, and a bonus share program, further details for which appear below under "Bonus Share Program".

Awards under our stock bonus program are accounted for as liability-classified awards, because the obligations are based predominantly on fixed monetary amounts that are generally known at inception of the obligation, to be settled with a variable number of shares of our common stock. Amounts reported in the stock bonus program and other reclassifications caption in the preceding table, if any, primarily represent stock bonus expenses recognized in those periods for awards that were subsequently settled with equity during the nine months ended October 31, 2015 and 2014. Expenses associated with stock bonus program awards that remained outstanding as of October 31, 2015 and 2014 are reflected within other liability-classified awards in the preceding table. Our other liability-classified awards include our phantom stock awards and certain discretionary bonuses. Upon settlement of other liability-classified awards with equity, compensation expense associated with those awards is reported within equity-classified awards in the table above.

### **Restricted Stock Units**

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

The following table summarizes restricted stock unit activity and related information for the nine months ended October 31, 2015:

(in thousands, except per share data)	Number of RSUs	Weighted-Average Grant Date Fair Value
RSUs outstanding, January 31, 2015	2,545	\$ 40.96
RSUs granted	1,604	\$ 64.23
RSUs released	(1,300)	\$ 39.74
RSUs forfeited	(226)	\$ 49.14
<b>RSUs outstanding, October 31, 2015</b>	<b>2,623</b>	<b>\$ 55.10</b>

Substantially all of the restricted stock units granted during the year ended January 31, 2013 included a provision which allows those awards to be settled with cash payments upon vesting, rather than with delivery of common stock, at the discretion of our board of directors. As of October 31, 2015, for such awards that remain outstanding, settlement of these awards with cash payments was not considered probable, and therefore these awards have been accounted for as equity-classified awards.

With respect of our stock bonus program, activity presented in the table above only includes shares earned and released in consideration of the discount provided under that program. Consistent with the provisions of the plan under which such shares are issued, other shares issued under the stock bonus program are not included in the table above because they do not reduce available plan capacity. Activity presented in the table above includes all shares awarded and released under the bonus share program. Further details appear below under "Stock Bonus Program" and "Bonus Share Program".

As of October 31, 2015, there was approximately \$98.3 million of total unrecognized compensation expense, net of estimated forfeitures, related to unvested restricted stock units, which is expected to be recognized over a weighted-average period of 1.9 years. The unrecognized compensation expense does not include compensation expense related to shares for which a grant date has been established but the requisite service period has not begun.

#### ***Stock Bonus Program***

Our stock bonus program permits eligible employees to receive a portion of their earned bonuses, otherwise payable in cash, in the form of discounted shares of our common stock. Executive officers have been eligible to participate in this program from and after the year ended January 31, 2014 to the extent that shares remained available for awards following the enrollment of all other participants. Shares awarded to executive officers with respect to the discount feature of the program are subject to a one-year vesting period. This program is subject to annual funding approval by our board of directors and an annual cap on the number of shares that can be issued. Subject to these limitations, the number of shares to be issued under the program for a given year is determined using a five-day trailing average price of our common stock when the awards are calculated, reduced by a discount determined by the board of directors each year (the "discount"). To the extent that this program is not funded in a given year or the number of shares of common stock needed to fully satisfy employee enrollment exceeds the annual cap, the applicable portion of the employee bonuses will generally revert to being paid in cash. Obligations under this program are accounted for as liabilities, because the obligations are based predominantly on fixed monetary amounts that are generally known at inception of the obligation, to be settled with a variable number of shares of common stock determined using a discounted average price of our common stock.

For the year ended January 31, 2015, our board of directors approved up to 125,000 shares of common stock for awards under the program and a discount of 15%.

The following table summarizes activity under the stock bonus program during the nine months ended October 31, 2015 and 2014:

(in thousands)	Nine Months Ended October 31,	
	2015	2014
Shares in lieu of cash bonus - granted and released	43	82
Shares in respect of discount:		
Granted	7	12
Released	5	9

On March 19, 2015, our board of directors approved up to 125,000 shares of common stock, and a discount of 15%, for awards under our stock bonus program for the year ending January 31, 2016 (the "2016 Stock Bonus Program").

#### ***Bonus Share Program***

In February 2015, our board of directors authorized the use of shares of common stock available under our equity incentive plans to award up to approximately \$4.7 million in discretionary bonuses in respect of performance during the year ended January 31, 2015 to employees other than executive officers, subject to certain limitations on the aggregate number of shares that may be issued. There is no discount feature associated with awards under the bonus share program. Similar to the accounting for the stock bonus program, obligations for these bonuses are accounted for as liabilities, because the obligations are based predominantly on fixed monetary amounts that are generally known, to be settled with a variable number of shares of common stock. During the three months ended July 31, 2015, approximately 74,000 shares of common stock were awarded and released under the bonus share program in respect of the year ended January 31, 2015.

In March 2015, our board of directors authorized the continuation of the bonus share program in respect of bonuses for the year ending January 31, 2016, and has approved up to 75,000 shares of common stock, plus any shares not used under the 2016 Stock Bonus Program, for awards under this program in respect of the year ending January 31, 2016 (not to exceed 200,000 shares in aggregate between the two programs). Shares awarded in respect of the bonus share program period ending January 31, 2016 are expected to be issued during the first half of the year ending January 31, 2017.

The combined accrued liabilities for the stock bonus program and the bonus share program were \$6.6 million and \$8.0 million at October 31, 2015 and January 31, 2015, respectively.

#### ***Other Stock-Based Compensation Awards***

We periodically grant stock options, phantom stock, and restricted stock awards to our directors, officers, and other employees. Activity for these awards was not significant for the nine months ended October 31, 2015 and 2014.

### ***13. COMMITMENTS AND CONTINGENCIES***

#### ***Warranty Liability***

The following table summarizes the activity in our warranty liability, which is included in accrued expenses and other liabilities in the condensed consolidated balance sheets, for the nine months ended October 31, 2015 and 2014:

(in thousands)	Nine Months Ended October 31,	
	2015	2014
Warranty liability at beginning of period	\$ 633	\$ 706
Provision charged to (credited against) expenses	187	(93)
Warranty charges	(120)	—
Foreign currency translation and other	(2)	(5)
<b>Warranty liability at end of period</b>	<b>\$ 698</b>	<b>\$ 608</b>

#### ***Operating Leases***

During the three months ended October 31, 2015, we entered into a new operating lease for a facility in Herzeliya, Israel, the term of which we expect to commence on or about February 1, 2016. The aggregate minimum lease commitment over the 12-year term of this new lease, excluding operating expenses, is approximately \$40.5 million.

#### ***Legal Proceedings***

On March 26, 2009, legal actions were commenced by Ms. Orit Deutsch, a former employee of our subsidiary, Verint Systems Limited ("VSL"), against VSL in the Tel Aviv Regional Labor Court (Case Number 4186/09) (the "Deutsch Labor Action") and against CTI in the Tel Aviv District Court (Case Number 1335/09) (the "Deutsch District Action"). In the Deutsch Labor Action, Ms. Deutsch filed a motion to approve a class action lawsuit on the grounds that she purports to represent a class of our

## [Table of Contents](#)

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

On April 4, 2012, Ms. Deutsch and Ms. Katriel filed an uncontested motion to consolidate and amend their claims and on June 7, 2012, the District Court allowed Ms. Deutsch and Ms. Katriel to file the consolidated class certification motion and an amended consolidated complaint against VSL, CTI, and Comverse Limited. Following CTI's announcement of its intention to effect the distribution of all of the issued and outstanding shares of capital stock of its former subsidiary, Comverse, Inc., on July 12, 2012, the plaintiffs filed a motion requesting that the District Court order CTI to set aside up to \$150.0 million in assets to secure any future judgment. The District Court ruled that it would not decide this motion until the Deutsch and Katriel class certification motion was heard. Plaintiffs initially filed a motion to appeal this ruling in August 2012, but subsequently withdrew it in July 2014.

Prior to the consummation of the Comverse share distribution, CTI either sold or transferred substantially all of its business operations and assets (other than its equity ownership interests in us and Comverse) to Comverse or unaffiliated third parties. On October 31, 2012, CTI completed the Comverse share distribution, in which it distributed all of the outstanding shares of common stock of Comverse to CTI's shareholders. As a result of the Comverse share distribution, Comverse became an independent public company and ceased to be a wholly owned subsidiary of CTI, and CTI ceased to have any material assets other than its equity interest in us. On September 9, 2015, Comverse changed its name to Xura, Inc. ("Xura").

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

Following an unsuccessful mediation process, the proceeding before the District Court resumed and the parties have filed summations on the plaintiffs' motion to certify the suit as a class action, which remain under consideration by the District Court.

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

## **14. SEGMENT INFORMATION**

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

Our Actionable Intelligence solutions help organizations address three important challenges: Customer Engagement Optimization; Security Intelligence; and Fraud, Risk, and Compliance. We conduct our business through three operating segments—Enterprise Intelligence Solutions ("Enterprise Intelligence"), Communications and Cyber Intelligence Solutions ("Communications Intelligence"), and Video and Situation Intelligence Solutions ("Video Intelligence"). Organizing our

[Table of Contents](#)

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.

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

Operating results by segment for the three and nine months ended October 31, 2015 and 2014 were as follows:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
<b>Revenue:</b>				
Enterprise Intelligence				
Segment revenue	\$ 161,365	\$ 171,270	\$ 468,947	\$ 506,382
Revenue adjustments	(1,168)	(5,744)	(2,477)	(25,263)
	<u>160,197</u>	<u>165,526</u>	<u>466,470</u>	<u>481,119</u>
Communications Intelligence				
Segment revenue	95,064	93,241	293,941	256,688
Revenue adjustments	(122)	(201)	(851)	(523)
	<u>94,942</u>	<u>93,040</u>	<u>293,090</u>	<u>256,165</u>
Video Intelligence				
Segment revenue	28,915	24,008	89,912	79,499
Revenue adjustments	—	—	—	—
	<u>28,915</u>	<u>24,008</u>	<u>89,912</u>	<u>79,499</u>
<b>Total revenue</b>	<b>\$ 284,054</b>	<b>\$ 282,574</b>	<b>\$ 849,472</b>	<b>\$ 816,783</b>
<b>Segment contribution:</b>				
Enterprise Intelligence	\$ 64,699	\$ 67,750	\$ 172,023	\$ 195,320
Communications Intelligence	28,991	32,495	93,398	79,966
Video Intelligence	7,683	4,500	25,769	18,108
<b>Total segment contribution</b>	<b>101,373</b>	<b>104,745</b>	<b>291,190</b>	<b>293,394</b>
<b>Unallocated expenses, net:</b>				
Amortization of acquired intangible assets	19,956	19,463	59,262	57,142
Stock-based compensation	16,424	12,626	50,257	38,553
Other unallocated expenses	42,665	48,298	141,023	160,875
Total unallocated expenses, net	<u>79,045</u>	<u>80,387</u>	<u>250,542</u>	<u>256,570</u>
<b>Operating income</b>	<b>22,328</b>	<b>24,358</b>	<b>40,648</b>	<b>36,824</b>
Other expense, net	(12,307)	(8,119)	(32,088)	(38,700)
<b>Income (loss) before provision (benefit) for income taxes</b>	<b>\$ 10,021</b>	<b>\$ 16,239</b>	<b>\$ 8,560</b>	<b>\$ (1,876)</b>

Revenue adjustments represent revenue of acquired companies which is included within segment revenue reviewed by the CODM, but not recognizable within GAAP revenue. These adjustments primarily relate to the acquisition-date excess of the historical carrying value over the fair value of acquired companies' future maintenance and service performance obligations. As the obligations are satisfied, we report our segment revenue using the historical carrying values of these obligations, which we

believe better reflects our ongoing maintenance and service revenue streams, whereas GAAP revenue is reported using the obligations' acquisition-date fair values.

With the exception of goodwill and acquired intangible assets, we do not identify or allocate our assets by operating segment. Consequently, it is not practical to present assets by operating segment. There were no material changes in the allocation of goodwill and acquired intangible assets by operating segment during the nine months ended October 31, 2015 and 2014. The allocations of goodwill and acquired intangible assets by operating segment appear in Note 5, "Intangible Assets and Goodwill".

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

The following management's discussion and analysis is provided to assist readers in understanding our financial condition, results of operations, and cash flows. This discussion should be read in conjunction with our audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended January 31, 2015 and our unaudited condensed consolidated financial statements and notes thereto contained in this report. This discussion contains a number of forward-looking statements, all of which are based on our current expectations and all of which could be affected by uncertainties and risks. Our actual results may differ materially from the results contemplated in these forward-looking statements as a result of many factors including, but not limited to, those described under "Cautionary Note on Forward-Looking Statements".

### **Overview**

#### ***Our Business***

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. Verint's vision is to create A Smarter World with Actionable Intelligence.

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 Solutions ("Enterprise Intelligence"), Communications and Cyber Intelligence Solutions ("Communications Intelligence"), and Video and Situation Intelligence Solutions ("Video Intelligence"). Organizing our business through three operating segments allows us to align our resources and domain expertise to more 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.

#### ***Critical Accounting Policies and Estimates***

Note 1, "Summary of Significant Accounting Policies" to the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended January 31, 2015 describes the significant accounting policies and methods used in the preparation of the condensed consolidated financial statements appearing in this report. The accounting policies that reflect our more significant estimates, judgments and assumptions in the preparation of our condensed consolidated financial statements are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of our Annual Report on Form 10-K for the year ended January 31, 2015, and include the following:

- Revenue recognition;

## [Table of Contents](#)

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

There were no significant changes to our critical accounting policies and estimates during the nine months ended October 31, 2015.

### ***Correction of Immaterial Overstatement of Expenses***

During the three months ended October 31, 2015, we identified an overstatement of stock-based compensation expense for the three months ended July 31, 2015, as reported in our previously issued condensed consolidated financial statements as of and for the three and six months ended July 31, 2015. We assessed the materiality of the misstatement, in accordance with guidance provided in SEC Staff Accounting Bulletin No. 99, and concluded that the misstatement was not material to the condensed consolidated financial statements as of and for the three and six months ended July 31, 2015. Nonetheless, the accompanying condensed consolidated financial statements as of and for the three and nine months ended October 31, 2015, and the information provided in this management's discussion and analysis, reflect the impact of our retroactive correction of this immaterial misstatement in our operating results as of and for the three and six months ended July 31, 2015. We will also reflect the correction of this immaterial misstatement when operating results as of and for the three and six months ended July 31, 2015 are presented as comparable prior period amounts in our future filings.

Further information regarding the correction of this immaterial misstatement appears in Note 1, "Basis of Presentation and Significant Accounting Policies" to our condensed consolidated financial statements included under Part I, Item 1 of this report.

## **Results of Operations**

### ***Seasonality and Cyclicality***

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

### ***Overview of Operating Results***

The following table sets forth a summary of certain key financial information for the three and nine months ended October 31, 2015 and 2014:

(in thousands, except per share data)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Revenue	\$ 284,054	\$ 282,574	\$ 849,472	\$ 816,783
Operating income	\$ 22,328	\$ 24,358	\$ 40,648	\$ 36,824
Net income attributable to Verint Systems Inc.	\$ 7,634	\$ 10,670	\$ 133	\$ 26,348
Net income per common share attributable to Verint Systems Inc.: Basic	\$ 0.12	\$ 0.18	\$ 0.00	\$ 0.46
Diluted	\$ 0.12	\$ 0.17	\$ 0.00	\$ 0.45

## [Table of Contents](#)

*Three Months Ended October 31, 2015 compared to Three Months Ended October 31, 2014.* Our revenue increased approximately \$1.5 million, or 1%, to \$284.1 million in the three months ended October 31, 2015 from \$282.6 million in the three months ended October 31, 2014. The increase consisted of a \$4.3 million increase in service and support revenue, partially offset by a \$2.7 million decrease in product revenue. In our Communications Intelligence segment, revenue increased approximately \$1.9 million, or 2%, from \$93.0 million in the three months ended October 31, 2014 to \$94.9 million in the three months ended October 31, 2015. The increase consisted of a \$4.2 million increase in service and support revenue, partially offset by a \$2.3 million decrease in product revenue. In our Video Intelligence segment, revenue increased approximately \$4.9 million, or 20%, from \$24.0 million in the three months ended October 31, 2014 to \$28.9 million in the three months ended October 31, 2015. In our Enterprise Intelligence segment, revenue decreased \$5.3 million, or approximately 3%, from \$165.5 million in the three months ended October 31, 2014 to \$160.2 million in the three months ended October 31, 2015. As noted below, revenue for the three months ended October 31, 2015, when compared to revenue for the three months ended October 31, 2014, was unfavorably impacted by movements in foreign currency exchange rates, compared to foreign currency exchange rates in effect during the three months ended October 31, 2014. For additional details on our revenue by segment, see "—Revenue by Operating Segment". Revenue in the Americas, in Europe, the Middle East and Africa ("EMEA"), and in the Asia-Pacific ("APAC") regions represented approximately 54%, 29%, and 17% of our total revenue, respectively, in the three months ended October 31, 2015, compared to approximately 53%, 33%, and 14%, respectively, in the three months ended October 31, 2014. Further details of changes in revenue are provided below.

Operating income was \$22.3 million in the three months ended October 31, 2015 compared to \$24.4 million in the three months ended October 31, 2014. This decrease in operating income was primarily due to a \$3.0 million decrease in gross profit, from \$181.5 million to \$178.5 million, partially offset by a \$0.9 million decrease in operating expenses, from \$157.1 million to \$156.2 million. The decrease in operating expenses consisted of a \$2.8 million decrease in selling, general and administrative expenses and a \$0.5 million decrease in amortization of other acquired intangible assets, partially offset by a \$2.4 million increase in net research and development expenses. Further details of changes in operating income are provided below. The decrease in gross profit was primarily due to decreased gross profit in our Enterprise Intelligence segment.

Net income attributable to Verint Systems Inc. was \$7.6 million, and diluted net income per common share was \$0.12, in the three months ended October 31, 2015 compared to net income attributable to Verint Systems Inc. of \$10.7 million, and diluted net income per common share of \$0.17, in the three months ended October 31, 2014. The decrease in net income attributable to Verint Systems Inc. and diluted net income per common share in the three months ended October 31, 2015 was primarily due to decreased operating income described above, a \$1.3 million decrease in net gains on derivative financial instruments, a \$0.6 million increase in net foreign currency losses, and a \$2.5 million increase in other expense, net. These increases were partially offset by a \$3.2 million decrease in our provision for income taxes. Further details of changes in total other expense, net, are provided below.

A portion of our business is conducted in currencies other than the U.S. dollar, and therefore our revenue and operating expenses are affected by fluctuations in applicable foreign currency exchange rates. When comparing average exchange rates for the three months ended October 31, 2015 to average exchange rates for the three months ended October 31, 2014, the U.S. dollar strengthened relative to the British pound sterling, euro, Australian dollar, Brazilian real, Singapore dollar, and Israeli shekel, resulting in an overall decrease in our revenue, cost of revenue, and operating expenses on a U.S. dollar-denominated basis. For the three months ended October 31, 2015, had foreign currency exchange rates remained unchanged from rates in effect for the three months ended October 31, 2014, our revenue would have been approximately \$12.5 million higher and our cost of revenue and operating expenses on a combined basis would have been approximately \$12.6 million higher, which would have resulted in a \$0.1 million decrease in operating income.

*Nine Months Ended October 31, 2015 compared to Nine Months Ended October 31, 2014.* Our revenue increased approximately \$32.7 million, or 4%, to \$849.5 million in the nine months ended October 31, 2015 from \$816.8 million in the nine months ended October 31, 2014. The increase consisted of a \$32.2 million increase in service and support revenue and a \$0.5 million increase in product revenue. In our Enterprise Intelligence segment, revenue decreased \$14.6 million, or approximately 3%, from \$481.1 million in the nine months ended October 31, 2014 to \$466.5 million in the nine months ended October 31, 2015. The decrease consisted of a \$19.6 million decrease in product revenue, partially offset by a \$5.0 million increase in service revenue. In our Communications Intelligence segment, revenue increased approximately \$36.9 million, or 14%, from \$256.2 million in the nine months ended October 31, 2014 to \$293.1 million in the nine months ended October 31, 2015. The increase consisted of a \$24.5 million increase in service and support revenue and a \$12.4 million increase in product revenue. In our Video Intelligence segment, revenue increased approximately \$10.4 million, or 13%, from \$79.5 million in the nine months ended October 31, 2014 to \$89.9 million in the nine months ended October 31, 2015, primarily due to an increase in product revenue. As noted below, revenue for the nine months ended October 31, 2015, when compared to revenue for the nine months ended October 31, 2014, was unfavorably impacted by movements in foreign currency exchange rates, compared to foreign currency exchange rates in effect during the nine months ended October 31, 2014. For additional details on our

## [Table of Contents](#)

revenue by segment, see "—Revenue by Operating Segment". Revenue in the Americas, EMEA, and APAC regions represented approximately 52%, 31%, and 17% of our total revenue in each of the nine months ended October 31, 2015 and 2014. Further details of changes in revenue are provided below.

Operating income was \$40.6 million in the nine months ended October 31, 2015 compared to \$36.8 million in the nine months ended October 31, 2014. This increase in operating income was primarily due to a \$11.9 million increase in gross profit from \$510.3 million to \$522.2 million, partially offset by a \$8.1 million increase in operating expenses, from \$473.5 million to \$481.6 million. The increase in gross profit was primarily due to increased gross profit in our Communications Intelligence segment. The increase in operating expenses consisted of a \$6.3 million increase in net research and development expenses and a \$3.6 million increase in selling, general and administrative expenses, partially offset by a \$1.7 million decrease in amortization of other acquired intangible assets. Further details of changes in operating income are provided below.

Net income attributable to Verint Systems Inc. was \$0.1 million, and net income per common share was \$0.00, in the nine months ended October 31, 2015 compared to net income attributable to Verint Systems Inc. of \$26.3 million, and diluted net income per common share of \$0.45, in the nine months ended October 31, 2014. The decrease in net income attributable to Verint Systems Inc. and diluted net income per common share in the nine months ended October 31, 2015 was primarily due to a \$36.9 million decrease in our benefit for income taxes, from a benefit of \$31.8 million in the nine months ended October 31, 2014 to an expense of \$5.1 million in the nine months ended October 31, 2015, and a \$9.0 million increase in other expense, net, from a net benefit of \$1.3 million in the nine months ended October 31, 2014 to a net expense of \$7.7 million in the nine months ended October 31, 2015. These decreases to net income attributable to Verint Systems Inc. were partially offset by our increased operating income, as described above, a \$2.7 million decrease in interest expense, and a \$12.5 million loss upon early retirement of debt recorded during the nine months ended October 31, 2014, with no comparable loss during the nine months ended October 31, 2015. Further details of changes in total other expense, net, are provided below.

When comparing average exchange rates for the nine months ended October 31, 2015 to average exchange rates for the nine months ended October 31, 2014, the U.S. dollar strengthened relative to the British pound sterling, euro, Australian dollar, Brazilian real, Israeli shekel, and Singapore dollar, resulting in an overall decrease in our revenue, cost of revenue, and operating expenses on a U.S. dollar-denominated basis. For the nine months ended October 31, 2015, had foreign currency exchange rates remained unchanged from rates in effect for the nine months ended October 31, 2014, our revenue would have been approximately \$36.0 million higher and our cost of revenue and operating expenses on a combined basis would have been approximately \$39.4 million higher, which would have resulted in a \$3.4 million decrease in operating income.

As of October 31, 2015, we employed approximately 4,800 professionals, including part-time employees and certain contractors, as compared to approximately 4,700 at October 31, 2014.

### **Revenue by Operating Segment**

The following table sets forth revenue for each of our three operating segments for the three and nine months ended October 31, 2015 and 2014:

(in thousands)	Three Months Ended October 31,		% Change 2015 - 2014	Nine Months Ended October 31,		% Change 2015 - 2014
	2015	2014		2015	2014	
Enterprise Intelligence	\$ 160,197	\$ 165,526	(3)%	\$ 466,470	\$ 481,119	(3)%
Communications Intelligence	94,942	93,040	2%	293,090	256,165	14%
Video Intelligence	28,915	24,008	20%	89,912	79,499	13%
<b>Total revenue</b>	<b>\$ 284,054</b>	<b>\$ 282,574</b>	<b>1%</b>	<b>\$ 849,472</b>	<b>\$ 816,783</b>	<b>4%</b>

Revenue for each operating segment for the three and nine months ended October 31, 2015 was unfavorably impacted by movements in foreign currency exchange rates, compared to foreign currency exchange rates in effect during the three and nine months ended October 31, 2014, as described above in "Overview of Operating Results".

#### ***Enterprise Intelligence Segment***

*Three Months Ended October 31, 2015 compared to Three Months Ended October 31, 2014.* Enterprise Intelligence revenue decreased approximately \$5.3 million, or 3%, from \$165.5 million in the three months ended October 31, 2014 to \$160.2 million in the three months ended October 31, 2015. The decrease consisted of a \$4.0 million decrease in product revenue and a \$1.3 million decrease in service and support revenue. The decrease in product revenue primarily reflects a lower aggregate

## [Table of Contents](#)

value of executed license arrangements, which comprises the majority of our product revenue and which can fluctuate from period to period. The decrease in service and support revenue was primarily due to a decrease in revenue from professional services and consulting projects in the three months ended October 31, 2015.

*Nine Months Ended October 31, 2015 compared to Nine Months Ended October 31, 2014.* Enterprise Intelligence revenue decreased approximately \$14.6 million, or 3%, from \$481.1 million in the nine months ended October 31, 2014 to \$466.5 million in the nine months ended October 31, 2015. The decrease consisted of a \$19.6 million decrease in product revenue, partially offset by a \$5.0 million increase in service and support revenue. The decrease in product revenue primarily reflects a lower aggregate value of executed license arrangements, which comprises the majority of our product revenue and which can fluctuate from period to period. The increase in service and support revenue was primarily due to an increase in our customer install base, and the related support revenue generated from this customer base during the nine months ended October 31, 2015, as well as increased revenue from new service offerings in the nine months ended October 31, 2015. The continued growth of service revenue on a year over year basis is attributable to various factors, including an increase in services associated with customer product upgrades, a higher component of service offerings in our standard arrangements, and growth in our customer install base.

### ***Communications Intelligence Segment***

*Three Months Ended October 31, 2015 compared to Three Months Ended October 31, 2014.* Communications Intelligence revenue increased approximately \$1.9 million, or 2%, from \$93.0 million in the three months ended October 31, 2014 to \$94.9 million in the three months ended October 31, 2015. The increase consisted of a \$4.2 million increase in service and support revenue, partially offset by a \$2.3 million decrease in product revenue. The increase in service and support revenue was primarily attributable to an increase in progress realized during the current year on projects with revenue recognized using the percentage of completion ("POC") method, some of which commenced in the previous fiscal year, and an increase in support revenue from new and existing customers. The decrease in product revenue was primarily due to a decrease in product deliveries to customers, partially offset by an increase in progress realized during the current year on projects with revenue recognized using the POC method, some of which commenced in the previous fiscal year.

*Nine Months Ended October 31, 2015 compared to Nine Months Ended October 31, 2014.* Communications Intelligence revenue increased approximately \$36.9 million, or 14%, from \$256.2 million in the nine months ended October 31, 2014 to \$293.1 million in the nine months ended October 31, 2015. The increase consisted of a \$24.5 million increase in service and support revenue and a \$12.4 million increase in product revenue. The increase in service and support revenue was primarily attributable to an increase in progress realized during the current year on projects with revenue recognized using the POC method, some of which commenced in the previous fiscal year, and an increase in support revenue from new and existing customers. The increase in product revenue was primarily due to an increase in progress realized during the current year on projects with revenue recognized using the POC method, some of which commenced in the previous fiscal year, and an increase in product deliveries to customers.

### ***Video Intelligence Segment***

*Three Months Ended October 31, 2015 compared to Three Months Ended October 31, 2014.* Video Intelligence revenue increased approximately \$4.9 million, or 20%, from \$24.0 million in the three months ended October 31, 2014 to \$28.9 million in the three months ended October 31, 2015. The increase was primarily attributable to an increase in product deliveries to customers during the three months ended October 31, 2015 compared to the three months ended October 31, 2014.

*Nine Months Ended October 31, 2015 compared to Nine Months Ended October 31, 2014.* Video Intelligence revenue increased approximately \$10.4 million, or 13%, from \$79.5 million in the nine months ended October 31, 2014 to \$89.9 million in the nine months ended October 31, 2015. The increase was primarily attributable to an increase in product deliveries to customers during the nine months ended October 31, 2015 compared to the nine months ended October 31, 2014.

### ***Volume and Price***

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

### ***Product Revenue and Service and Support Revenue***

## [Table of Contents](#)

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

The following table sets forth product revenue and service and support revenue for the three and nine months ended October 31, 2015 and 2014:

(in thousands)	Three Months Ended October 31,		% Change 2015 - 2014	Nine Months Ended October 31,		% Change 2015 - 2014
	2015	2014		2015	2014	
Product revenue	\$ 115,573	\$ 118,346	(2)%	\$ 340,139	\$ 339,657	—%
Service and support revenue	168,481	164,228	3%	509,333	477,126	7%
<b>Total revenue</b>	<b>\$ 284,054</b>	<b>\$ 282,574</b>	<b>1%</b>	<b>\$ 849,472</b>	<b>\$ 816,783</b>	<b>4%</b>

### **Product Revenue**

*Three Months Ended October 31, 2015 compared to Three Months Ended October 31, 2014.* Product revenue decreased approximately \$2.7 million, or 2%, from \$118.3 million for the three months ended October 31, 2014 to \$115.6 million for the three months ended October 31, 2015, resulting from a \$4.0 million decrease in our Enterprise Intelligence segment and a \$2.3 million decrease in our Communications Intelligence segment, partially offset by a \$3.6 million increase in our Video Intelligence segment.

*Nine Months Ended October 31, 2015 compared to Nine Months Ended October 31, 2014.* Product revenue increased approximately \$0.5 million, from \$339.7 million for the nine months ended October 31, 2014 to \$340.1 million for the nine months ended October 31, 2015, resulting from a \$12.4 million increase in our Communications Intelligence segment and a \$7.7 million increase in our Video Intelligence segment, offset by a \$19.6 million decrease in our Enterprise Intelligence segment.

For additional information see "—Revenue by Operating Segment".

### **Service and Support Revenue**

*Three Months Ended October 31, 2015 compared to Three Months Ended October 31, 2014.* Service and support revenue increased approximately \$4.3 million, or 3%, from \$164.2 million for the three months ended October 31, 2014 to \$168.5 million for the three months ended October 31, 2015. This increase was primarily attributable to increases of \$4.2 million, and \$1.4 million in our Communications Intelligence and Video Intelligence segments, respectively, partially offset by a \$1.3 million decrease in our Enterprise Intelligence segment.

*Nine Months Ended October 31, 2015 compared to Nine Months Ended October 31, 2014.* Service and support revenue increased approximately \$32.2 million, or 7%, from \$477.1 million for the nine months ended October 31, 2014 to \$509.3 million for the nine months ended October 31, 2015. This increase was primarily attributable to increases of \$24.5 million, \$5.0 million, and \$2.7 million in our Communications Intelligence, Enterprise Intelligence, and Video Intelligence segments, respectively.

For additional information see "— Revenue by Operating Segment".

### **Cost of Revenue**

The following table sets forth cost of revenue by product and service and support, as well as amortization of acquired technology for the three and nine months ended October 31, 2015 and 2014:

(in thousands)	Three Months Ended October 31,		% Change 2015 - 2014	Nine Months Ended October 31,		% Change 2015 - 2014
	2015	2014		2015	2014	
Cost of product revenue	\$ 34,982	\$ 32,925	6%	\$ 111,756	\$ 104,524	7%
Cost of service and support revenue	61,475	60,082	2%	188,576	178,939	5%
Amortization of acquired technology	9,060	8,096	12%	26,896	23,018	17%
<b>Total cost of revenue</b>	<b>\$ 105,517</b>	<b>\$ 101,103</b>	<b>4%</b>	<b>\$ 327,228</b>	<b>\$ 306,481</b>	<b>7%</b>

We exclude certain costs of both product revenue and service and support revenue, including shared support costs, stock-based compensation, and asset impairment charges (if any), among others, as well as amortization of acquired technology, when calculating our operating segment gross margins.

#### ***Cost of Product Revenue***

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

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

*Three Months Ended October 31, 2015 compared to Three Months Ended October 31, 2014.* Cost of product revenue increased approximately \$2.1 million, or 6%, from \$32.9 million in the three months ended October 31, 2014 to \$35.0 million in the three months ended October 31, 2015. Our overall product gross margins decreased to 70% in the three months ended October 31, 2015 from 72% in the three months ended October 31, 2014. As noted above, certain costs are not allocated to our operating segments when we calculate product gross margins by operating segment. Product gross margins in our Enterprise Intelligence segment were 94% in each of the three months ended October 31, 2015 and 2014. Product gross margins in our Communications Intelligence segment decreased from 62% in the three months ended October 31, 2014 to 61% in the three months ended October 31, 2015 primarily due to a change in product mix. Product gross margins in our Video Intelligence segment increased to 60% in the three months ended October 31, 2015 from 57% in the three months ended October 31, 2014 due to a change in product mix.

*Nine Months Ended October 31, 2015 compared to Nine Months Ended October 31, 2014.* Cost of product revenue increased approximately \$7.3 million, or 7%, from \$104.5 million in the nine months ended October 31, 2014 to \$111.8 million in the nine months ended October 31, 2015 primarily due to a \$2.8 million increase in employee compensation, a \$2.7 million increase in contractor expense, and a \$0.7 million increase in travel expenses, each primarily in our Communications Intelligence segment. For the nine months ended October 31, 2015, we recorded a \$2.3 million charge for the impairment of certain technology assets associated with a prior business combination in our Communications Intelligence segment. For the nine months ended October 31, 2014, we recorded a \$2.6 million charge for the impairment of certain capitalized software development costs, reflecting strategy changes in certain product development initiatives in our Communications Intelligence segment as a result of the UTX acquisition. Our overall product gross margins decreased to 67% in the nine months ended October 31, 2015 from 69% in the nine months ended October 31, 2014. As noted above, certain costs are not allocated to our operating segments when we calculate product gross margins by operating segment. Product gross margins in our Enterprise Intelligence segment decreased to 93% in the nine months ended October 31, 2015 from 94% in the nine months ended October 31, 2014. Product gross margins in our Communications Intelligence segment increased from 60% in the nine months ended October 31, 2014 to 61% in the nine months ended October 31, 2015 primarily due to a change in product mix. Product gross margins in our Video Intelligence segment were 60% in each of the nine months ended October 31, 2015 and 2014.

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

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

## [Table of Contents](#)

and our accounting policy, the cost of service and support revenue is generally expensed as incurred in the period in which the services are performed, with the exception of certain transactions accounted for using the POC method.

*Three Months Ended October 31, 2015 compared to Three Months Ended October 31, 2014.* Cost of service and support revenue increased approximately \$1.4 million, or 2%, from \$60.1 million in the three months ended October 31, 2014 to \$61.5 million in the three months ended October 31, 2015. The increase is primarily attributable to a \$1.3 million increase in contractor expenses resulting from increased use of contractors in the three months ended October 31, 2015 compared to the three months ended October 31, 2014 to support an overall increase in service revenue. Our overall service and support gross margins increased from 63% in the three months ended October 31, 2014 to 64% in the three months ended October 31, 2015.

*Nine Months Ended October 31, 2015 compared to Nine Months Ended October 31, 2014.* Cost of service and support revenue increased approximately \$9.7 million, or 5%, from \$178.9 million in the nine months ended October 31, 2014 to \$188.6 million in the nine months ended October 31, 2015. The increase is primarily attributable to a \$10.1 million increase in employee compensation and related expenses due primarily to increased services and support employee headcount in our Enterprise Intelligence and Communications Intelligence segments, partially offset by a \$1.4 million decrease in travel expenses primarily in our Enterprise Intelligence segment. Our overall service and support gross margins increased from 62% in the nine months ended October 31, 2014 to 63% in the nine months ended October 31, 2015.

### ***Amortization of Acquired Technology***

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

*Three Months Ended October 31, 2015 compared to Three Months Ended October 31, 2014.* Amortization of acquired technology increased approximately \$1.0 million, or 12%, from \$8.1 million in the three months ended October 31, 2014 to \$9.1 million in the three months ended October 31, 2015 primarily due to an increase in amortization expense of acquired technology-based intangible assets associated with business combinations that closed subsequent to October 31, 2014.

*Nine Months Ended October 31, 2015 compared to Nine Months Ended October 31, 2014.* Amortization of acquired technology increased approximately \$3.9 million, or 17%, from \$23.0 million in the nine months ended October 31, 2014 to \$26.9 million in the nine months ended October 31, 2015 primarily due to an increase in amortization expense of acquired technology-based intangible assets associated with business combinations that closed subsequent to October 31, 2014.

Further discussion regarding our business combinations appears in Note 4, "Business Combinations" to our condensed consolidated financial statements included under Part I, Item 1 of this report.

### **Research and Development, Net**

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

The following table sets forth research and development, net for the three and nine months ended October 31, 2015 and 2014:

(in thousands)	Three Months Ended October 31,		% Change 2015 - 2014	Nine Months Ended October 31,		% Change 2015 - 2014
	2015	2014		2015	2014	
Research and development, net	\$ 45,443	\$ 43,008	6%	\$ 134,741	\$ 128,408	5%

*Three Months Ended October 31, 2015 compared to Three Months Ended October 31, 2014.* Research and development, net increased approximately \$2.4 million, or 6%, from \$43.0 million in the three months ended October 31, 2014 to \$45.4 million in the three months ended October 31, 2015. The increase was primarily attributable to a \$1.3 million increase in stock-based compensation expense due primarily to the combination of an increase in the number of outstanding RSUs, higher expenses associated with performance-based RSUs, a general increase in the price of our common stock, which is used to determine the grant-date fair value of an RSU, and our bonus share program, further details for which appear in Note 12, "Stock-Based Compensation" to our condensed consolidated financial statements included under Part I, Item 1 of this report. Contractor expense increased \$0.9 million primarily due to increased use of contractors for research and development activities in our

## [Table of Contents](#)

Communications Intelligence and Enterprise Intelligence segments during the nine months ended October 31, 2015 compared to the nine months ended October 31, 2014.

*Nine Months Ended October 31, 2015 compared to Nine Months Ended October 31, 2014.* Research and development, net increased approximately \$6.3 million, or 5%, from \$128.4 million in the nine months ended October 31, 2014 to \$134.7 million in the nine months ended October 31, 2015. The increase was primarily attributable to a \$2.6 million increase in stock-based compensation expense due primarily to the combination of an increase in the number of outstanding RSUs, higher expenses associated with performance-based RSUs, a general increase in the price of our common stock, which is used to determine the grant-date fair value of an RSU, and our bonus share program, further details for which appear in Note 12, "Stock-Based Compensation" to our condensed consolidated financial statements included under Part I, Item 1 of this report. Employee compensation and related expenses increased \$1.4 million due primarily to increased research and development employee headcount in our Communications Intelligence segment. Contractor expenses increased \$1.8 million due to increased use of contractors for research and development activities in our Communications Intelligence segment during the nine months ended October 31, 2015 compared to the nine months ended October 31, 2014. Depreciation expense on fixed assets used for research and development activities in our Communications Intelligence segment increased \$1.0 million.

### **Selling, General and Administrative Expenses**

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

The following table sets forth selling, general and administrative expenses for the three and nine months ended October 31, 2015 and 2014:

(in thousands)	Three Months Ended October 31,		% Change 2015 - 2014	Nine Months Ended October 31,		% Change 2015 - 2014
	2015	2014		2015	2014	
Selling, general and administrative	\$ 99,870	\$ 102,738	(3)%	\$ 314,489	\$ 310,946	1%

*Three Months Ended October 31, 2015 compared to Three Months Ended October 31, 2014.* Selling, general and administrative expenses decreased approximately \$2.8 million, or 3%, from \$102.7 million in the three months ended October 31, 2014 to \$99.9 million in the three months ended October 31, 2015. This decrease was primarily attributable to a \$1.9 million decrease in employee compensation and related expenses due primarily to a decrease in headcount of general and administrative employees in our Enterprise Intelligence segment, and a decrease in the change in fair value of our obligations under contingent consideration arrangements from a \$0.3 million net expense during the three months ended October 31, 2014 to a \$1.0 million net benefit during the three months ended October 31, 2015, resulting in a \$1.3 million decrease in selling, general, and administrative expense.

*Nine Months Ended October 31, 2015 compared to Nine Months Ended October 31, 2014.* Selling, general and administrative expenses increased approximately \$3.6 million, or 1%, from \$310.9 million in the nine months ended October 31, 2014 to \$314.5 million in the nine months ended October 31, 2015. Stock-based compensation expense increased \$7.6 million due primarily to the combination of an increase in the number of outstanding RSUs, higher expenses associated with performance-based RSUs, a general increase in the price of our common stock, which is used to determine the grant-date fair value of an RSU, and our bonus share program, further details for which appear in Note 12, "Stock-Based Compensation" to our condensed consolidated financial statements included under Part I, Item 1 of this report. Facilities expenses increased \$1.1 million due primarily to costs associated with the early termination of a facility lease in the Americas region. Contractor expenses increased \$1.3 million due primarily to increased use of contractors for corporate support activities, including activities related to acquisitions and related expenses. These increases were partially offset by a \$6.2 million decrease in employee compensation and related expenses due primarily to a decrease in headcount of general and administrative employees in our Enterprise Intelligence segment, and a \$0.9 million decrease in travel expenses due primarily to decreased travel expenses in our Enterprise Intelligence segment.

### **Amortization of Other Acquired Intangible Assets**

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

## [Table of Contents](#)

The following table sets forth amortization of other acquired intangible assets for the three and nine months ended October 31, 2015 and 2014:

(in thousands)	Three Months Ended October 31,		% Change 2015 - 2014	Nine Months Ended October 31,		% Change 2015 - 2014
	2015	2014		2015	2014	
Amortization of other acquired intangible assets	\$ 10,896	\$ 11,367	(4)%	\$ 32,366	\$ 34,124	(5)%

*Three Months Ended October 31, 2015 compared to Three Months Ended October 31, 2014.* Amortization of other acquired intangible assets decreased approximately \$0.5 million, or 4%, from \$11.4 million in the three months ended October 31, 2014 to \$10.9 million in the three months ended October 31, 2015 primarily due to acquired intangible assets from historical business combinations becoming fully amortized subsequent to the three months ended October 31, 2014.

*Nine Months Ended October 31, 2015 compared to Nine Months Ended October 31, 2014.* Amortization of other acquired intangible assets decreased approximately \$1.7 million, or 5%, from \$34.1 million in the nine months ended October 31, 2014 to \$32.4 million in the nine months ended October 31, 2015 primarily due to acquired intangible assets from historical business combinations becoming fully amortized subsequent to the nine months ended October 31, 2014.

Further discussion regarding our business combinations appears in Note 4, "Business Combinations" to our condensed consolidated financial statements included under Part I, Item 1 of this report.

## **Other Income (Expense), Net**

The following table sets forth total other expense, net for the three and nine months ended October 31, 2015 and 2014:

(in thousands)	Three Months Ended October 31,		% Change 2015 - 2014	Nine Months Ended October 31,		% Change 2015 - 2014
	2015	2014		2015	2014	
Interest income	\$ 335	\$ 208	61%	\$ 992	\$ 683	45%
Interest expense	(8,467)	(8,494)	—%	(25,365)	(28,103)	(10)%
Losses on early retirements of debt	—	—	—%	—	(12,546)	(100)%
Other (expense) income:						
Foreign currency losses	(2,517)	(1,949)	29%	(5,434)	(1,035)	*
Gains on derivatives	309	1,562	(80)%	583	1,666	*
Other, net	(1,967)	554	*	(2,864)	635	*
Total other (expense) income, net	(4,175)	167	*	(7,715)	1,266	*
<b>Total other expense, net</b>	<b>\$ (12,307)</b>	<b>\$ (8,119)</b>	<b>52%</b>	<b>\$ (32,088)</b>	<b>\$ (38,700)</b>	<b>(17)%</b>

\* Percentage is not meaningful.

*Three Months Ended October 31, 2015 compared to Three Months Ended October 31, 2014.* Total other expense, net, increased by \$4.2 million from \$8.1 million in the three months ended October 31, 2014 to \$12.3 million in the three months ended October 31, 2015.

We recorded \$2.5 million of net foreign currency losses in the three months ended October 31, 2015 compared to \$1.9 million of net foreign currency losses in the three months ended October 31, 2014. Foreign currency losses in the three months ended October 31, 2015 resulted primarily from strengthening of the U.S. dollar against the Singapore dollar, resulting in foreign currency losses on Singapore dollar-denominated net assets in certain entities which use a U.S. dollar functional currency and foreign currency losses on U.S dollar-denominated net liabilities in certain entities which use a Singapore dollar functional currency. Also contributing to the loss was the strengthening of the U.S. dollar against the British pound sterling, resulting in foreign currency losses on U.S dollar-denominated net liabilities in certain entities which use a British pound sterling functional currency.

Other, net, was a \$2.0 million net expense in the three months ended October 31, 2015 compared to a net benefit of \$0.6 million in the three months ended October 31, 2014. Other, net, expense in the three months ended October 31, 2015 consisted

## [Table of Contents](#)

primarily of write-offs of indemnification assets associated with tax liabilities recorded in connection with prior business combinations.

*Nine Months Ended October 31, 2015 compared to Nine Months Ended October 31, 2014.* Total other expense, net, decreased by \$6.6 million from \$38.7 million in the nine months ended October 31, 2014 to \$32.1 million in the nine months ended October 31, 2015.

During the nine months ended October 31, 2014, we recorded a \$12.5 million loss upon early retirements of debt. Of this amount, \$7.1 million was recorded in connection with the extinguishment of the March 2013 Term Loans, and \$5.5 million was recorded in connection with the retirement of \$530.0 million of the February 2014 Term Loans and March 2014 Term Loans. Further discussion regarding our Credit Agreement appears in Note 6, "Long-term Debt" to our condensed consolidated financial statements included under Part I, Item 1 of this report.

Interest expense decreased to \$25.4 million in the nine months ended October 31, 2015 from \$28.1 million in the nine months ended October 31, 2014 primarily due to lower interest rates on outstanding borrowings during the nine months ended October 31, 2015.

We recorded \$5.4 million of net foreign currency losses in the nine months ended October 31, 2015 compared to \$1.0 million of net foreign currency losses in the nine months ended October 31, 2014. Foreign currency losses in the nine months ended October 31, 2015 resulted primarily from strengthening of the U.S. dollar against the Singapore dollar, resulting in foreign currency losses on Singapore dollar-denominated net assets in certain entities which use a U.S. dollar functional currency and foreign currency losses on U.S dollar-denominated net liabilities in certain entities which use a Singapore dollar functional currency. Also contributing to the net foreign currency loss was the weakening of the U.S dollar against the British pound sterling, resulting in foreign currency losses on U.S dollar-denominated net assets in certain entities which use a British pound sterling functional currency, and the strengthening of the U.S dollar against the Brazilian real, resulting in foreign currency losses on U.S dollar denominated net liabilities in certain entities which use a Brazilian real functional currency.

Other, net, was a \$2.9 million net expense in the nine months ended October 31, 2015 compared to a net benefit of \$0.6 million in the nine months ended October 31, 2014. Other, net, expense in the three months ended October 31, 2015 consisted primarily of write-offs of indemnification assets associated with tax liabilities recorded in connection with prior business combinations.

### **Provision (Benefit) for Income Taxes**

The following table sets forth our provision (benefit) for income taxes for the three and nine months ended October 31, 2015 and 2014:

(in thousands)	Three Months Ended October 31,		% Change 2015 - 2014	Nine Months Ended October 31,		% Change 2015 - 2014
	2015	2014		2015	2014	
Provision (benefit) for income taxes	\$ 1,551	\$ 4,766	(67)%	\$ 5,119	\$ (31,788)	*

\* Percentage is not meaningful.

*Three Months Ended October 31, 2015 compared to Three Months Ended October 31, 2014.* Our effective income tax rate was 15.5% for the three months ended October 31, 2015, compared to an effective income tax rate of 29.3% for the three months ended October 31, 2014. For the three months ended October 31, 2015, pre-tax income in our profitable jurisdictions, where we recorded tax provisions, was higher than the pre-tax losses in our domestic and foreign jurisdictions where we maintain valuation allowances and did not record the related tax benefits. In addition, following the receipt of an approval from a foreign government agency and of a tax ruling in a foreign jurisdiction, we adjusted certain unrecognized tax benefits and deferred tax items resulting in net discrete income tax benefits of \$3.4 million. We also recorded a discrete income tax benefit of \$1.5 million for the adjustment of certain unrecognized tax benefits established in connection with the KANA acquisition. The adjustment to the KANA acquisition unrecognized tax benefits resulted in a charge within other expense, net due to the write-off of an indemnification asset. The result was an income tax provision of \$1.6 million on pre-tax income of \$10.0 million, which represented an effective income tax rate of 15.5%.

For the three months ended October 31, 2014, pre-tax income in our profitable jurisdictions, where we recorded income tax provisions, was higher than the pre-tax losses in our domestic and foreign jurisdictions where we maintain valuation

## [Table of Contents](#)

allowances and did not record the related income tax benefits. The result was an income tax provision of \$4.8 million on pre-tax income of \$16.2 million, resulting in an effective income tax rate of 29.3%.

*Nine Months Ended October 31, 2015 compared to Nine Months Ended October 31, 2014.* Our effective income tax rate was 59.8% for the nine months ended October 31, 2015, compared to an effective income tax benefit rate of 1,694.5% for the nine months ended October 31, 2014. For the nine months ended October 31, 2015, pre-tax income in our profitable jurisdictions, where we recorded tax provisions, was higher than the pre-tax losses in our domestic and foreign jurisdictions where we maintain valuation allowances and did not record the related tax benefits. In addition, following the receipt in the three months ended October 31, 2015 of an approval from a foreign government agency and of a tax ruling in a foreign jurisdiction, we adjusted certain unrecognized tax benefits and deferred tax items resulting in net discrete income tax benefits of \$3.4 million. During the three months ended October 31, 2015, we also recorded a discrete income tax benefit of \$1.5 million for the adjustment of certain unrecognized tax benefits established in connection with the KANA acquisition. The adjustment to the KANA acquisition unrecognized tax benefits resulted in a charge within other expense, net due to the write-off of an indemnification asset. Also, following the receipt of a tax ruling in a foreign jurisdiction in the three months ended April 30, 2015, we reorganized certain operations within the foreign jurisdiction, resulting in a discrete income tax benefit of \$3.0 million. The result was an income tax provision of \$5.1 million on pre-tax income of \$8.6 million, which represented an effective income tax rate of 59.8%.

For the nine months ended October 31, 2014, our effective income tax rate was significantly impacted by 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 income 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 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 was reflected as a discrete income tax benefit and not as a component of the KANA acquisition accounting. The result was an income tax benefit of \$31.8 million on a pre-tax loss of \$1.9 million resulting in an effective income tax benefit rate of 1,694.5% for the nine months ended October 31, 2014. 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 income tax provisions, was slightly less than the pre-tax losses in our domestic and foreign jurisdictions where we maintain valuation allowances and did not record the related income tax benefits. Excluding the income tax benefit attributable to the valuation allowance release, the result for the nine months ended October 31, 2014 was an income tax provision of \$13.4 million on a pre-tax loss \$1.9 million, resulting in a negative effective income tax rate of 713.4%.

## **Backlog**

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

## **Liquidity and Capital Resources**

### *Overview*

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

Our primary recurring use of cash is payment of our operating costs, which consist primarily of employee-related expenses, such as compensation and benefits, as well as general operating expenses for marketing, facilities and overhead costs, and capital expenditures. We also utilize cash for debt service under our Credit Agreement and our Notes, and periodically for business acquisitions. Cash generated from operations, along with our existing cash, cash equivalents, and short-term investments, are our primary sources of operating liquidity, and we believe that our operating liquidity is sufficient to support our current business operations, including debt service and capital expenditure requirements.

In February 2014, in connection with our acquisition of KANA, we borrowed \$125.0 million under the revolving credit facility under our Credit Agreement (the "Revolving Credit Facility") and we also incurred \$300.0 million of incremental term loans under our Credit Agreement, both for purposes of funding a portion of the purchase price for KANA. In June 2014, we

## [Table of Contents](#)

completed concurrent public offerings of 5,750,000 shares of our common stock and \$400.0 million in aggregate principal amount of 1.50% convertible senior notes due June 1, 2021 (the "Notes"). The aggregate net proceeds from the concurrent offerings were \$657.5 million, the majority of which we used to repay a portion of the outstanding indebtedness under our Credit Agreement. Further discussion of our Credit Agreement, Notes, call options and warrants appears below, under "Financing Arrangements".

We have historically expanded our business in part by investing in strategic growth initiatives, including acquisitions of products, technologies, and businesses. We have used cash as consideration for substantially all of our historical business acquisitions, including approximately \$32 million of net cash expended for business acquisitions during the nine months ended October 31, 2015, and approximately \$605 million expended during the year ended January 31, 2015, comprised primarily of the acquisitions of KANA in February 2014 and UTX in April 2014. The acquisition of KANA was funded through a combination of cash on hand, and as described above, incremental term loans and borrowings under our Revolving Credit Facility.

We continually examine our options with respect to terms and sources of existing and future short-term and long-term capital resources to enhance our operating results and to ensure that we retain financial flexibility, and may from time to time elect to raise additional equity or debt capital in the capital markets.

A considerable portion of our operating income is earned outside of the United States. Cash, cash equivalents, short-term investments, and restricted cash and bank time deposits (including any long-term portions) held by our subsidiaries outside of the United States were \$302.7 million and \$297.2 million as of October 31, 2015 and January 31, 2015, respectively, and are generally used to fund the subsidiaries' operating requirements and to invest in growth initiatives, including business acquisitions. We currently do not anticipate that we will need funds generated from foreign operations to fund our domestic operations for the next 12 months and for the foreseeable future.

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

The following table summarizes our total cash, cash equivalents, restricted cash and bank time deposits, and short-term investments, as well as our total debt, as of October 31, 2015 and January 31, 2015:

(in thousands)	October 31, 2015	January 31, 2015
Cash and cash equivalents	\$ 272,260	\$ 285,072
Restricted cash and bank time deposits	17,910	36,920
Short-term investments	94,897	35,751
<b>Total cash, cash equivalents, restricted cash and bank time deposits, and short-term investments</b>	<b>\$ 385,067</b>	<b>\$ 357,743</b>
<b>Total debt, including current portion</b>	<b>\$ 744,363</b>	<b>\$ 736,802</b>

### ***Condensed Consolidated Cash Flow Activity***

The following table summarizes selected items from our condensed consolidated statements of cash flows for the nine months ended October 31, 2015 and 2014:

(in thousands)	Nine Months Ended October 31,	
	2015	2014
Net cash provided by operating activities	\$ 87,571	\$ 90,241
Net cash used in investing activities	(94,944)	(671,585)
Net cash (used in) provided by financing activities	(5,062)	396,919
Effect of foreign currency exchange rate changes on cash and cash equivalents	(377)	(1,858)
<b>Net decrease in cash and cash equivalents</b>	<b>\$ (12,812)</b>	<b>\$ (186,283)</b>

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

Net cash provided by operating activities is driven primarily by our net income, as adjusted for non-cash items and working capital changes. Operating activities generated \$87.6 million of net cash during the nine months ended October 31, 2015, compared to \$90.2 million generated during the nine months ended October 31, 2014.

As our business grows and we generate higher revenue, we generally expect our operating cash flow to also increase. However, our cash flow from operating activities can fluctuate from period to period due to several factors, including the timing of our billings and collections, the timing and amounts of interest, income tax and other payments, and our operating results.

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

During the nine months ended October 31, 2015, our investing activities used \$94.9 million of net cash, including \$59.7 million of net purchases of short-term investments, \$20.5 million of payments for property, equipment, and capitalized software development costs, and \$31.6 million of net cash utilized for business acquisitions. Partially offsetting those uses was \$16.8 million of net cash provided by other investing activities, consisting primarily of decreases in restricted cash and bank time deposits during the period. Restricted cash and bank time deposits are typically short-term deposits used to secure bank guarantees in connection with sales contracts, the amounts of which will fluctuate from period to period.

During the nine months ended October 31, 2014, our investing activities used \$671.6 million of net cash, the primary component of which was \$602.9 million of net cash utilized for business acquisitions, including KANA in February 2014 and UTX in March 2014. We also had a \$37.0 million increase in restricted cash and bank time deposits during this period reflecting deposits associated with several large sales contracts. In addition, we made \$20.3 million of payments for property, equipment, and capitalized software development costs, and made \$9.8 million of net purchases of short-term investments, during the period.

We had no significant commitments for capital expenditures at October 31, 2015.

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

For the nine months ended October 31, 2015, our financing activities used \$5.1 million of net cash, the most significant portion of which was payments of \$4.8 million for the financing portion of payments under contingent consideration arrangements related to prior business combinations.

For the nine months ended October 31, 2014, our financing activities provided \$396.9 million of net cash. In connection with the February 3, 2014 acquisition of KANA, we incurred \$300.0 million of incremental term loans and borrowed \$125.0 million under our Revolving Credit Facility. Additionally, in March 2014, we incurred \$643.5 million of new term loans, the proceeds of which were used to repay \$643.5 million of prior term loans. In June 2014, we completed concurrent public offerings of 5,750,000 shares of our common stock, gross proceeds from which were \$274.6 million, and \$400.0 million in aggregate principal amount of 1.50% convertible senior notes due June 1, 2021. We used \$15.6 million of the net proceeds from these offerings to pay the net costs of an arrangement consisting of the purchase of call options and the sale of warrants to purchase our common stock, the intent of which is to reduce the potential dilution to our common stock upon conversion of the Notes. We used the majority of the remainder of the net proceeds to retire \$530.0 million of the February 2014 Term Loans and March 2014 Term Loans, and all \$106.0 million of then-outstanding borrowings under the Revolving Credit Facility. In connection with these various financing activities, we paid \$29.2 million of debt and equity issuance costs, including underwriting discounts and commissions associated with the public offerings. Other financing activities during the nine months ended October 31, 2014 included payments of \$8.7 million for the financing portion of payments under contingent consideration arrangements related to prior business combinations, the receipt of \$13.1 million of proceeds from exercises of stock options, and payments of \$2.2 million for purchases of treasury stock.

### ***Liquidity and Capital Resources Requirements***

Based on past performance and current expectations, we believe that our cash, cash equivalents, short-term investments and cash generated from operations will be sufficient to meet anticipated operating costs, required payments of principal and interest, working capital needs, ordinary course capital expenditures, research and development spending, and other commitments for at least the next 12 months. Currently, we have no plans to pay cash dividends on our common stock, which are not permitted under the terms of our Credit Agreement.

Our liquidity could be negatively impacted by a decrease in demand for our products and service and support, including the impact of changes in customer buying behavior due to circumstances over which we have no control. If we determine to make additional business acquisitions or otherwise require additional funds, we may need to raise additional capital, which could involve the issuance of additional equity or debt securities.

### ***Financing Arrangements***

#### **1.50% Convertible Senior Notes**

On June 18, 2014, we issued \$400.0 million in aggregate principal amount of 1.50% convertible senior notes due June 1, 2021, unless earlier converted by the holders pursuant to their terms. The Notes pay interest in cash semiannually in arrears at a rate of 1.50% per annum.

The Notes were issued concurrently with our issuance of 5,750,000 shares of common stock, the majority of the combined net proceeds of which were used to partially repay certain indebtedness under our Credit Agreement, as further described below.

The Notes are unsecured and rank senior in right of payment to our indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to our indebtedness that is not so subordinated; effectively subordinated in right of payment to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally subordinated to indebtedness and other liabilities of our subsidiaries.

The Notes are convertible into, at our election, cash, shares of common stock, or a combination of both, subject to satisfaction of specified conditions and during specified periods, as described below. If converted, we currently intend to pay cash in respect of the principal amount of the Notes.

The conversion price of the Notes at any time is equal to \$1,000 divided by the then-applicable conversion rate. The Notes have a conversion rate of 15.5129 shares of common stock per \$1,000 principal amount of Notes, which represents an effective conversion price of approximately \$64.46 per share of common stock and would result in the issuance of approximately 6,205,000 shares if all of the Notes were converted. The conversion rate has not changed since issuance of the Notes, although throughout the term of the Notes, the conversion rate may be adjusted upon the occurrence of certain events. An adjustment to the conversion rate will result in a corresponding (but inverse) adjustment to the conversion price.

Holders may surrender their Notes for conversion at any time prior to the close of business on the business day immediately preceding December 1, 2020, only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter which ended on September 30, 2014, if the closing sale price of our common stock, for at least 20 trading days (whether or not consecutive) in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter, is more than 130% of the conversion price of the Notes in effect on each applicable trading day;
- during the ten consecutive trading-day period following any five consecutive trading-day period in which the trading price for the Notes for each such trading day was less than 98% of the closing sale price of our common stock on such date multiplied by the then-current conversion rate; or
- upon the occurrence of specified corporate events, as described in the indenture governing the Notes, such as a consolidation, merger, or binding share exchange.

On or after December 1, 2020 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may surrender their Notes for conversion regardless of whether any of the foregoing conditions have been satisfied.

If we satisfy our conversion obligation in solely cash or a combination of cash and shares of common stock, the amount of cash and shares of common stock, if any, due upon conversion will be based on a daily conversion value for each trading day in a 50 trading-day conversion period. Holders will not receive any additional cash payment or additional shares of common stock representing accrued and unpaid interest, if any, upon conversion of a Note, except in limited circumstances. Instead, interest will be deemed to be paid by the consideration delivered upon conversion of a Note.

If specified "make-whole adjustment events" occur, the conversion rate for any Notes converted in connection with such make-whole adjustment event will, in specified circumstances, be increased by a number of additional shares of common stock. In

## [Table of Contents](#)

addition, holders may require us to purchase for cash all or any portion of their Notes upon the occurrence of a "fundamental change" at a price equal to 100% of the principal amount of the Notes being purchased, plus accrued and unpaid interest to, but excluding, the fundamental change purchase date.

As of October 31, 2015, the Notes were not convertible.

### **Note Hedges and Warrants**

Concurrently with the issuance of the Notes, we entered into convertible note hedge transactions (the "Note Hedges") and sold warrants (the "Warrants"). The combination of the Note Hedges and the Warrants serves to increase the effective initial conversion price for the Notes to \$75.00 per share. The Note Hedges and Warrants are each separate instruments from the Notes.

#### ***Note Hedges***

Pursuant to the Note Hedges, we purchased call options on our common stock, under which we have the right to acquire from the counterparties up to approximately 6,205,000 shares of our common stock, subject to customary anti-dilution adjustments, at a price of \$64.46, which equals the initial conversion price of the Notes. Our exercise rights under the Note Hedges generally trigger upon conversion of the Notes and the Note Hedges terminate upon maturity of the Notes, or the first day the Notes are no longer outstanding. The Note Hedges may be settled in cash, shares of our common stock, or a combination thereof, at our option, and are intended to reduce our exposure to potential dilution upon conversion of the Notes. We paid \$60.8 million for the Note Hedges, which was recorded as a reduction to additional paid-in capital. As of October 31, 2015, we had not purchased any shares of our common stock under the Note Hedges.

#### ***Warrants***

We sold the Warrants to several counterparties. The Warrants provide the counterparties rights to acquire from us up to approximately 6,205,000 shares of our common stock at a price of \$75.00 per share. The Warrants expire incrementally on a series of expiration dates beginning in August 2021. At expiration, if the market price per share of our common stock exceeds the strike price of the Warrants, we will be obligated to issue shares of our common stock having a value equal to such excess. Proceeds from the sale of the Warrants were \$45.2 million and were recorded as additional paid-in capital. As of October 31, 2015, no Warrants had been exercised and all Warrants remained outstanding.

### **Credit Agreement**

In April 2011, we entered into a credit agreement with our lenders, which was amended and restated on March 6, 2013, and further amended on February 3, 2014, March 7, 2014, and June 18, 2014 (the "Credit Agreement"). The Credit Agreement, as amended and restated, provides for senior secured credit facilities, comprised of \$943.5 million of term loans, of which \$300.0 million was borrowed in February 2014 (the "February 2014 Term Loans") and \$643.5 million was borrowed in March 2014 (the "March 2014 Term Loans"), all of which matures in September 2019, and a \$300.0 million revolving credit facility maturing in September 2018, subject to increase and reduction from time to time, as described in the Credit Agreement.

At October 31, 2015, \$130.7 million and \$280.4 million of borrowings were outstanding under the February 2014 Term Loans and March 2014 Term Loans, respectively, currently bearing interest at an annual rate of 3.50%, and there were no outstanding borrowings under the Revolving Credit Facility.

As noted above, in February 2014, in connection with our acquisition of KANA, we borrowed \$125.0 million under the Revolving Credit Facility and we also incurred \$300.0 million of incremental term loans pursuant to an amendment to our Credit Agreement, both for purposes of funding a portion of the purchase price for KANA.

In March 2014, we refinanced \$643.5 million of term loans previously borrowed under the Credit Agreement (the "March 2013 Term Loans") with the proceeds of the March 2014 Term Loans, primarily for purposes of reducing the interest rate on such loans. We also amended our Credit Agreement in February and March 2014 to, among other things, (i) change the basis for determining the interest rate on borrowings under the Revolving Credit Facility, (ii) increase the permitted amount of incremental term loans and revolving credit commitments (beyond the incremental term loans borrowed in February 2014) by up to an aggregate of \$200.0 million plus an additional amount such that our leverage ratio (as defined in the Credit Agreement) would not exceed a specified maximum ratio, (iii) permit us to issue convertible indebtedness (as defined in the Credit Agreement), (iv) permit us to refinance all or a portion of any existing term loans with replacement term loans, and (v)

## [Table of Contents](#)

extend by one year, to January 31, 2016, the step-down date of the leverage ratio covenant applicable to the Revolving Credit Facility.

On June 18, 2014, we utilized the majority of the combined net proceeds from the issuance of the Notes and the concurrent issuance of 5,750,000 shares of common stock to retire \$530.0 million of the February 2014 Term Loans and March 2014 Term Loans, and to repay all \$106.0 million of then-outstanding borrowings under the Revolving Credit Facility.

Also in June 2014, we further amended our Credit Agreement to increase the lending commitments under our Revolving Credit Facility to \$300.0 million and to extend the facility's term by approximately six months to September 6, 2018.

Following the partial retirements of the term loans in June 2014, there are no scheduled principal payments on the term loans until August 2016. The vast majority of the term loan balances are due upon maturity in September 2019.

The Revolving Credit Facility 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 and no greater than 4.50 to 1 thereafter (the "Leverage Ratio Covenant"). At October 31, 2015, our consolidated leverage ratio was approximately 2.3 to 1 compared to a permitted consolidated leverage ratio of 5.00 to 1, and our EBITDA for the twelve-month period then ended exceeded by at least \$150.0 million the minimum EBITDA required to satisfy the Leverage Ratio Covenant given our outstanding debt as of such date.

### ***Contractual Obligations***

Our Annual Report on Form 10-K for the year ended January 31, 2015 includes a table summarizing our contractual obligations of approximately \$1.1 billion as of January 31, 2015, including approximately \$920 million for long-term debt obligations, including projected future interest. That table appears under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in that report. We believe that our contractual obligations and commercial commitments did not materially change during the nine months ended October 31, 2015.

### ***Contingent Payments Associated with Business Combinations***

In connection with certain of our business combinations, we have agreed to make contingent cash payments to the former owners of the acquired companies based upon achievement of performance targets following the acquisition dates.

For the nine months ended October 31, 2015, we made \$4.9 million of payments under contingent consideration arrangements. As of October 31, 2015, potential future cash payments and earned consideration expected to be paid subsequent to October 31, 2015 under contingent consideration arrangements total \$58.3 million, the estimated fair value of which was \$25.7 million, including \$7.8 million reported in accrued expenses and other current liabilities, and \$17.9 million reported in other liabilities. The performance periods associated with these potential payments extend through April 2020.

### ***Off-Balance Sheet Arrangements***

As of October 31, 2015, we did not have any off-balance sheet arrangements that we believe have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

### ***Recent Accounting Pronouncements***

For a description of recent accounting pronouncements, and the potential impact of these pronouncements on our condensed consolidated financial statements, see Note 1 to the condensed consolidated financial statements in Part I, Item 1 of this report.

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

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

The section entitled "Quantitative and Qualitative Disclosures About Market Risk" under Part II, Item 7A of our Annual Report on Form 10-K for the year ended January 31, 2015 provides detailed quantitative and qualitative discussions of the market risks affecting our operations. We believe that our market risk profile did not materially change during the nine months ended October 31, 2015.

#### **Item 4. Controls and Procedures**

##### **Evaluation of Disclosure Controls and Procedures**

Management conducted an evaluation under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of October 31, 2015. Disclosure controls and procedures are those controls and other procedures that are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified by the rules and forms promulgated by the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As a result of this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of October 31, 2015.

##### **Changes in Internal Control Over Financial Reporting**

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the three months ended October 31, 2015, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

##### **Inherent Limitations on Effectiveness of Controls**

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be achieved. Further, the design of a control system must reflect the impact of resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the possibility that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors. Additionally, controls can be circumvented by individual acts, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all possible conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**Part II**

**Item 1. Legal Proceedings**

See Note 13, "Commitments and Contingencies" of the Notes to the Condensed Consolidated Financial Statements under Part I, Item 1 for information regarding our legal proceedings.

**Item 1A. Risk Factors**

There have been no material changes to the Risk Factors described in Part I "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended January 31, 2015. In addition to the other information set forth in this Quarterly Report, you should carefully consider the risks discussed in our Annual Report on Form 10-K, which could materially affect our business, financial condition, or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing us, however. Additional risks and uncertainties not currently known to us or that we currently deem to be insignificant also may materially and adversely affect our business, financial condition, or operating results in the future.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

The following exhibit list includes agreements that we entered into or that became effective during the three months ended October 31, 2015:

Number	Description	Filed Herewith / Incorporated by Reference from
10.1	Consulting Services Agreement dated September 15, 2015 between Verint Systems Ltd. and Meir Sperling	Form 8-K filed on September 18, 2015
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350 (1)	Filed herewith
32.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350 (1)	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith

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

**Signature**

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

Verint Systems Inc.

December 2, 2015

/s/ Douglas E. Robinson

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Douglas E. Robinson

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

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

I, Dan Bodner, certify that:

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

Dated: December 2, 2015

By: /s/ Dan Bodner

Dan Bodner

President and Chief Executive Officer

Principal Executive Officer

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

I, Douglas E. Robinson, certify that:

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

Dated: December 2, 2015

By: /s/ Douglas E. Robinson

Douglas E. Robinson  
Chief Financial Officer  
Principal Financial Officer

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

In connection with the Quarterly Report of Verint Systems Inc. (the "Company") on Form 10-Q for the period ended October 31, 2015 (the "Report"), I, Dan Bodner, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Dated: December 2, 2015

/s/ Dan Bodner

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Dan Bodner  
President and Chief Executive Officer  
Principal Executive Officer

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

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

In connection with the Quarterly Report of Verint Systems Inc. (the "Company") on Form 10-Q for the period ended October 31, 2015 (the "Report"), I, Douglas E. Robinson, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Dated: December 2, 2015

/s/ Douglas E. Robinson

Douglas E. Robinson  
Chief Financial Officer  
Principal Financial Officer

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