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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-K**

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

**For the fiscal year ended January 31, 2020**

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.**

**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, NY

11747

(Address of Principal Executive Offices)

(Zip Code)

(631) 962-9600

(Registrant's Telephone Number, Including Area Code)

**Securities registered pursuant to Section 12(b) of the Act:**

<b><u>Title of each class</u></b>	<b><u>Trading Symbol(s)</u></b>	<b><u>Name of each exchange on which registered</u></b>
Common Stock, \$.001 par value per share	VRNT	The NASDAQ Stock Market, LLC (NASDAQ Global Select Market)

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of common stock held by non-affiliates of the registrant, based on the closing price for the registrant’s common stock on the NASDAQ Global Select Market on the last business day of the registrant’s most recently completed second fiscal quarter (July 31, 2019) was approximately \$3,659,354,000.

There were 64,125,209 shares of the registrant’s common stock outstanding on March 13, 2020.

#### DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this report, to the extent not set forth herein, is incorporated herein by reference from the registrant’s definitive proxy statement relating to the Annual Meeting of Stockholders to be held in 2020, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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**As of and For the Year Ended January 31, 2020**

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## Cautionary Note on Forward-Looking Statements

This Annual Report on Form 10-K 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, in Part II, Item 7, “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 assurance 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 changes in macroeconomic and/or global conditions, including as a result of slowdowns, recessions, economic instability, political unrest, armed conflicts, natural disasters, or outbreaks of disease, such as the novel coronavirus COVID-19 pandemic, as well as the resulting impact on information technology spending and government budgets, on our business;
- risks associated with our ability to keep pace with technological advances and challenges and evolving industry standards; to adapt to changing market potential from area to area within our markets; and to successfully develop, launch, and drive demand for new, innovative, high-quality products that meet or exceed customer needs, while simultaneously preserving our legacy businesses and migrating away from areas of commoditization;
- risks due to aggressive competition in all of our markets, including with respect to maintaining revenues, margins, and sufficient levels of investment in our business and operations;
- 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, reputational considerations, capital constraints, costs and expenses, maintaining profitability levels, expansion into new areas, management distraction, post-acquisition integration activities, and potential asset impairments;
- risks relating to our ability to properly manage investments in our business and operations, execute on growth initiatives, and enhance our existing operations and infrastructure, including the proper prioritization and allocation of limited financial and other resources;
- risks associated with our ability to retain, recruit, and train qualified personnel in regions in which we operate, including in new markets and growth areas we may enter;
- risks that we may be unable to establish and maintain relationships with key resellers, partners, and systems integrators and 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, including information that may belong to our customers or other third parties, and with security vulnerabilities or lapses, including cyber-attacks, information technology system breaches, failures, or disruptions;

- risks that our products or services, or those of third-party suppliers, partners, or OEMs which we use in or with our offerings or otherwise rely on, including third-party hosting platforms, may contain defects, develop operational problems, or 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, fluctuations in foreign exchange rates, and challenges associated with a significant portion of our cash being held overseas;
- risks associated with political factors related to our business or operations, including reputational risks associated with our security solutions and our ability to maintain security clearances where required, as well as risks associated with a significant amount of our business coming from domestic and foreign government customers;
- risks associated with complex and changing local and foreign regulatory environments in the jurisdictions in which we operate, including, among others, with respect to trade compliance, anti-corruption, information security, data privacy and protection, tax, labor, government contracts, relating to our own operations as well as to the use of our solutions by our customers;
- challenges associated with selling sophisticated solutions, including with respect to assisting customers in understanding and realizing the benefits of our solutions, and developing, offering, implementing, and maintaining a broad and sophisticated solution portfolio;
- challenges associated with pursuing larger sales opportunities, including with respect to longer sales cycles, transaction reductions, deferrals, or cancellations during the sales cycle; risk of customer concentration; challenges associated with our ability to accurately forecast when a sales opportunity will convert to an order, or to accurately forecast revenue and expenses;
- challenges associated with our Customer Engagement segment cloud transition and our Cyber Intelligence segment software model transition, and risk of 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, claim infringement on their intellectual property rights, or claim a violation of their license rights, including relative to free or open source components we may use;
- risks that our customers 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 or our ability to incur additional debt, 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 the successor to CTI’s business operations, Mavenir Inc. (“Mavenir”), being unwilling or unable to provide us with certain indemnities to which we are entitled;
- risks relating to the adequacy of our existing infrastructure, systems, processes, policies, procedures, internal controls, and personnel, and our ability to successfully implement and maintain enhancements to the foregoing, for our current and future operations and reporting needs, including related risks of financial statement omissions, misstatements, restatements, or filing delays;
- risks associated with changing accounting principles or standards, tax laws and regulations, tax rates, and the continuing availability of expected tax benefits;

- risks associated with market volatility in the prices of our common stock and convertible notes based on our performance, third-party publications or speculation, or other factors and risks associated with actions of activist stockholders;
- risks associated with the planned issuance of preferred stock to an affiliate of Apax Partners, including with respect to completion of the transaction and Apax's resulting significant ownership position and potential that its interests will not be aligned with those of our common stockholders; and
- risks associated with the planned spin-off of our Cyber Intelligence Solutions business, including the possibility that the spin-off transaction may not be completed in the expected timeframe or at all, that it does not achieve the benefits anticipated, or that it negatively impacts our operations or stock price, including as a result of management distraction from our business.

These risks, uncertainties, assumptions, and challenges, as well as other factors, are discussed in greater detail in "Risk Factors" under Item 1A of this report. 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. Business**

#### **Our Company**

Verint® Systems Inc. (together with its consolidated subsidiaries, “Verint”, the “Company”, “we”, “us”, and “our”, unless the context indicates otherwise) is a global leader in Actionable Intelligence® solutions.

In a world of massive information growth, our solutions empower organizations with crucial, actionable insights and enable decision makers to anticipate, respond, and take action. Today, over 10,000 organizations in more than 180 countries, including over 85 percent of the Fortune 100, use Verint’s Actionable Intelligence solutions, deployed in the cloud and on premises, to make more informed, timely, and effective decisions.

Our Actionable Intelligence leadership is powered by innovative, enterprise-class software built with artificial intelligence, analytics, automation, and deep domain expertise established by working closely with some of the most sophisticated and forward-thinking organizations in the world. We believe we have one of the industry’s strongest research and development (“R&D”) teams focused on actionable intelligence consisting of approximately one-third of our approximately 6,500 professionals. Our innovative solutions are backed-up by a strong IP portfolio with over 1,000 patents and patent applications worldwide across areas including data capture, artificial intelligence, machine learning, unstructured data analytics, predictive analytics and automation.

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

#### **Company Background**

We were incorporated in Delaware in February 1994 and completed our initial public offering (“IPO”) in May 2002. Since our formation, we have consistently expanded our portfolio of Actionable Intelligence solutions, extended our market leadership, and scaled the business through a focus on innovation via organic development and acquisitions.

Verint’s Actionable Intelligence strategy is focused on two use cases and the Company has two operating segments: Customer Engagement and Cyber Intelligence. Our two operating segments are described in greater detail below and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under Item 7 of this report. See also Note 17 to our consolidated financial statements, “Segment, Geographic, and Significant Customer Information,” included under Item 8 of this report for additional information and financial data about each of our operating segments and geographic regions.

On December 4, 2019, we announced our intention to separate into two independent publicly traded companies: one which will consist of our Customer Engagement Solutions business, and one which will consist of our Cyber Intelligence Solutions business. We expect to implement the separation through a pro-rata distribution of common stock of a new entity that will hold the Cyber Intelligence Solutions business to our stockholders (the “Spin-Off”) that is intended to be tax-free to our stockholders for U.S. federal income tax purposes. We expect to complete the Spin-Off shortly after the end of our fiscal year ending January 31, 2021. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview—Recent Developments” under Item 7 of this report for a more detailed discussion of the planned Spin-Off.

On December 4, 2019, we also announced that Valor Parent LP (the “Apax Investor”), an affiliate of Apax Partners (“Apax”) will make an investment in us in an amount of up to \$400 million, subject to customary closing conditions including the receipt of required regulatory and government approvals. Under the terms of the investment agreement, the Apax Investor will initially purchase \$200 million of our Series A convertible preferred stock, which is expected to occur during the first quarter of this fiscal year. Shortly following the Spin-Off, the Apax Investor will purchase, subject to certain conditions, up to \$200 million of

Series B convertible preferred stock in the Company, as the entity holding the Customer Engagement Solutions business. Following the closing of the Series A investment, Apax's ownership in us on an as-converted basis will be approximately 5%. Following completion of the Spin-Off and assuming the issuance of the Series B preferred stock, Apax's ownership in us on an as-converted basis will be between 11.5% and 15%. See "Management's discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Overview" under Item 7 of this report for a more detailed discussion of the planned Apax investment.

Through our website at [www.verint.com](http://www.verint.com), we make available our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, as well as amendments to those reports, filed or furnished by us pursuant to Section 13(a) or Section 15(d) of the Exchange Act, free of charge, as soon as reasonably practicable after we file such materials with, or furnish such materials to, the Securities and Exchange Commission ("SEC"). Our website address set forth above is not intended to be an active link, and information on our website is not incorporated in, and should not be construed to be a part of, this report.

## Our Actionable Intelligence Strategy

We focus on two Actionable Intelligence use cases: Actionable Intelligence for a Smarter Enterprise and Actionable Intelligence for a Safer World. Our customers across both use cases are looking for innovative solutions that incorporate the most advanced technologies to empower them with actionable insights, critical to achieving their strategic objectives. Our strategy is to combine the latest artificial intelligence, analytics, and automation technology with deep domain expertise unique to each of our markets. We have invested more than \$1 billion in R&D over the last decade in our highly innovative Actionable Intelligence platform, which provides a foundation for our solution portfolio across both use cases. This platform is comprised of three key pillars:

- **Data Capture and Fusion.** Our platform enables the capture of a wide range of structured and unstructured data, such as operational, transactional, network, web, and social data. It also enables data fusion from multiple sources, different systems, and numerous environments.
- **Data Analysis and Artificial Intelligence.** Our platform facilitates a wide range of algorithms for data analytics and automation, including classification, correlation, anomaly detection, identity extraction, behavioral analysis, artificial intelligence, and predictive analytics. Artificial Intelligence is playing an increasingly important role in automating the data capture and analytics process to reveal actionable insights.
- **Data Visualization and Actionable Insights.** Our platform supports multiple use cases across Customer Engagement and Cyber Intelligence. Actionable insights are generated from massive amounts of data and are distributed to decision makers based on the specific use case and end-user operational scenarios.

Our strategy is to continue to grow our business across both Actionable Intelligence use cases, today as one company and in the future as two, leveraging our investment in our Actionable Intelligence platform and continuing to invest in artificial intelligence and analytics to drive automation and to create technology differentiation. We will also continue to expand our broad portfolios through innovative technology, combined with further developing our domain expertise in both Customer Engagement and Cyber Intelligence. We believe that the combination of a strong technology platform and deep knowledge of our customers has been, and will continue to be, key to our leadership in our markets.

## Customer Engagement Solutions

### *Overview*



Organizations have cited effective customer engagement as key to creating a sustainable competitive advantage and as critical to their future success. Balancing their strategic objectives for improved customer experience with increased operational efficiency is the foundation of new customer engagement initiatives.

As *The Customer Engagement Company*™, Verint is an established global leader in cloud, analytics, and automation solutions for customer engagement, with over two decades of experience helping organizations worldwide achieve their strategic objectives. Our strategy is to help organizations elevate customer experience and at the same time reduce operating costs by simplifying, modernizing, and automating customer engagement across the enterprise.

For most organizations, customer engagement has become a responsibility shared across many parts of the enterprise, from contact centers to customer care groups to digital marketing to customer experience leaders. As a market leader, we deliver holistic customer engagement solutions that address requirements across contact centers, back-office and branch operations, self-service, ecommerce, customer experience, marketing, IT, and compliance.

Verint is a leader in cloud, analytics, and automation solutions with one of the broadest portfolios available, including offerings for Workforce Engagement, Self-Service, Experience Management, and Enterprise Recording for Fraud and Compliance. We leverage the latest in artificial intelligence (AI) and advanced analytics technology to unlock the potential of automation and intelligence to deliver real business impact across the enterprise.

We have more than 10,000 customers and a large partner network globally, helping us drive ongoing innovation in our award-winning offerings. Independent industry experts, such as Forrester, Gartner, and Ventana Research, have all recognized Verint as a leader in customer engagement. We focus on developing customers for life and have been recognized as a CRM service leader for 12 consecutive years. Verint has also been named a winner on the 2020 CRM Watchlist, which recognizes companies that have had the greatest impact in the world of customer-facing technology in the prior year.

## ***Trends***

Many organizations are finding it challenging to deliver on the promise of consistent exceptional customer experience balanced with greater operational efficiency. Faced with higher customer expectations and the need for market differentiation, organizations view customer engagement and elevating the customer experience as essential to their future success. Organizations understand that the cost of addressing these objectives through an expansion of their workforce is unsustainable. As a result, they are instead looking for new customer engagement technologies like the ones we offer to help them achieve these goals. More specifically, we believe the following trends are driving growth in our market:

- **Digital Transformation.** Many organizations are going through digital transformations by expanding their customer service interactions to include digital channels, such as chat, virtual assistants, mobile apps and social media. While these new channels make it easier for consumers to connect, they cause organizations increased system complexity and new challenges. In many cases these new customer touch points reside in different functional groups and are not connected, resulting in siloed information, a decentralized customer service workforce and difficulty gaining insight into customer experiences. To facilitate effective digital transformations, organizations are looking for vendors that help them to connect silos across the enterprise, take proactive action to improve customer experience and facilitate open and modular design to simplify integration across systems.
- **Cloud Migration.** Many organizations are looking to modernize their legacy customer engagement operations by transitioning to the cloud, adopting modern architectures that facilitate the orchestration of disparate systems and the sharing of data across enterprise functions. Organizations which are at different stages of migrating to the cloud and other modernization initiatives are also looking for vendors that can help them evolve customer engagement at their own pace while protecting their legacy investments with minimal disruption to their operations.
- **Automation Adoption.** Many organizations are seeking solutions that incorporate artificial intelligence and analytics to reduce manual work and increase workforce efficiency through automation. They also seek to empower their

customers with self-service backed by AI-powered bots, and human/bot collaboration, to elevate the customer experience in a fast, personalized way.

### ***Our Strategy***

Our strategy was designed working closely with our direct and indirect customers, which include more than 85 percent of the Fortune 100, as well as with our large global partner network. This strategy, as outlined below, is intended to enable organizations to simplify, modernize, and automate their customer engagement operations and turn customer engagement into a sustainable competitive advantage, while reducing complexity and costs in customer operations.

- **Simplifying Customer Engagement.** We help organizations reduce the complexity of digital transformations. Verint's open and modular portfolio addresses customer engagement requirements across contact centers, back-office and branch operations, self-service, ecommerce, customer experience, marketing, IT, and compliance. Verint solutions help organizations collect customer insight from sources across the enterprise, including crucial unstructured customer interaction data, and combine it to gain insights and deliver a more consistent and improved customer experience.
- **Modernizing Customer Engagement.** We offer organizations flexible choices to modernize and transition to the cloud at their own pace. They can purchase our solutions in a perpetual model, the Verint Cloud model (bundled SaaS hosted by Verint) or Any Cloud model (software licenses that can be hosted in any cloud, including the Verint cloud, a third party cloud or the customer's data center). We offer customers the flexibility of hybrid deployments, in which some solutions are deployed in the Verint Cloud and some on-premises, to preserve their legacy investment and facilitate the cloud transition. Our portfolio is open and is compatible with leading providers of cloud contact center communications solutions, providing organizations flexibility to select the most suitable communications infrastructure for their needs while leveraging Verint's portfolio for elevating the customer experience and reducing cost.
- **Automating Customer Engagement.** We enable organizations to draw on the power of automation to reduce repetitive, manual tasks, increase employee efficiency, and lower costs. Our strategy is to infuse automation capabilities throughout our solution portfolio to enable employees to focus on more strategic work, empower consumers with AI bots so they can serve themselves, and support human/bot collaboration. Our automation capabilities deliver intelligence and context in real-time, reduce errors in manual work, help ensure adherence to compliance requirements, and enable customer experiences that are faster, personalized, and more enjoyable.

### ***Our Offerings***

Customer engagement is a shared responsibility across the entire organization. To support the needs of our customers, we offer a broad portfolio across a wide spectrum of customer engagement functions, including contact centers, back-office and branch operations, self-service, ecommerce, customer experience, marketing, IT, and compliance. Our offerings span multiple industries, such as financial services, healthcare, outsourcing, public sector, telecommunications and include the following categories: Workforce Engagement, Self-Service, Experience Management, and Enterprise Recording for Fraud and Compliance.

#### **Workforce Engagement**

Our Workforce Engagement offerings enable organizations to empower their teams to engage more effectively with customers in the contact center, branch, and back-office. Through improved forecasting and scheduling, knowledge sharing, quality assurance and process management, these solutions create new opportunities to improve the customer experience, reduce costs and drive revenue. Our Workforce Engagement solutions include:

- **Workforce Forecasting and Scheduling:** Manages workforce scheduling in contact centers, back office operations, and branches providing increased employee flexibility and engagement and helping elevate the customer experience. Verint Workforce Management leverages automation to surface insights related to forecasting, scheduling and

adherence, which reduces costs and improves employee engagement. Verint Mobile Apps deliver work-life balance ownership to employees and managers on-the-go.

- **Knowledge and Employee Assistance:** Provides the workforce with knowledge and in-the-moment assistance to speed up customer interactions and create a better experience for both the employee and the customer. Verint Knowledge Management helps to reduce training time, increase first call resolution and improve customer satisfaction (CSAT) scores. Verint Virtual Assistant provides the employee with automated, real-time support. Verint Real-Time Analytics surfaces contextual guidance to an employee as the customer interaction is taking place. Verint Robotic Process Automation uses bots to relieve agents of simple and mundane tasks. Verint Employee Desktop unifies disparate applications on an employee's desktop and presents one view with contextual customer information, relevant knowledge, business process guidance and case management for interactions in voice and digital channels.
- **Quality Assurance:** Ensures quality and compliance while providing the workforce with appropriate feedback and coaching to delight customers. Verint Recording captures customer interactions across voice and digital channels. Verint Automated Quality Management automates the entire quality process from scoring evaluations to assigning coaching and provides the flexibility to build a quality management program that meets customers' unique objectives. Verint Performance Management triggers automated workflows based on key performance indicators (KPIs) to meet cost and engagement goals.
- **Operational Insights:** Raises the visibility of customer interactions across the organization through omni-channel analytics. Verint Interaction Analytics helps reduce cost by identifying operational process challenges, uncovering self-service process issues that are increasing contact center volume, and identifying trends to reduce interaction handling time and better utilization of resources.
- **Operational Excellence:** Enables the back-office workforce to achieve greater efficiency and effectiveness. Verint Desktop and Process Analytics brings immediate visibility to back office processes. Verint Work Manager automates capturing and assigning work to the right employee or bot and allows organizations to forecast and align resources to service goals and drive cost savings. Verint Performance Management increases productivity with KPIs unique to back office operations.

### **Self-Service**

Our Self-Service offerings enable organizations to improve customer experiences and reduce costs by delivering automated help to their customers that is faster and requires less effort. Leveraging the same intelligence that empowers employees, self-service AI enables customers to succeed at helping themselves, and creates a modern, conversational experience that is consistent across voice and digital channels. Our self-service offering includes:

- **Intelligent Virtual Assistant:** Delivers personalized experiences through self-service, improving customer satisfaction and driving operational efficiency through voice and digital channels.
- **Web Self-Service:** Enables customers to self-serve on the web or via their mobile devices and unifies knowledge management, case management, and process management to encourage customers to resolve their issues online.
- **Communities:** Enables organizations to manage online communities for their employees, customers and partners to deliver better social customer service, digital marketing, as well as employee and customer engagement.

### **Experience Management**

Our Experience Management (XM) offerings enable organizations to improve customer experiences and reduce costs by effectively listening, analyzing, and acting on customer intelligence to drive desired customer and business outcomes. Successful organizations are deploying Verint XM solutions to understand every moment, every interaction, and every conversation between a representative and a consumer. Our Experience Management offering includes:

- **Verint Experience Cloud:** Connects siloes of customer experience data (calls, emails, texts, chats, social digital sites, surveys and other sources) from across the organization to identify problems, predict outcomes and drive action to deliver great experiences everywhere, every time.

### **Enterprise Recording for Fraud and Compliance**

Our Fraud and Compliance offerings enable organizations to capture omni-channel interaction data and leverage automation and analytics to help ensure compliance and minimize fraud. Our Enterprise Recording for Fraud and Compliance offering includes:

- **Omni-Channel Recording:** Captures customer interaction data across the enterprise. Verint Enterprise Recording encompasses voice recording, text recording, screen recording and video recording. It manages all aspects of captured data including archive management, security, access rights, automated verification and governance.
- **Compliance Recording:** Supports compliance audits and the avoidance of fines. Verint Enterprise Recording supports regulatory compliance requirements, such as the General Data Protection Regulation (GDPR), PCI, and data retention in contact centers, financial trading compliance, emergency response operations, and other environments.
- **Fraud Prevention:** Mitigates the risk of fraud in contact centers, self-service channels and trading floors. Verint Identity Analytics uses voice biometrics to authenticate callers and prevent fraud. For bank branches, Verint solutions capture video and other related data in the branch to support fraud investigations. Verint Voice Self-Service Fraud Detection provides upstream fraud detection based on real-time analysis of numerous parameters of caller behavior across multiple calls and programs.

## **Cyber Intelligence Solutions**

### ***Overview***

Verint is a leading global provider of data mining software that empower governments and enterprise organizations with Actionable Intelligence to identify, neutralize, and prevent terror, crime and cyber threats. Our innovative data mining software is built with sophisticated analytics, advanced artificial intelligence and deep domain expertise to help security organizations capture and analyze data from a wide range of sources and turn that data into actionable insights. Verint has been empowering security organizations for over two decades and our market leading data mining solutions have been deployed by more than 1,000 customers across more than 100 countries.

We believe that security organizations face new kinds of sophisticated threats that are increasingly complex. In order to prevent and neutralize these threats, they seek to deploy data mining solutions that incorporate a higher level of automation using artificial intelligence and advanced analytic technologies to generate predictive intelligence and accelerate investigations of security incidents. Our significant experience serving leading security organizations around the world provides us with a unique perspective on our customers' evolving needs and allows us to respond quickly to new market trends.

### ***Trends***

We believe that the following trends are driving demand for security and intelligence data mining software:

- **Security Threats Becoming Increasingly Pervasive and Complex.** Governments, critical infrastructure providers, and enterprises face many types of security threats from criminal and terrorist organizations and foreign governments. Some of these security threats come from well-organized and well-funded organizations that utilize new and increasingly sophisticated methods. As a result, security and intelligence organizations find it more difficult and complicated to detect, investigate and neutralize threats. Many of these organizations are seeking to deploy more advanced data mining solutions that generate predictive intelligence and accelerate investigations by correlating

massive amounts of data from a wide range of disparate sources to uncover previously unknown connections to identify suspicious behaviors and current and future threats.

- **Shortage of Security Analysts Increasing the Need for Automation.** Security organizations are using data mining solutions to help conduct investigations and generate actionable insights. Typically, data mining solutions require security organizations to employ analysts and data scientists to operate them. However, there is a shortage of such qualified personnel globally leading to elongated investigations and increased risk that security threats go undetected or are not addressed. To overcome this challenge, many security organizations are seeking advanced data mining solutions that automate functions historically performed manually to improve the quality and speed of investigations. These organizations are also increasingly seeking artificial intelligence and other advanced data analysis tools to gain actionable intelligence faster with fewer analysts and data scientists.
- **Security Organizations Seeking Faster Innovation Through Open Software Solutions.** As security threats have become more pervasive and complex, security organizations have been seeking faster innovation from security vendors. Historically, security organizations purchased customized solutions incorporating software, hardware and integration services. This project-based approach resulted in closed systems, limiting the pace of innovation as upgrades were complex, costly, and time consuming. Today, we see a growing preference to purchase software solutions that are open and can run on standard hardware, that are faster and easier to deploy, and that can be refreshed more quickly to keep up with the accelerating pace of evolving threats.

### *Our Strategy*

We believe we are well-positioned to address these market trends. Verint's growth strategy is to expand our portfolio to address market trends and to offer our solutions directly and through partners to our growing installed base and to new customers globally.

Key elements of our growth strategy include:

- **Addressing the Increased Complexity of Security Threats with Advanced Data Mining Software.** Verint has a long history of working closely with leading security organizations around the world and has designed its data mining software portfolio based on a thorough understanding of our customers' needs, and deep domain expertise. Our data mining software provides our customers the capability to capture and analyze data, generate predictive intelligence and help accelerate investigations. Our strategy is to further enhance our software with advanced analytics and artificial intelligence technologies that can correlate massive amounts of data from a wide range of disparate sources.
- **Leveraging Automation Technologies to Reduce Dependency on Security Analysts and Data Scientists.** Security analysts and data scientists are critical to conducting security investigations in an environment of growing complexity. However, given a shortage of these skilled resources, it is important to reduce the dependency on them by automating tedious and repetitive functions that previously required manual operation. Our strategy is to increase the use of automation and artificial intelligence technologies across our portfolio and introduce advanced data mining software that can further automate the intelligence and investigative processes for our customers, while reducing dependency on large numbers of intelligence analysts and data scientists.
- **Driving Faster Innovation and Faster Software Refresh Cycles.** Historically, in response to customer purchasing preferences, Verint delivered bundled solutions incorporating software, third-party hardware, integration services and customizations. This model enabled us to successfully deliver solutions that met the requirements of our customers, build very strong customer relationships (with both direct and indirect customers) and become a market leader in data mining software. Over the last few years, in response to the need for faster innovation, we have shifted from this predominately systems integrator model to a more open software model, enabling customers to source standard hardware themselves and reduce the amount of integration services and customization required. In addition to the

benefits of faster innovation and software refresh cycles for our customers, the software model provides Verint great differentiation from other vendors in the security market and improved margins.

### ***Our Solutions***

Our broad portfolio of data mining software comprises four solution categories: Network Intelligence, Fusion Intelligence, Cyber Security and Situational Intelligence.

<b>Product Name</b>	<b>Description</b>
Network Intelligence	Our Network Intelligence software helps security organizations generate critical predictive intelligence from large amounts of unstructured data captured from a wide range of communication networks using advanced analytics, artificial intelligence and automation technologies.
Fusion Intelligence	Our Fusion Intelligence software enables security analysts to work more efficiently by collecting, fusing, normalizing, analyzing, and visualizing data from a wide range of sources, such as private databases, public databases and the web, including the dark web, to surface valuable insights and generate predictive intelligence.
Cyber Security	Our Cyber Security software enables security operations to capture cyber security data and applies machine learning and behavioral analytics to automate the process of detecting, investigating and responding to advanced cyber-attacks.
Situational Intelligence	Our Situational Intelligence software helps security organizations increase situational awareness, improve security responsiveness and realize greater operational efficiency by fusing data from multiple systems and sensors, such as access control, video, intrusion, fire, weather, traffic, first responder, and other mobile device systems.

### ***Our Solutions: By Industry***

Verint offers its broad portfolio of data mining software to government and enterprise customers, directly and through partners.

- **Government.** National security and law enforcement agencies are using Verint solutions to prevent terrorism, collect intelligence and investigate security threats, and to fight a wide range of criminal activity, such as arson, drug trafficking, homicides, human trafficking, identity theft, kidnapping, poaching, illegal immigration, financial crimes, and other organized crimes.
- **Enterprise.** Commercial organizations and critical infrastructure, such as airports, transportation systems, power plants, public and government facilities, are using Verint solutions to improve efficiency and effectiveness of physical security and to detect and respond to cyber threats. In addition, telecommunication carriers are using Verint solutions to comply with certain government regulations requiring them to assist the government in their evidence and intelligence collection processes.

### ***Our Solutions: By Security Challenge***

Below are examples of the challenges security organizations around the world are using Verint's data mining software to address:

- **Counter terrorism** - Tracking terrorist organizations and generating actionable intelligence for detecting and preventing terror attacks.
- **Fighting Transnational Drug Trafficking** - Identifying local and international drug networks, running complex investigations, generating legal evidence, and taking action against traffickers.



- **Crime Syndicate Investigations** - Accelerating investigations through behavioral profiles and visual link analysis.
- **Cyber Security for Advanced Threats** - Detecting breaches across attack chains, automating cyber investigations, and threat hunting.
- **Physical Security, Emergency Management & Response** - Evaluating and responding more efficiently to incidents to ensure facility and asset protection, as well as employee safety.
- **Financial Crime Investigations** - Fusing data from financial databases, the web and other sources to identify and investigate suspicious financial transactions.

## **Customer Services**

We offer a range of customer services, including implementation and training, consulting and managed services, and maintenance and support, to help our direct and indirect customers maximize their return on investment in our solutions.

### ***Implementation and Training***

Our solutions are implemented by our service organizations, authorized partners, resellers, or by end customers themselves. Our implementation services include project management, system installation, and commissioning, including integrating our solutions with our customers' environments and third-party solutions. Our training programs are designed to enable end customers to use our solutions effectively and to maximize the value of our solutions. Our Customer Engagement solutions business includes training programs designed to certify our partners to sell, install, and support our solutions. Customer and partner training is provided at the customer site, at our training centers around the world, and/or remotely online.

### ***Consulting***

Our management consulting capabilities include business strategy, process excellence, performance management, intelligence methodologies, and project and program management, and are designed to help end customers maximize the value of our solutions in their own environments.

### ***Managed Services***

We offer a range of managed services designed to help end customers effectively run their operations, and maximize business and intelligence insights. These managed services are recurring in nature and can be delivered in conjunction with Verint's technology or on a standalone basis and help to deepen our trusted partner relationships with our customers.

### ***Maintenance and Support***

We offer a range of customer maintenance and support plans to our customers and resellers, which may include phone and web access to technical personnel up to 24-hours-a-day, seven-days-a-week. Our support programs are designed to help ensure long-term, successful use of our solutions. We believe that customer support is critical to retaining and expanding our customer base. Our Customer Engagement solutions are generally sold with a warranty of one year for hardware and 90 days for software. Our Cyber Intelligence solutions are generally sold with warranties that typically range from 90 days to three years and, in some cases, longer. In addition, customers are typically provided the option to purchase maintenance plans that provide a range of services, such as telephone support, advanced replacement, upgrades when and if available, and on-site repair or replacement. Currently, the majority of our maintenance revenue is related to our Customer Engagement solutions.

## Direct and Indirect Sales

We sell our solutions through our direct sales teams and indirect channels, including distributors, systems integrators, value-added resellers (“VARs”), and OEM partners. Approximately half of our overall sales are made through partners, distributors, resellers, and system integrators.

Each of our solutions is sold by trained, dedicated, regionally-organized direct and indirect sales teams.

- Our direct sales teams are focused on large and mid-sized customers, who in some cases are partners or integrators, and, in many cases, co-sell with our other channels and sales agents.
- Our indirect sales teams are focused on developing and supporting relationships with our indirect channels, which provide us with broader market coverage, including access to their customer bases, integration services, and presence in certain geographies and vertical markets.

Our sales teams are supported by business consultants, solutions specialists, and pre-sales engineers who, during the sales process, help determine customer requirements and develop technical responses to those requirements. We sell directly and indirectly in both of our segments. See “Risk Factors—Risks Related to Our Business—Competition, Markets, and Operations—If we are unable to establish and maintain our relationships with third parties that market and sell our products, our business and ability to grow could be materially adversely affected” under Item 1A of this report for a more detailed discussion of certain sales and distribution risks that we face.

## Customers

Our solutions are used by over 10,000 organizations in more than 180 countries. In the year ended January 31, 2020, we derived approximately 65% and 35% of our revenue from the sale of our Customer Engagement and Cyber Intelligence solutions, respectively. We are party to contracts with customers or partners in both of our segments, the loss of which could have a material adverse effect on the segment.

In the year ended January 31, 2020, we derived approximately 52%, 29%, and 19% of our revenue from sales to end users in the Americas, in Europe, the Middle East and Africa (“EMEA”), and in the Asia-Pacific (“APAC”) regions, respectively. See also Note 17, “Segment, Geographic, and Significant Customer Information” to our consolidated financial statements included under Item 8 of this report for additional information and financial data about each of our operating segments and geographic regions.

For the year ended January 31, 2020, approximately one third of our business was generated from contracts with various governments around the world, including local, regional, and national government agencies. Due to the unique nature of the terms and conditions associated with government contracts generally, our government contracts may be subject to renegotiation or termination at the election of the government customer or partner. Some of our customer engagements require us to have security credentials or to participate in projects through an approved legal entity.

## Seasonality and Cyclicalities

As is typical for many software and technology companies, our business is subject to seasonal and cyclical factors. In most years, 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, in some years, 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 compensation incentive 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, also have an impact on our



business and financial results. See “Risk Factors” under Item 1A of this report for a more detailed discussion of factors which may affect our business and financial results.

## **Research and Development**

We continue to enhance the features and performance of our existing solutions and to introduce new solutions through extensive R&D activities. In addition to the development of new solutions and the addition of capabilities to existing solutions, our R&D activities include quality assurance and advanced technical support for our customer services organization. In certain instances, primarily in our Cyber Intelligence segment, we may tailor our products to meet the particular requirements of our customers or partners. R&D is performed primarily in the United States, Israel, the United Kingdom, Ireland, the Netherlands, Hungary, and Indonesia for our Customer Engagement segment; and in Israel, Germany, Brazil, Cyprus, Taiwan, the Netherlands, Romania, and Bulgaria for our Cyber Intelligence segment.

To support our research and development efforts, we make significant investments in R&D every year. We allocate our R&D resources in response to market research and customer demand for additional features and solutions. Our development strategy involves rolling out initial releases of our products and adding features over time. We incorporate product feedback received from our customers into our product development process. While the majority of our products are developed internally, in some cases, we also acquire or license technologies, products, and applications from third parties based on timing and cost considerations. See “Risk Factors—Risks Related to Our Business—Competition, Markets, and Operations—For certain products, components, or services, including our cloud hosting operations, we rely on third-party suppliers, manufacturers, and partners, and if these relationships are disrupted, lost, or must be terminated, we may not be able to obtain substitutes or may face other difficulties” under Item 1A of this report.

As noted above, a significant portion of our R&D operations is located outside the United States. We have derived benefits from participation in certain government-sponsored programs, including those of the Israel Innovation Authority (“IIA”), formerly the Office of the Chief Scientist (“OCS”), and in other jurisdictions for the support of R&D activities conducted in those locations. In the case of Israel, the Israeli law under which our IIA grants are made limits our ability to manufacture products, or transfer technologies, developed using these grants outside of Israel without permission from the IIA. See “Risk Factors—Risks Related to Our Business—Competition, Markets, and Operations—Because we have significant foreign operations and business, we are subject to geopolitical and other risks that could materially adversely affect our results” and “Risk Factors—Risks Related to Our Business—Competition, Markets, and Operations—Conditions in and our relationship to Israel may materially adversely affect our operations and personnel and may limit our ability to produce and sell our products or engage in certain transactions” under Item 1A of this report for a discussion of certain risks associated with our foreign operations.

## **Manufacturing, Suppliers, and Service Providers**

While our primary focus is on developing and producing software, to accommodate customers’ desire for turnkey solutions in some cases, we also deliver solutions that incorporate third-party hardware components. This applies mainly to our Cyber Intelligence segment, as the majority of the solutions from our Customer Engagement segment are comprised of software and do not incorporate hardware components. We utilize both unaffiliated manufacturing subcontractors, as well as our internal operations, to produce, assemble, and deliver solutions incorporating hardware components. These internal operations consist primarily of installing our software on externally purchased hardware components, final assembly, repair, and testing, which involves the application of extensive quality control procedures to materials, components, subassemblies, and systems. In cases where we sell turnkey solutions, we also perform system integration functions prior to shipment. Our internal operations are performed primarily in our German, Israeli, U.S. and Cypriot facilities for solutions in our Cyber Intelligence segment, and in our U.S. facility for certain solutions in our Customer Engagement segment. Although we have occasionally experienced delays and shortages in the supply of proprietary components in the past, we have typically been able to obtain adequate supplies of all material components in a timely manner from alternative sources, when necessary. We also rely on third parties to provide certain services to us or to our customers. We deploy our cloud solutions on third-party cloud computing and hosting platforms.

We provide our customers with service level commitments with respect to uptime and accessibility for these hosted offerings. See “Risk Factors—Risks Related to Our Business—Competition, Markets, and Operations—For certain products, components, or services, including our cloud hosting operations, we rely on third-party suppliers, manufacturers, and partners, which may create significant exposure for us” under Item 1A of this report for a discussion of risks associated with our manufacturing operations and suppliers.

## **Employees**

As of January 31, 2020, we employed approximately 6,500 professionals, including certain contractors, with approximately 37%, 26%, 24%, and 13% of our employees and contractors located in the Americas, EMEA (excluding Israel), Israel, and APAC, respectively.

We consider our relationship with our employees to be good and a critical factor in our success. Our employees in the United States are not covered by any collective bargaining agreements. In some cases, our employees outside the United States are automatically subject to certain protections negotiated by organized labor in those countries directly with the government or trade unions, or are automatically entitled to severance or other benefits mandated under local laws. For example, while we are not a party to any collective bargaining or other agreement with any labor organization in Israel, certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Laborers in Israel) and the Coordinating Bureau of Economic Organizations (including the Manufacturers’ Association of Israel) are applicable to our Israeli employees by virtue of expansion orders of the Israeli Ministry of Industry, Trade and Labor.

## **Intellectual Property Rights**

### ***General***

Our success depends to a significant degree on the legal protection of our software and other proprietary technology. We rely on a combination of patent, trade secret, copyright, and trademark laws, and confidentiality and non-disclosure agreements with employees and third parties to establish and protect our proprietary rights.

### ***Patents***

As of January 31, 2020, we had more than 1,000 patents and patent applications worldwide across areas including data capture, artificial intelligence, machine learning, unstructured data analytics, predictive analytics, and automation. We regularly review new areas of technology related to our businesses to determine whether they can and should be patented.

### ***Licenses***

Our customer and partner license agreements prohibit the unauthorized use, copying, and disclosure of our software technology and contain customer restrictions and confidentiality terms. These agreements generally warrant that the software and proprietary hardware will materially comply with written documentation and assert that we own or have sufficient rights in the software we distribute and have not violated the intellectual property rights of others. We generally license our products in a format that does not permit users to change the software code.

While we employ many of our innovations exclusively in our own products and services, we also engage in outbound and inbound licensing of specific patented technologies. While it may be necessary in the future to seek or renew licenses relating to various aspects of our products, we believe, based on industry practice, such licenses generally can be obtained on commercially reasonable terms. See “Risk Factors—Risks Related to Our Business—Competition, Markets, and Operations—For certain products, components, or services, including our cloud hosting operations, we rely on third-party suppliers, manufacturers, and partners, which may create significant exposure for us” under Item 1A of this report.

## ***Trademarks and Service Marks***

We use various trademarks and service marks to protect the marks used in our business. We also claim common law protections for other marks we use in our business.

See “Risk Factors—Risks Related to Our Business—Information/Product Security and Intellectual Property—Our intellectual property may not be adequately protected” and “Risk Factors—Risks Related to Our Business—Information/Product Security and Intellectual Property—Our products or other IP may infringe or may be alleged to infringe on the intellectual property rights of others, which could lead to costly disputes or disruptions for us and may require us to indemnify our customers and resellers for any damages they suffer” under Item 1A of this report for a more detailed discussion regarding the risks associated with the protection of our intellectual property.

## **Competition**

We face strong competition in all of our markets, and we expect that competition will persist and intensify.

In our Customer Engagement segment, our competitors include Aspect Software, Inc., Genesys Telecommunications, Medallia Inc., NICE Systems Ltd., Nuance Communications, Inc., Pegasystems Inc., divisions of larger companies, including Microsoft Corporation, Oracle Corporation, SAP, and Salesforce.com, Inc., as well as many smaller companies, which can vary across regions. In our Cyber Intelligence segment, our competitors include BAE Systems plc, Elbit Systems Ltd., FireEye, Inc., Genetec Inc., IBM Corporation, JSI Telecom, Palantir Technologies, Inc., and Rohde & Schwarz GmbH & Co., KG, as well as a number of smaller companies and divisions of larger companies that compete with us in certain regions or only with respect to portions of our product portfolio.

In each of our operating segments, we believe that we compete principally on the basis of:

- Product performance and functionality;
- Product quality and reliability;
- Breadth of product portfolio and pre-defined integrations;
- Global presence, reputation, and high-quality customer service and support;
- Specific domain expertise, industry knowledge, vision, and experience; and
- Price.

We believe that our competitive success depends primarily on our ability to provide technologically advanced and cost-effective solutions and services. Some of our competitors have superior brand recognition and significantly greater financial or other resources than we do. We expect that competition will increase as other established and emerging companies enter our markets or we enter theirs, and as new products, services, technologies, and delivery methods are introduced. In addition, consolidation is common in our markets and has in the past and may in the future improve the position of our competitors. See “Risk Factors—Risks Related to Our Business—Competition, Markets, and Operations—Intense competition in our markets and competitors with greater resources than us may limit our market share, profitability, and growth” under Item 1A of this report for a more detailed discussion of the competitive risks we face.

## **Export Regulations**

We and our subsidiaries are subject to applicable export control regulations in countries from which we export goods and services. These controls may apply by virtue of the country in which the products are located or by virtue of the origin of the content contained in the products. If the controls of a particular country apply, the level of control generally depends on the nature of the goods and services in question. For example, our Cyber Intelligence solutions tend to be more highly controlled than our Customer Engagement solutions. Where controls apply, the export of our products generally requires an export license

or authorization or that the transaction qualify for a license exception or the equivalent, and may also be subject to corresponding reporting requirements.

## **Item 1A. Risk Factors**

Many of the factors that affect our business and operations involve risks and uncertainties. The factors described below are risks that could materially harm our business, financial condition, and results of operations. These are not all the risks we face and other factors currently considered immaterial or unknown to us may have a material adverse impact on our future operations.

### **Risks Related to Our Business**

#### ***Competition, Markets, and Operations***

**Our business is impacted by changes in macroeconomic and/or global conditions as well as the resulting impact on information technology spending and government budgets.**

Our business is subject to risks arising from adverse changes in domestic and global macroeconomic and other conditions. Slowdowns, recessions, economic instability, political unrest, armed conflicts, natural disasters, or outbreaks of disease, such as the COVID-19 pandemic, around the world may cause companies and governments to delay, reduce, or even cancel planned spending and may impact our business and operations. Declines in information technology spending and limited or reduced government budgets have affected the markets for our solutions in both the Customer Engagement market and the Cyber Intelligence market in the past and may affect them again based on current and future macroeconomic and/or global conditions.

During the fourth quarter ended January 31, 2020, concerns related to the spread of COVID-19 began to create global business disruptions as well as disruptions in our operations and to create potential negative impacts on our revenues and other financial results. COVID-19 was declared a pandemic by the World Health Organization on March 11, 2020. The extent to which COVID-19 will impact our financial condition or results of operations is currently uncertain and depends on various factors, including the impact on our customers, partners, and vendors and on the operation of the global markets in general. Because an increasing portion of our business is based on a subscription model, the effect of COVID-19 on our results of operations may also not be fully reflected for some time.

For the year ended January 31, 2020, approximately one third of our business was generated from contracts with various governments around the world, including national, regional, and local government agencies. We expect that government contracts will continue to be a significant source of our revenue for the foreseeable future. Macroeconomic changes, such as the COVID-19 threat, rising interest rates, tightening credit markets, significant changes in commodity prices such as oil, actual or threatened trade wars, or the United Kingdom's exit from the European Union (referred to as "Brexit") may also impact demand for our products. For example, following a transitional period expected to end on December 31, 2020, should the U.K. and E.U. governments have failed to ratify new trading arrangements, Brexit may disrupt the free movement of goods, services, and people between the U.K. and the E.U., and could, among other outcomes, have a detrimental impact on the U.K. and E.U. economy, and provide some disruption to business activities in all sectors.

Customers or partners who are facing business challenges, reduced budgets, liquidity issues, or other impacts from such macroeconomic or other global changes are also more likely to defer purchase decisions or cancel or reduce orders, as well as to delay or default on payments. If customers or partners significantly reduce their spending with us or significantly delay or fail to make payments to us, our business, results of operations, and financial condition would be materially adversely affected.

**The full extent to which the COVID-19 pandemic will adversely affect our business and results of operations cannot be predicted at this time.**

The ultimate impact that the COVID-19 pandemic will have on our business and financial results is currently unknown. We are currently conducting business with substantial modifications to employee travel, employee work locations, virtualization or cancellation of customer and employee events, and remote sales, implementation, and support activities, among other modifications. These decisions may delay or reduce sales and harm productivity and collaboration. We have observed other companies and governments making similar alteration to their normal business operations, including restrictions imposed by our customers on our ability to access their sites for implementations and support, and in general, the markets are experiencing a significant level of uncertainty at the current time. The pandemic could have an adverse impact on demand for our customers' products and services, which in turn, could negatively impact the willingness of our customers to enter into or renew contracts with us. The pandemic has impacted our ability to complete certain implementations, negatively impacting our ability to recognize revenue, and could also negatively impact the payment of accounts receivable and collections. We may take further actions that alter our business operations as the situation evolves. As a result, the ultimate impact of the COVID-19 pandemic and the effects of the operational alterations we have made in response on our business, financial condition, liquidity and financial results cannot be predicted at this time.

**The industry in which we operate is characterized by rapid technological changes, evolving industry standards and challenges, and changing market potential from area to area, and if we cannot anticipate and react to such changes our results may suffer.**

The markets for our products are characterized by rapidly changing technology and evolving industry standards and challenges. The introduction of products embodying new technology, new delivery platforms, the commoditization of older technologies, and the emergence of new industry standards and technological hurdles can exert pricing pressure on existing products and services and/or render them unmarketable or obsolete. For example, in our Cyber Intelligence segment, the increasing complexity and sophistication of security threats and prevalence of encrypted communications have created significantly greater challenges for our customers and for our solutions to address. In our Customer Engagement segment, we see a continued shift to cloud-based solutions as well as market saturation for more mature solutions. Moreover, the market potential and growth rates of the markets we serve are not uniform and are evolving. It is critical to our success that we are able to anticipate and respond to changes in technology and industry standards and new customer challenges by consistently developing new, innovative, high-quality products and services that meet or exceed the changing needs of our customers. We must also successfully identify, enter, and appropriately prioritize areas of growing market potential, including by launching, successfully executing, and driving demand for new and enhanced solutions and services, while simultaneously preserving our legacy businesses and migrating away from areas of commoditization. We must also develop and maintain the expertise of our employees as the needs of the market and our solutions evolve. If we are unable to execute on these strategic priorities, we may lose market share or experience slower growth, and our profitability and other results of operations may be materially adversely affected.

**Intense competition in our markets and competitors with greater resources than us may limit our market share, profitability, and growth.**

We face aggressive competition from numerous and varied competitors in all of our markets, making it difficult to maintain market share, remain profitable, invest, and grow. We are also encountering new competitors as we expand into new markets or as new competitors expand into ours. Our competitors may be able to more quickly develop or adapt to new or emerging technologies, better respond to changes in customer needs or preferences, better identify and enter into new areas of growth, or devote greater resources to the development, promotion, and sale of their products. Some of our competitors have, in relation to us, longer operating histories, larger customer bases, longer standing relationships with customers, superior brand recognition, superior margins, and significantly greater financial or other resources, especially in new markets we may enter. Consolidation among our competitors may also improve their competitive position. We also face competition from solutions developed internally by our customers or partners. To the extent that we cannot compete effectively, our market share and results of operations, would be materially adversely affected.

Because price and related terms are key considerations for many of our customers, we may have to accept less-favorable payment terms, lower the prices of our products and services, and/or reduce our cost structure, including reducing headcount or investment in R&D, in order to remain competitive. If we are forced to take these kinds of actions to remain competitive in the short-term, such actions may adversely impact our ability to execute and compete in the long-term.

**Our future success depends on our ability to properly manage investments in our business and operations, execute on growth initiatives, and enhance our existing operations and infrastructure.**

A key element of our long-term strategy is to continue to invest in and grow our business and operations, both organically and through acquisitions. Investments in, among other things, new markets, new products, solutions, and technologies, R&D, infrastructure and systems, geographic expansion, and headcount are critical components for achieving this strategy. In particular, we believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. However, such investments and efforts present challenges and risks and may not be successful (financially or otherwise), especially in new areas or new markets in which we have little or no experience, and even if successful, may negatively impact our profitability in the short-term. To be successful in such efforts, we must be able to properly allocate limited investment dollars and other resources, prioritize among opportunities, projects, and implementations, balance the extent and timing of investments with the associated impact on profitability, balance our focus between new areas or new markets and the operation and servicing of our legacy businesses and customers, capture efficiencies and economies of scale, and compete in the new areas or new markets, or with the new solutions, in which we have invested.

Our success also depends on our ability to execute on other growth initiatives we are pursuing. For example, in our Customer Engagement segment, in addition to the other factors described in this section, our revenue and profitability objectives are highly dependent on our ability to continue to expand our cloud business and cloud operations, including keeping pace with the market transition to cloud-based software, making new cloud sales, enhancing our cloud sales processes and execution, and managing the conversion of our maintenance base. In our Cyber Intelligence segment, in addition to the other factors described in this section, our profitability objectives are highly dependent on our ability to continue to shift our product mix towards software and away from professional services and hardware resales and to continue to progress towards a more productized software offering.

Our success also depends on our ability to effectively and efficiently enhance our existing operations. Our existing infrastructure, systems, security, processes, and personnel may not be adequate for our current or future needs. System upgrades or new implementations can be complex, time-consuming, and expensive and we cannot assure you that we will not experience problems during or following such implementations, including among others, potential disruptions in our operations or financial reporting.

If we are unable to properly manage our investments, execute on growth initiatives, and enhance our existing operations and infrastructure, our results of operations and market share may be materially adversely affected.

**We may not be able to identify suitable targets for acquisition or investment, or complete acquisitions or investments on terms acceptable to us, which could negatively impact our ability to implement our growth strategy.**

As part of our long-term growth strategy, we have made a number of acquisitions and investments and expect to continue to make acquisitions and investments in the future. In many areas, we have seen the market for acquisitions become more competitive and valuations increase. Our competitors also continue to make acquisitions in or adjacent to our markets and may have greater resources than we do, enabling them to pay higher prices. As a result, it may be more difficult for us to identify suitable acquisition or investment targets or to consummate acquisitions or investments once identified on acceptable terms or at all. If we are not able to execute on our acquisition strategy, we may not be able to achieve our long-term growth strategy, may lose market share, or may lose our leadership position in one or more of our markets.



**Our acquisition and investment activity presents certain risks to our business, operations, and financial position.**

Acquisitions and investments are an important part of our growth strategy. Acquisitions and investments present significant challenges and risks to a buyer, including with respect to the transaction process, the integration of the acquired company or assets, and the post-closing operation of the acquired company or assets. If we are unable to successfully address these challenges and risks, we may experience both a loss on the investment and damage to our existing business, operations, financial results, and valuation.

The potential challenges and risks associated with acquisitions and investments include, among others:

- the effect of the acquisition on our strategic position and our reputation, including the impact of the market's reception of the transaction;
- the impact of the acquisition on our financial position and results, including our ability to maintain and/or grow our revenue and profitability;
- risk that we fail to successfully implement our business plan for the combined business, including plans to accelerate growth or achieve the anticipated benefits of the acquisition, such as synergies or economies of scale;
- risk of unforeseen or underestimated challenges or liabilities associated with an acquired company's business or operations;
- management distraction from our existing operations and priorities;
- risk that the market does not accept the integrated product portfolio;
- challenges in reconciling business practices or in integrating product development activities, logistics, or information technology and other systems and processes;
- retention risk with respect to key customers, suppliers, and employees and challenges in integrating and training new employees;
- challenges in complying with newly applicable laws and regulations, including obtaining or retaining required approvals, licenses, and permits; and
- potential impact on our systems, processes, and internal controls over financial reporting.

Acquisitions and/or investments may also result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities, the expenditure of available cash, and amortization expenses or write-downs related to intangible assets such as goodwill, any of which could have a material adverse effect on our operating results or financial condition. Investments in immature businesses with unproven track records and technologies have an especially high degree of risk, with the possibility that we may lose our entire investment or incur unexpected liabilities. Transactions that are not immediately accretive to earnings may make it more difficult for us to maintain satisfactory profitability levels or compliance with the maximum leverage ratio covenant under the revolving credit facility under our senior credit agreement (the "2017 Credit Agreement"). Large or costly acquisitions or investments may also diminish our capital resources and liquidity or limit our ability to engage in additional transactions for a period of time.

The foregoing risks may be magnified as the cost, size, or complexity of an acquisition or acquired company increases, where the acquired company's products, market, or business are materially different from ours, or where more than one transaction or integration is occurring simultaneously or within a concentrated period of time. There can be no assurance that we will be

successful in making additional acquisitions in the future or in integrating or executing on our business plan for existing or future acquisitions.

**Sales processes for sophisticated solutions and a broad solution portfolio like ours present significant challenges.**

We offer our customers a broad solution portfolio with the flexibility to purchase a single point solution, which can be expanded over time, or a larger more comprehensive system. Regardless of the size of a customer's purchase, many of our solutions are sophisticated and may represent a significant investment for our customers. As a result, our sales cycles can range in duration from as little as a few weeks to more than a year. Our larger sales typically require a minimum of a few months to consummate. As the length or complexity of a sales process increases, so does the risk of successfully closing the sale. Larger sales are often made by competitive bid, which also increases the time and uncertainty associated with such opportunities. Customers may also require education on the value and functionality of our solutions as part of the sales process, further extending the time frame and uncertainty of the process.

Longer sales cycles, competitive bid processes, and the need to educate customers means that:

- There is greater risk of customers deferring, scaling back, or canceling sales as a result of, among other things, their receipt of a competitive proposal, changes in budgets and purchasing priorities, extensive internal approval processes, or the introduction or anticipated introduction of new or enhanced products by us or our competitors during the process.
- We may make a significant investment of time and money in opportunities that do not come to fruition, which investments may not be usable or recoverable in future projects.
- We may be required to bid on a project in advance of the completion of its design or be required to begin working on a project in advance of finalizing a sale, in either case, increasing the risk of unforeseen technological difficulties or cost overruns.
- We face greater downside risks if we do not correctly and efficiently deploy limited personnel and financial resources and convert such sales opportunities into orders.

Larger solution sales also require greater expertise in sales execution and transaction implementation than more basic product sales, including in establishing and maintaining appropriate contacts and relationships with customers and partners, product development, project management and implementation, staffing, integration, services, and support. Our ability to develop, sell, implement, and support larger solutions and a broad solution portfolio is a competitive differentiator for us, which provides for solution diversification and more opportunities for growth, but also requires greater investment for us and presents challenges, including, among others, challenges associated with competition for limited internal resources, complex customer requirements, and project deadlines. After the completion of a sale, our customers or partners may need assistance from us in making full use of the functionality of our solutions, in realizing their benefits, or in implementation generally. If we are unable to assist our customers and partners in realizing the benefits they expect from our solutions and products, demand for our solutions and products may decline and our operating results may suffer. Any failure to develop high-quality solutions and to provide high-quality services and support could adversely affect our reputation, our ability to sell our service offerings to existing and prospective customers, and our operating results.

The extended time frame and uncertainty associated with many of our sales opportunities also makes it difficult for us to accurately forecast our revenues (and attendant budgeting and guidance decisions) and increases the volatility of our operating results from period to period. Our ability to forecast and the volatility of our operating results is also impacted by the fact that pricing, margins, and other deal terms may vary substantially from transaction to transaction, especially across business lines. The terms of our transactions, including with respect to license model (e.g., perpetual license versus subscription), also impact the timing of our ability to recognize revenue. We recognize SaaS revenue over the term of the SaaS subscription, so as our SaaS revenue continues to grow and becomes a more significant component of our overall revenue, we expect a greater



amount of our revenue to be recognized over longer periods, in some cases several years, as compared to the way revenue is recognized for perpetual licenses. This change in the pattern of recognition also means that increases or decreases in SaaS subscription activity impact the amount of revenue recognized in both current and future periods. Because transaction-specific factors are difficult to predict in advance, this also complicates the forecasting of revenue and creates challenges in managing our cloud transition and revenue mix. As our cloud transition continues and accelerates, our subscription renewal rates will become more important to our financial results generally, and if customers choose not to renew, or to reduce, their subscriptions, our business and financial results will suffer.

The deferral or loss of one or more significant orders or a delay in a large implementation can also materially adversely affect our operating results, especially in a given quarter. Larger transactions also increase the risk that our revenue and profitability become concentrated in a given period or over time. As with other software-focused companies, a large amount of our quarterly business tends to come in the last few weeks, or even the last few days, of each quarter. This trend has also complicated the process of accurately predicting revenue and other operating results, particularly on a quarterly basis. Finally, our business is subject to seasonal factors that may also cause our results to fluctuate from quarter to quarter.

**If we are unable to establish and maintain our relationships with third parties that market and sell our products, our business and ability to grow could be materially adversely affected.**

Approximately half of our sales are made through partners, distributors, resellers, and systems integrators. To remain successful, we must maintain our existing relationships as well as identify and establish new relationships with such third parties. We must often compete with other suppliers for these relationships and our competitors often seek to establish exclusive relationships with these sales channels or to become a preferred partner for them. Our ability to establish and maintain these relationships is based on, among other things, factors that are similar to those on which we compete for end customers, including features, functionality, ease of use, installation and maintenance, and price. Even if we are able to secure such relationships on terms we find acceptable, there is no assurance that we will be able to realize the benefits we anticipate. Some of our channel partners may also compete with us or have affiliates that compete with us, or may also partner with our competitors or offer our products and those of our competitors as alternatives when presenting proposals to end customers. Our ability to achieve our revenue goals and growth depends to a significant extent on maintaining, enabling, and adding to these sales channels, and if we are unable to do so, our business and ability to grow could be materially adversely affected.

**For certain products, components, or services, including our cloud hosting operations, we rely on third-party suppliers, manufacturers, and partners, which may create significant exposure for us.**

Although we generally use standard parts and components in our products, we do rely on non-affiliated suppliers and OEM partners for certain non-standard products or components which may be critical to our products, including both hardware and software, and on manufacturers of assemblies that are incorporated into our products. We also purchase technology, license intellectual property rights, and oversee third-party development and localization of certain products or components, in some cases, by or from companies that may compete with us or work with our competitors. While we endeavor to use larger, more established suppliers, manufacturers, and partners wherever possible, in some cases, these providers may be smaller, less established companies, particularly in the case of new or unique technologies that we have not developed internally.

If any of these suppliers, manufacturers, or partners experience financial, operational, manufacturing, or quality assurance difficulties, cease production or sale, or there is any other disruption in our supply, including as a result of the acquisition of a supplier or partner by a competitor, we will be required to locate alternative sources of supply or manufacturing, to internally develop the applicable technologies, to redesign our products, and/or to remove certain features from our products, any of which would be likely to increase expenses, create delivery delays, and negatively impact our sales. Although we endeavor to establish contractual protections with key providers, including source code escrows (where needed), warranties, and indemnities, we may not be successful in obtaining adequate protections, these agreements may be short-term in duration, and the counterparties may be unwilling or unable to stand behind such protections. Moreover, these types of contractual protections offer limited practical benefits to us in the event our relationship with a key provider is interrupted.

We also rely on third parties to provide certain services to us or to our customers, including hosting partners and providers of other cloud-based services. We make contractual commitments to customers on the basis of these relationships and, in some cases, also entrust these providers with both our own sensitive data as well as the sensitive data of our customers (which may include sensitive end customer data). If these third-party providers do not perform as expected or encounter service disruptions, cyber-attacks, data breaches, or other difficulties, we or our customers may be materially and adversely affected, including, among other things, by facing increased costs, potential liability to customers, end customers, or other third parties, regulatory issues, and reputational harm. If it is necessary to migrate these services to other providers as a result of poor performance, security issues or considerations, or other financial or operational factors, it could result in service disruptions to our customers and significant time, expense, or exposure to us, any of which could materially adversely affect our business.

**If we cannot retain and recruit qualified personnel, our ability to operate and grow our business may be impaired.**

We depend on the continued services of our management and employees to run and grow our business. To remain successful and to grow, we need to retain existing employees and attract new qualified employees, including in new markets and growth areas we may enter. Retention is an industry issue given the competitive technology labor market and as the millennial workforce continues to value multiple company experience over long tenure. As we grow, we must also enhance and expand our management team to execute on new and larger agendas and challenges. The market for qualified personnel is competitive in the geographies in which we operate and may be limited especially in areas of emerging technology. We may be at a disadvantage to larger companies with greater brand recognition or financial resources or to start-ups or other emerging companies in trending market sectors. Work visa restrictions, especially in the U.S., have also become significantly tighter in recent years, making it difficult or impossible to source qualified personnel from other countries or even to hire those already in the U.S. on current visas. Efforts we engage in to establish operations in new geographies where additional talent may be available, potentially at a lower cost, may be unsuccessful or fail to result in the desired cost savings. If we are unable to attract and retain qualified personnel when and where they are needed, our ability to operate and grow our business could be impaired. Moreover, if we are not able to properly balance investment in personnel with sales, our profitability may be adversely affected.

**Because we have significant foreign operations and business, we are subject to geopolitical and other risks that could materially adversely affect our results.**

We have significant operations and business outside the United States, including sales, research and development, manufacturing, customer services and support, and administrative services. The countries in which we have our most significant foreign operations include Israel, the United Kingdom, India, Cyprus, Indonesia, Australia, Brazil and the Netherlands. We also generate significant revenue from more than a dozen foreign countries, and smaller amounts of revenue from many more, including a number of emerging markets. We intend to continue to grow our business internationally.

Our foreign operations are, and any future foreign growth will be, subject to a variety of risks, many of which are beyond our control, including risks associated with:

- foreign currency fluctuations;
- political, security, and economic instability or corruption;
- geopolitical risks from war, natural disasters, pandemics or other events;
- changes in and compliance with both international and local laws and regulations, including those related to trade compliance, anti-corruption, information security, data privacy and protection, tax, labor, currency restrictions, and other requirements;
- differences in tax regimes and potentially adverse tax consequences of operating in foreign countries;

- product customization or localization issues;
- preferences for or policies and procedures that protect local suppliers;
- legal uncertainties regarding intellectual property rights or rights and obligations generally; and
- challenges or delays in collection of accounts receivable.

Any or all of these factors could materially adversely affect our business or results of operations.

**Conditions in and our relationship to Israel may materially adversely affect our operations and personnel and may limit our ability to produce and sell our products or engage in certain transactions.**

We have significant operations in Israel, including R&D, manufacturing, sales, and support. Conflicts and political, economic, and/or military conditions in Israel and the Middle East region have affected and may in the future affect our operations in Israel. Violence within Israel or the outbreak of violent conflicts between Israel and its neighbors, including the Palestinians or Iran, may impede our ability to manufacture, sell, and support our products or engage in R&D, or otherwise adversely affect our business or operations. Many of our employees in Israel are required to perform annual compulsory military service and are subject to being called to active duty at any time. Hostilities involving Israel may also result in the interruption or curtailment of trade between Israel and its trading partners or a significant downturn in the economic or financial condition of Israel and could materially adversely affect our results of operations.

Restrictive laws, policies, or practices in certain countries directed toward Israel, Israeli goods, or companies having operations in Israel may also limit our ability to sell some of our products in certain countries.

We receive grants from the IIA for the financing of a portion of our research and development expenditures in Israel. The availability in any given year of these IIA grants depends on IIA approval of the projects and related budgets that we submit to the IIA each year. The Israeli law under which these IIA grants are made limits our ability to manufacture products, or transfer technologies, developed using these grants outside of Israel. This may limit our ability to engage in certain outsourcing or business combination transactions involving these products or require us to pay significant royalties or fees to the IIA in order to obtain any IIA consent that may be required in connection with such transactions.

Israeli tax requirements may also place practical limitations on our ability to sell or engage in other transactions involving our Israeli companies or assets, to restructure our Israeli business, or to access funds in Israel.

**Political factors related to our business or operations may adversely affect us.**

We may experience negative publicity, reputational harm, or other adverse impacts on our business as a result of offering certain types of Cyber Intelligence solutions or if we sell such solutions to countries or customers that are considered disfavored by the media or political or social rights organizations, even where such activities or transactions are permissible under applicable law. The risk of these adverse impacts may also result in lost business opportunities that impact our results of operations.

Some of our subsidiaries maintain security clearances domestically and abroad in connection with the development, marketing, sale, and/or support of our Cyber Intelligence solutions. These clearances are reviewed from time to time by these countries and could be deactivated, including for political reasons unrelated to the merits of our solutions, such as the list of countries we do business with or the fact that our local entity is controlled by or affiliated with an entity based in another country. If we lose our security clearances in a particular country, we may be unable to sell our Cyber Intelligence solutions for secure projects in that country and might also experience greater challenges in selling such solutions even for non-secure projects in that country. Even if we are able to obtain and maintain applicable security clearances, government customers may decline to

purchase our Cyber Intelligence solutions if they were not developed or manufactured in that country or if they were developed or manufactured in other countries that are considered disfavored by such country.

**Contracting with government entities exposes us to additional risks inherent in the government procurement process.**

We provide products and services, directly and indirectly, to a variety of government entities, both domestically and internationally. Risks associated with licensing and selling products and services to government entities include more extended sales and collection cycles, varying governmental budgeting processes, adherence to complex procurement regulations, and other government-specific contractual requirements, including possible renegotiation or termination at the election of the government customer. We may be subject to audits and investigations relating to our government contracts and any violations could result in various civil and criminal penalties and administrative sanctions, including termination of contracts, payment of fines, and suspension or debarment from future government business, as well as harm to our reputation and financial results.

**We are subject to complex, evolving regulatory requirements that may be difficult and expensive to comply with and that could negatively impact our business.**

Our business and operations are subject to a variety of regulatory requirements in the United States and abroad, including, among other things, with respect to trade compliance, anti-corruption, information security, data privacy and protection, tax, labor, government contracts, and cyber intelligence. Compliance with these regulatory requirements may be onerous, time-consuming, and expensive, especially where these requirements are inconsistent from jurisdiction to jurisdiction or where the jurisdictional reach of certain requirements is not clearly defined or seeks to reach across national borders. Regulatory requirements in one jurisdiction may make it difficult or impossible to do business in another jurisdiction. We may also be unsuccessful in obtaining permits, licenses, or other authorizations required to operate our business, such as for the marketing or sale or import or export of our products and services.

While we endeavor to implement policies, procedures, and systems designed to achieve compliance with these regulatory requirements, we cannot assure you that these policies, procedures, or systems will be adequate or that we or our personnel will not violate these policies and procedures or applicable laws and regulations. Violations of these laws or regulations may harm our reputation and deter government agencies and other existing or potential customers or partners from purchasing our solutions. Furthermore, non-compliance with applicable laws or regulations could result in fines, damages, criminal sanctions against us, our officers, or our employees, restrictions on the conduct of our business, and damage to our reputation.

Regulatory requirements, such as laws requiring telecommunications providers to facilitate the monitoring of communications by law enforcement or governing the purchase and use of security solutions like ours, may also influence market demand for many of our products and/or customer requirements for specific functionality and performance or technical standards. The domestic and international regulatory environment is subject to constant change, often based on factors beyond our control or anticipation, including political climate, budgets, and current events, which could reduce demand for our products or require us to change or redesign products to maintain compliance or competitiveness.

**Increasing regulatory focus on information security and data privacy issues and expanding laws in these areas may result in increased compliance costs, impact our business models, and expose us to increased liability.**

As a global company, Verint is subject to global privacy and data security laws, and regulations. These laws and regulations may be inconsistent across jurisdictions and are subject to evolving and differing (sometimes conflicting) interpretations. Government regulators, privacy advocates and class action attorneys are increasingly scrutinizing how companies collect, process, use, store, share and transmit personal data. This increased scrutiny may result in additional compliance obligations or new interpretations of existing laws and regulations. Globally, new and emerging laws, such as the General Data Protection Regulation (“GDPR”) in Europe, state laws in the U.S. on privacy, data and related technologies, such as the California Consumer Privacy Act, as well as industry self-regulatory codes create new compliance obligations and expand the scope of potential liability, either jointly or severally with our customers and suppliers. While we have invested in readiness to comply with applicable requirements, these new and emerging laws, regulations and codes may affect our ability to reach current and

prospective customers, to respond to both enterprise and individual customer requests under the laws (such as individual rights of access, correction, and deletion of their personal information), and to implement our business models effectively. These new laws may also impact our products and services as well as our innovation in new and emerging technologies. These requirements, among others, may impact demand for our offerings and force us to bear the burden of more onerous obligations in our contracts or otherwise increase our exposure to customers, regulators, or other third parties.

Transferring personal information across international borders is becoming increasingly complex. For example, European data transfers outside the European Economic Area are highly regulated. The mechanisms that we and many other companies rely upon for data transfers may be contested or invalidated. If the mechanisms for transferring personal information from certain countries or areas, including Europe to the United States, should be found invalid or if other countries implement more restrictive regulations for cross-border data transfers (or not permit data to leave the country of origin), such developments could harm our business, financial condition and results of operations.

### ***Information / Product Security and Intellectual Property***

#### **The mishandling or the perceived mishandling of sensitive information could harm our business.**

Some of our products are used by customers to compile and analyze highly sensitive or confidential information and data, including information or data used in intelligence gathering or law enforcement activities as well as personally identifiable information. While our customers' use of our products does not provide us access to the customer's sensitive or confidential information or data (or the information or data our customers may collect), we or our partners may receive or come into contact with such information or data, including personally identifiable information, when we are asked to perform services or support functions for our customers. We or our partners may also receive or come into contact with such information or data in connection with our SaaS or other hosted or managed services offerings. Customers are also increasingly focused on the security of our products and services and we continuously work to address these concerns, including through the use of encryption, access rights, and other customary security features, which vary based on the solution in question and customer requirements. We expect to receive, come into contact with, or become custodian of an increasing amount of customer data (including end customer data) as our cloud business and cloud operations expand, increasing our exposure if we or one of our hosting partners experiences an issue relating to the security or the proper handling of that information. We have implemented policies and procedures, and use information technology systems, to help ensure the proper handling of such information and data, including background screening of certain services personnel, non-disclosure agreements with employees and partners, access rules, and controls on our information technology systems. We also evaluate the information security of potential partners and vendors as part of our selection process and attempt to negotiate adequate protections from such third parties in our contracts. However, these policies, procedures, systems, and measures are designed to mitigate the risks associated with handling or processing sensitive data and cannot safeguard against all risks at all times. The improper handling of sensitive data, or even the perception of such mishandling (whether or not valid), or other security lapses or breaches affecting us, our partners, or our products or services, could reduce demand for our products or services or otherwise expose us to financial or reputational harm or legal liability.

#### **Our solutions may contain defects or may be vulnerable to cyber-attacks, which could expose us to both financial and non-financial damages.**

Our solutions may contain defects or may develop operational problems. This risk is amplified for our more sophisticated solutions. New products and new product versions, service models such as hosting, SaaS, and managed services, and the incorporation of third-party products or services into our solutions, also give rise to the risk of defects, errors, or vulnerabilities. These defects, errors, or vulnerabilities may relate to the operation or the security of our products or services, including third party components or services such as hosting. If we do not discover and remedy such defects, errors, vulnerabilities, or other operational or security problems until after a product has been released to customers or partners, we may incur significant costs to correct such problems and/or become liable for substantial damages for product liability claims or other liabilities.

Our solutions, including our cloud offerings, may be vulnerable to cyber-attacks even if they do not contain defects. If there is a successful cyber-attack on one of our products or services, even absent a defect or error, it may also result in questions regarding the integrity of our products or services generally, which could cause adverse publicity and impair their market acceptance and could have a material adverse effect on our results or financial condition.

**We may be subject to information technology system breaches, failures, or disruptions that could harm our operations, financial condition, or reputation.**

We rely extensively on information technology systems to operate and manage our business and to process, maintain, and safeguard information, including information belonging to our customers, partners, and personnel. This information may be processed and maintained on our internal information technology systems or on systems hosted by third-party service providers. These systems, whether internal or external, may be subject to breaches, failures, or disruptions as a result of, among other things, cyber-attacks, computer viruses, physical security breaches, natural disasters, accidents, power disruptions, telecommunications failures, new system implementations, or acts of terrorism or war. We have experienced cyber-attacks in the past and expect to continue to experience them in the future, potentially with greater frequency. While we are continually working to maintain secure and reliable systems, our security, redundancy, and business continuity efforts may be ineffective or inadequate. We must continuously improve our design and coordination of security controls across our business groups and geographies. Despite our efforts, it is possible that our security systems, controls, and other procedures that we follow or those employed by our third-party service providers, may not prevent breaches, failures, or disruptions. Such breaches, failures, or disruptions have in the past and could in the future subject us to the loss, compromise, destruction, or disclosure of sensitive or confidential information, including personally identifiable information, or intellectual property, either of our own information or IP or that of our customers (including end customers) or other third parties that may have been in our custody or in the custody of our third-party service providers, financial costs or losses from remedial actions, litigation, regulatory issues, liabilities to customers or other third parties, damage to our reputation, delays in our ability to process orders, delays in our ability to provide products and services to customers, including SaaS or other hosted or managed services offerings, R&D or production downtimes, or delays or errors in financial reporting. Information system breaches or failures at one of our partners, including hosting providers or those who support other cloud-based offerings, may also result in similar adverse consequences. Any of the foregoing could harm our competitive position, result in a loss of customer confidence, and materially and adversely affect our results of operations or financial condition.

**Our intellectual property may not be adequately protected.**

While much of our intellectual property is protected by patents or patent applications, we have not and cannot protect all of our intellectual property with patents or other registrations. There can be no assurance that patents we have applied for will be issued on the basis of our patent applications or that, if such patents are issued, they will be, or that our existing patents are, sufficiently broad enough to protect our technologies, products, or services. Our intellectual property rights may not be successfully asserted in the future or may be invalidated, designed around, or challenged.

In order to safeguard our unpatented proprietary know-how, source code, trade secrets, and technology, we rely primarily upon trade secret protection and non-disclosure provisions in agreements with employees and other third parties having access to our confidential information. There can be no assurance that these measures will adequately protect us from improper disclosure or misappropriation of our proprietary information.

Preventing unauthorized use or infringement of our intellectual property rights is difficult even in jurisdictions with well-established legal protections for intellectual property such as the United States. It may be even more difficult to protect our intellectual property in other jurisdictions where legal protections for intellectual property rights are less established. If we are unable to adequately protect our intellectual property against unauthorized third-party use or infringement, our competitive position could be adversely affected.



**Our products or other IP may infringe or may be alleged to infringe on the intellectual property rights of others, which could lead to costly disputes or disruptions for us and may require us to indemnify our customers and resellers for any damages they suffer.**

The technology industry is characterized by frequent allegations of intellectual property infringement. In the past, third parties have asserted that certain of our products or other IP have infringed on their intellectual property rights and similar claims may be made in the future. Any allegation of infringement against us could be time consuming and expensive to defend or resolve, result in substantial diversion of management resources, cause product shipment delays, or force us to enter into royalty or license agreements. If patent holders or other holders of intellectual property initiate legal proceedings against us, either with respect to our own intellectual property or intellectual property we license from third parties, we may be forced into protracted and costly litigation, regardless of the merits of these claims. We may not be successful in defending such litigation, in part due to the complex technical issues and inherent uncertainties in intellectual property litigation, and may not be able to procure any required royalty or license agreements on terms acceptable to us, or at all. Competitors and other companies could adopt trademarks that are similar to ours or try to prevent us from using our trademarks, consequently impeding our ability to build brand identity and possibly leading to customer confusion. Third parties may also assert infringement claims against our customers or partners. Subject to certain limitations, we generally indemnify our customers and partners with respect to infringement by our products on the proprietary rights of third parties, which, in some cases, may not be limited to a specified maximum amount and for which we may not have sufficient insurance coverage or adequate indemnification in the case of intellectual property licensed from a third party. If any of these claims succeed, we may be forced to pay damages, be required to obtain licenses for the products our customers or partners use or sell, or incur significant expenses in developing non-infringing alternatives. If we cannot obtain necessary licenses on commercially reasonable terms, our customers may be forced to stop using or, in the case of resellers and other partners, stop selling our products.

**Use of free or open source software could expose our products to unintended restrictions and could materially adversely affect our business.**

Some of our products contain free or open source software (together, “open source software”) and we anticipate making use of open source software in the future. Open source software is generally covered by license agreements that permit the user to use, copy, modify, and distribute the software without cost, provided that the users and modifiers abide by certain licensing requirements. The original developers of the open source software generally provide no warranties on such software or protections in the event the open source software infringes a third party’s intellectual property rights. Although we endeavor to monitor the use of open source software in our product development, we cannot assure you that past, present, or future products, including products inherited in acquisitions, will not contain open source software elements that impose unfavorable licensing restrictions or other requirements on our products, including the need to seek licenses from third parties, to re-engineer affected products, to discontinue sales of affected products, or to release all or portions of the source code of affected products. Any of these developments could materially adversely affect our business.

### **Risks Related to Our Finances and Capital Structure**

**We have a significant amount of indebtedness, which exposes us to leverage risks and subjects us to covenants which may adversely affect our operations.**

At March 15, 2020, we had total outstanding indebtedness of approximately \$868.3 million under our 2017 Credit Agreement and our 1.50% convertible senior notes due 2021 (the “Notes”). In addition, we have the ability to borrow additional amounts under our 2017 Credit Agreement, including the revolving credit facility, for a variety of purposes, including, among others, acquisitions and stock repurchases. Our leverage position may, among other things:

- limit our ability to obtain additional debt financing in the future for working capital, capital expenditures, acquisitions, or other general corporate purposes;

- require us to dedicate a substantial portion of our cash flow from operations to debt service, reducing the availability of our cash flow for other purposes;
- require us to repatriate cash for debt service from our foreign subsidiaries resulting in dividend tax costs or require us to adopt other disadvantageous tax structures to accommodate debt service payments; or
- increase our vulnerability to economic downturns, limit our ability to capitalize on significant business opportunities, and restrict our flexibility to react to changes in market or industry conditions.

In addition, because our indebtedness under our 2017 Credit Agreement bears interest at a variable rate, we are exposed to risk from fluctuations in interest rates. Interest rates on loans under the 2017 Credit Agreement are periodically reset, at our option, at either a Eurodollar Rate or an ABR rate (each as defined in the 2017 Credit Agreement), plus in each case a margin. The Financial Conduct Authority of the United Kingdom plans to phase out LIBOR by the end of 2021, and we are considering the impact that the planned phase out would have on this facility. The Alternative Reference Rates Committee has proposed the Secured Overnight Financing Rate (“SOFR”) as its recommended alternative to LIBOR. However, it is currently uncertain what, if any, alternative reference interest rates, including SOFR, or other reforms will be enacted in response to the planned phase out, and we cannot assure you that an alternative to LIBOR (on which the Eurodollar Rate is based) that we find acceptable will be available to us.

The revolving credit facility under our 2017 Credit Agreement contains a financial covenant that requires us to satisfy a maximum consolidated leverage ratio test. Our ability to comply with the leverage ratio covenant is dependent upon our ability to continue to generate sufficient earnings each quarter, or in the alternative, to reduce expenses and/or reduce the level of our outstanding debt, and we cannot assure that we will be successful in any or all of these regards.

Our 2017 Credit Agreement also includes a number of restrictive covenants which limit our ability to, among other things:

- incur additional indebtedness or liens or issue preferred stock;
- pay dividends or make other distributions or repurchase or redeem our stock or subordinated indebtedness;
- engage in transactions with affiliates;
- engage in sale-leaseback transactions;
- sell certain assets;
- change our lines of business;
- make investments, loans, or advances; and
- engage in consolidations, mergers, liquidations, or dissolutions.

These covenants could limit our ability to plan for or react to market conditions, to meet our capital needs, or to otherwise engage in transactions that might be considered beneficial to us.

If certain events of default occur under our 2017 Credit Agreement, our lenders could declare all amounts outstanding to be immediately due and payable. An acceleration of indebtedness under our 2017 Credit Agreement may also result in an event of default under the indenture governing the Notes. Additionally, if a change of control as defined in our 2017 Credit Agreement were to occur, the lenders under our credit facilities would have the right to require us to repay all of our outstanding obligations under the facilities.



If a fundamental change as defined in the indenture governing the Notes were to occur, the holders may require us to purchase for cash all or any portion of their Notes at 100% of the principal amount of the Notes, plus accrued and unpaid interest. Additionally, in the event the conditional conversion feature of the Notes is triggered, holders of the Notes will be entitled to convert their Notes during specified periods of time at their option. If one or more holders elect to convert their Notes, we may be required to settle all or a portion of our conversion obligation in cash, which could adversely affect our liquidity.

If any of the events described in the foregoing paragraphs were to occur, in order to satisfy our obligations we may be forced to seek an amendment of and/or waiver under our debt agreements, raise additional capital through securities offerings, asset sales, or other transactions, or seek to refinance or restructure our debt. In such a case, there can be no assurance that we will be able to consummate such a transaction on reasonable terms or at all.

We consider other financing and refinancing options from time to time, however, we cannot assure you that such options will be available to us on reasonable terms or at all. If one or more rating agencies were to downgrade our credit ratings, that could also impede our ability to refinance our existing debt or secure new debt, increase our future cost of borrowing, and create third-party concerns about our financial condition or results of operations.

**If we are not able to generate sufficient cash domestically in order to fund our U.S. operations, strategic opportunities, and to service our debt, we may incur withholding taxes in order to repatriate certain overseas cash balances, or we may need to raise additional capital in the future.**

On December 22, 2017 the Tax Cuts and Jobs Act (“2017 Tax Act”) was enacted in the United States. The 2017 Tax Act included significant changes to corporate taxation in the United States including a mandatory one-time tax on accumulated earnings of foreign subsidiaries. As a result, all deferred foreign earnings not previously subject to U.S. income tax have now been taxed and we therefore do not expect to incur any significant additional U.S. taxes related to such amounts. However, certain unremitted earnings may be subject to foreign withholding tax upon repatriation to the United States.

If the cash generated by our domestic operations, plus certain foreign cash which we would repatriate and for which we have accrued the related withholding tax, is not sufficient to fund our domestic operations, our broader corporate initiatives such as acquisitions, and other strategic opportunities, and to service our outstanding indebtedness, we may need to raise additional funds through public or private debt or equity financings, or we may need to obtain new credit facilities to the extent we choose not to repatriate additional overseas cash. Such additional financing may not be available on terms favorable to us, or at all, and any new equity financings or offerings would dilute our current stockholders’ ownership. Furthermore, lenders may not agree to extend us new, additional or continuing credit. If adequate funds are not available, or are not available on acceptable terms, we may be forced to repatriate foreign cash and incur a significant tax cost (in addition to amounts previously accrued) or we may not be able to take advantage of strategic opportunities, develop new products, respond to competitive pressures, repurchase outstanding stock or repay our outstanding indebtedness. In any such case, our business, operating results or financial condition could be adversely impacted.

**We may be adversely affected by our acquisition of CTI or our historical affiliation with CTI and its former subsidiaries.**

As a result of the February 2013 acquisition of our former parent company, CTI (the “CTI Merger”), CTI’s liabilities, including contingent liabilities, have been consolidated into our financial statements. If CTI’s liabilities are greater than represented, if the contingent liabilities we have assumed become fixed, or if there are obligations of CTI of which we were not aware at the time of completion of the CTI Merger, we may have exposure for those obligations and our business or financial condition could be materially and adversely affected. Adjustments to the CTI consolidated group’s tax liability for periods prior to the CTI Merger could also affect the net operating losses (“NOLs”) allocated to Verint as a result of the CTI Merger and cause us to incur additional tax liability in future periods. In addition, adjustments to the historical CTI consolidated group’s tax liability for periods prior to Verint’s IPO could affect the NOLs allocated to Verint in the IPO and cause us to incur additional tax liability in future periods.

We are entitled to certain indemnification rights from the successor to CTI's business operations (Mavenir Inc.) under the agreements entered into in connection with the distribution by CTI to its shareholders of substantially all of its assets other than its interest in us (the "Comverse Share Distribution") prior to the CTI Merger. However, there is no assurance that Mavenir will be willing and able to provide such indemnification if needed. If we become responsible for liabilities not covered by indemnification or substantially in excess of amounts covered by indemnification, or if Mavenir becomes unwilling or unable to stand behind such protections, our financial condition and results of operations could be materially and adversely affected.

**Our financial results may be significantly impacted by changes in our tax position.**

We are subject to taxes in the United States and numerous foreign jurisdictions. Our future effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in valuation allowance on deferred tax assets (including our NOL carryforwards), changes in unrecognized tax benefits, or changes in tax laws or their interpretation. Any of these changes could have a material adverse effect on our profitability. In addition, the tax authorities in the jurisdictions in which we operate, including the United States, may from time to time review the pricing arrangements between us and our foreign subsidiaries or among our foreign subsidiaries. An adverse determination by one or more tax authorities in this regard may have a material adverse effect on our financial results.

We have significant deferred tax assets which can provide us with significant future cash tax savings if we are able to use them, including significant NOLs inherited as a result of the CTI Merger. However, the extent to which we will be able to use these NOLs may be impacted, restricted, or eliminated by a number of factors, including changes in tax rates, laws or regulations, whether we generate sufficient future taxable income, and possible adjustments to the tax attributes of CTI or its non-Verint subsidiaries for periods prior to the CTI Merger. To the extent that we are unable to utilize our NOLs or other losses, our results of operations, liquidity, and financial condition could be materially adversely affected. When we cease to have NOLs available to us in a particular tax jurisdiction, either through their expiration, disallowance, or utilization, our cash tax liability will increase in that jurisdiction.

In addition, on December 22, 2017, the 2017 Tax Act was enacted in the United States. The 2017 Tax Act significantly revised the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), and it includes fundamental changes to taxation of U.S. multinational corporations. Compliance with the 2017 Tax Act requires significant complex computations not previously required by U.S. tax law.

The key provisions of the 2017 Tax Act, which may significantly impact our current and future effective tax rates, include new limitations on the tax deductions for interest expense and executive compensation, elimination of the alternative minimum tax ("AMT") and the ability to refund unused AMT credits over a four-year period, and new rules related to uses and limitations of NOL carryforwards. New international provisions add a new category of deemed income from our foreign operations, eliminate U.S. tax on foreign dividends (subject to certain restrictions), and add a minimum tax on certain payments made to foreign related parties.

**Changes in accounting principles, or interpretations thereof, could adversely impact our financial condition or operating results.**

We prepare our Consolidated Financial Statements in accordance with U.S. generally accepted accounting principles ("GAAP"). These principles are subject to interpretation by the SEC and other organizations that develop and interpret accounting principles. New accounting principles arise regularly, implementation of which can have a significant effect on and may increase the volatility of our reported operating results and may even retroactively affect previously reported operating results. In addition, the implementation of new accounting principles may require significant changes to our customer and vendor contracts, business processes, accounting systems, and internal controls over financial reporting. The costs and effects of these changes could adversely impact our operating results, and difficulties in implementing new accounting principles could cause us to fail to meet our financial reporting obligations.

**Our internal controls over financial reporting may not prevent misstatements and material weaknesses or deficiencies could arise in the future which could lead to restatements or filing delays.**

Our system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect every misstatement. An evaluation of effectiveness is subject to the risk that the controls may become inadequate because of changes in conditions, because the degree of compliance with policies or procedures decreases over time, or because of unanticipated circumstances or other factors. As a result, although our management has concluded that our internal controls are effective as of January 31, 2020, we cannot assure you that our internal controls will prevent or detect every misstatement, that material weaknesses or other deficiencies will not occur or be identified in the future, that this or future financial reports will not contain material misstatements or omissions, that future restatements will not be required, or that we will be able to timely comply with our reporting obligations in the future.

**If our goodwill or other intangible assets become impaired, our financial condition and results of operations could be negatively affected.**

Because we have historically acquired a significant number of companies, goodwill and other intangible assets have represented a substantial portion of our assets. Goodwill and other intangible assets totaled approximately \$1.7 billion, or approximately 55% of our total assets, as of January 31, 2020. We test our goodwill for impairment at least annually, or more frequently if an event occurs indicating the potential for impairment, and we assess on an as-needed basis whether there have been impairments in our other intangible assets. We make assumptions and estimates in this assessment which are complex and often subjective. These assumptions and estimates can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy or our internal forecasts. To the extent that the factors described above change, we could be required to record additional non-cash impairment charges in the future, which could negatively affect our financial condition and results of operations.

**Our international operations subject us to currency exchange risk.**

We earn revenue, pay expenses, own assets, and incur liabilities in countries using currencies other than the U.S. dollar, including the Israeli shekel, euro, British pound sterling, Singapore dollar, Brazilian real, and Australia dollar, among others. Because our consolidated financial statements are presented in U.S. dollars, we must translate revenue, expenses, assets, and liabilities of entities using non-U.S. dollar functional currencies into U.S. dollars using currency exchange rates in effect during or at the end of each reporting period, meaning that we are exposed to the impact of changes in currency exchange rates. In addition, our net income is impacted by the revaluation and settlement of monetary assets and liabilities denominated in currencies other than an entity's functional currency, gains or losses on which are recorded within other income (expense), net. We attempt to mitigate a portion of these risks through foreign currency hedging, based on our judgment of the appropriate trade-offs among risk, opportunity and expense. However, our hedging activities are limited in scope and duration and may not be effective at reducing the U.S. dollar cost of our global operations.

In addition, our financial outlooks do not assume fluctuations in currency exchange rates. Adverse fluctuations in currency exchange rates subsequent to providing our financial outlooks could cause our actual results to differ materially from those anticipated in our outlooks, which could negatively affect the price of our common stock.

**The prices of our common stock and the Notes have been, and may continue to be, volatile and your investment could lose value.**

The prices of our common stock and the Notes have been, and may continue to be, volatile. Those prices could be affected by any of the risk factors discussed in this Item. In addition, other factors that could impact the prices of our common stock and/or the Notes include:

- announcements by us or our competitors regarding, among other things, strategic changes, new products, product enhancements or technological advances, acquisitions, major transactions (including our planned separation into two publicly traded companies), significant litigation or regulatory matters, stock repurchases, or management changes;
- press or analyst publications, including with respect to changes in recommendations or earnings estimates or growth rates by financial analysts, changes in investors' or analysts' valuation measures for our securities, our credit ratings, our security solutions and customers, speculation regarding strategy or M&A (including our planned separation into two publicly traded companies), or market trends unrelated to our performance;
- stock sales by our directors, officers, or other significant holders, or stock repurchases by us;
- hedging or arbitrage trading activity by third parties, including by the counterparties to the note hedge and warrant transactions that we entered into in connection with the issuance of the Notes; and
- dilution that may occur upon any conversion of the Notes.

A significant drop in the price of our common stock or the Notes could also expose us to the risk of securities class action lawsuits, which could result in substantial costs and divert management's attention and resources, which could adversely affect our business.

**Actions of activist stockholders may cause us to incur substantial costs, disrupt our operations, divert management's attention, or have other material adverse effects on us.**

From time to time, activist investors may take a position in our stock. These activist investors may disagree with decisions we have made or may believe that alternative strategies or personnel, either at a management level or at a board level, would produce higher returns. Such activists may or may not be aligned with the views of our other stockholders, may be focused on short-term outcomes, or may be focused on building their reputation in the market. These activists may not have a full understanding of our business and markets and the alternative personnel they may propose may also not have the qualifications or experience necessary to lead the company.

Responding to advances or actions by activist investors may be costly and time-consuming, may disrupt our operations, and may divert the attention of our Board of Directors, management team, and employees from running our business and maximizing performance. Such activist activities could also interfere with our ability to execute our strategic plan, disrupt the functioning of our Board of Directors, or negatively impact our ability to attract and retain qualified executive leadership or board members, who may be unwilling to serve with activist personnel. Uncertainty as to the impact of activist activities may also affect the market price and volatility of our common stock.

**Our plan to separate into two independent publicly traded companies by means of the Spin-Off of our Cyber Intelligence Solutions business is subject to various risks and uncertainties and may not be completed in accordance with the expected plans or anticipated timeline, or at all, and will involve significant time, expense, and distraction, which could disrupt or adversely affect our business.**

On December 4, 2019, we announced plans to separate into two independent publicly traded companies by means of a proposed Spin-Off of our Cyber Intelligence Solutions business. In the Spin-Off, we will distribute shares of a company holding our Cyber Intelligence Solutions business to our stockholders.

The Spin-Off, which is currently expected to be completed shortly after the end of our fiscal year ending January 31, 2021, is subject to certain conditions, including final approval by our Board of Directors, as well as other conditions such as completion of all necessary filings under the U.S. securities laws; receipt by our Board of Directors of one or more opinions from an independent valuation firm confirming the solvency and financial viability of each of our Cyber Intelligence Solutions business and Customer Engagement Solutions business immediately after the completion of the distribution in a form acceptable to us; receipt of an opinion regarding the qualification of the distribution as a transaction that is generally tax-free for U.S. federal income tax purposes under Section 355 of the Internal Revenue Code to our stockholders; the absence of any legal impediments prohibiting the distribution; and the satisfaction or waiver of certain conditions. The failure to satisfy all of the required conditions could delay the completion of the Spin-Off for a significant period of time or prevent it from occurring at all.

Unanticipated developments, including changes in the competitive conditions of our markets, possible delays in obtaining various tax opinions or rulings, negotiating challenges, the uncertainty of the financial markets, changes in the law, and challenges in executing the separation of the two businesses, could delay or prevent the completion of the Spin-Off, or cause the Spin-Off to occur on terms or conditions that are different or less favorable than expected. Any changes to the Spin-Off or delay in completing the Spin-Off could cause us not to realize some or all of the expected benefits, or realize them on a different timeline than expected. Further, our Board of Directors could decide, either because of a failure of conditions or because of market or other factors, to abandon the Spin-Off. No assurance can be given as to whether and when the Spin-Off will occur.

Executing the Spin-Off will require significant time and attention from our senior management and employees, which could adversely affect our business, financial results, and results of operations, as a result of distraction due to the project or insufficient bandwidth or resources. We may also experience increased difficulties in attracting, retaining, and motivating employees during the pendency of the Spin-Off and following its completion, which could harm our business.

We have incurred expenses in connection with the Spin-Off, and expect that the process of completing the Spin-Off will be time-consuming and involve significant additional costs and expenses, which may not yield a discernible benefit if the Spin-Off is not completed. In addition, if the Spin-Off is not completed, we will still be required to pay certain costs and expenses incurred in connection therewith, such as legal, accounting, and other professional fees.

Any of the above factors could cause the Spin-Off (or the failure to execute the Spin-Off) to have a material adverse effect on our business, financial condition and results of operations and the price of our common stock.

**The Spin-Off may not achieve the anticipated benefits and will expose us to new risks.**

We may not realize the anticipated strategic, financial, operational, or other benefits from the Spin-Off. We cannot predict with certainty when the benefits expected from the Spin-Off will occur or the extent to which they will be achieved. If the Spin-Off is completed, our operational and financial profile will change and we will face new risks. As independent, publicly traded companies, our Cyber Intelligence Solutions business and Customer Engagement Solutions business will each be smaller, less-diversified companies and may be more vulnerable to changing market conditions. There is no assurance that following the Spin-Off each separate company will be successful. The announcement and/or completion of the Spin-Off may cause uncertainty for or disruptions with our customers, partners, suppliers, and employees, which may negatively impact these relationships or our operations.

The announcement and/or completion of the Spin-Off may cause some investors to sell shares of the Company or of one or both of the resulting companies creating greater volatility in the trading of the shares of such companies and potentially causing their market prices to decline. We expect the trading price of our common stock immediately following the ex-dividend date for the Spin-Off to be significantly lower than immediately preceding the ex-dividend date, as the trading price of our common stock will no longer reflect the value of our Cyber Intelligence Solutions business. Further, there can be no assurance that the combined value of the shares of the two resulting companies will be equal to or greater than what the value of our common stock would have been had the proposed Spin-Off not occurred.

**Assuming the completion of the investment by an affiliate of Apax Partners in our preferred stock, Apax will own a substantial portion of our equity and its interests may not be aligned with yours.**

Apax will own approximately 5% of our common stock assuming completion of the Series A convertible preferred stock investment and between 11.5% and 15% of our common stock assuming the completion of the Series B convertible preferred stock investment, in each case on an as-converted basis. Additionally, we have agreed to increase the size of our board of directors, giving Apax the right to designate one director at the closing of the Series A convertible preferred stock investment and the right to mutually select with us a second independent director following the closing of the Series B convertible preferred stock investment. Circumstances may occur in which the interests of Apax could conflict with the interests of our other stockholders. For example, the existence of Apax as a significant stockholder and Apax's board appointment rights may have the effect of limiting the ability of our other stockholders to approve transactions that they may deem to be in the best interests of the Company.

**The investment agreement relating to the investment by an affiliate of Apax Partners contains a number of closing conditions and, if these conditions are not satisfied, the Apax investment may not be completed.**

The investment agreement relating to the Apax investment (the "Investment Agreement") contains a number of closing conditions and, if these conditions are not satisfied or waived (to the extent permitted by law), all or a portion of the Apax investment may not be completed. The conditions, in respect of the purchase of \$200 million of our Series A convertible preferred stock, include no temporary or permanent judgment of a governmental authority restraining, enjoining or prohibiting the investment having been issued, required government authorizations having been obtained (or applicable waiting periods having expired), the representations and warranties of the parties in the Investment Agreement being true and correct (in some instances, in all material respects) and no "Material Adverse Effect" (as defined in the Investment Agreement) having occurred. The conditions, in respect of the purchase of up to \$200 million of our Series B convertible preferred stock, include each of the conditions in respect of the Series A convertible preferred stock as well as receipt by our Board of Directors of an opinion regarding the qualification of the Spin-Off distribution as a transaction that is generally tax-free for U.S. federal income tax purposes under Section 355 of the Internal Revenue Code, the Spin-Off having been consummated and the respective enterprise values of the Customer Engagement Solutions and Cyber Intelligence Solutions businesses being within a collar specified in the Investment Agreement. The conditions to either of the purchases may not be satisfied and, accordingly, all or a portion of the Apax investment may not be completed. If that were to occur, we may not realize the anticipated benefits of the Apax investment.

## **Item 1B. Unresolved Staff Comments**

None.

## **Item 2. Properties**

The following describes our material properties as of the date of this report.

We lease a total of approximately 1,120,000 square feet of office space covering approximately 75 offices around the world and we own an aggregate of approximately 79,000 square feet of office space at three sites in Scotland, Germany, and Indonesia.

Other than as described below, these properties are comprised of small and mid-sized facilities that are used to support our administrative, marketing, manufacturing, product development, sales, training, support, and services needs for our two operating segments.

Our corporate headquarters is located in a leased facility in Melville, New York, and consists of approximately 49,000 square feet of space under a lease that we entered into on February 13, 2015 and that expires in 2027. The Melville facility is used



primarily by our executive management and corporate groups, including finance, legal, and human resources, as well as for customer support and services for our Customer Engagement operations.

We lease approximately 133,000 square feet of space at a facility in Alpharetta, Georgia under a lease that expires in 2026. The Alpharetta facility is used primarily by the administrative, marketing, product development, support, and sales groups for our Customer Engagement operations.

We also occupy approximately 176,000 square feet of space at our main facility in Herzliya, Israel under a lease that we renewed on October 1, 2015 and that expires in 2025. This Herzliya facility is used primarily for manufacturing, storage, development, sales, marketing, and support related to our Cyber Intelligence operations.

From time to time, we may lease or sublease portions of our owned or leased facilities to third parties based on our operational needs. For additional information regarding our lease obligations, see Note 15, “Leases” to our consolidated financial statements included under Item 8 of this report.

We believe that our leased and owned facilities are in good operating condition and are adequate for our current requirements, although changes in our business may require us to acquire additional facilities or modify existing facilities. We believe that alternative locations are available on commercially reasonable terms in all areas where we currently do business.

### **Item 3. Legal Proceedings**

In March 2009, one of our former employees, Ms. Orit Deutsch, commenced legal actions in Israel against our primary Israeli subsidiary, Verint Systems Limited (“VSL”) (Case Number 4186/09) and against our affiliate CTI (Case Number 1335/09). Also in March 2009, a former employee of Comverse Limited (CTI’s primary Israeli subsidiary at the time), Ms. Roni Katriel, commenced similar legal actions in Israel against Comverse Limited (Case Number 3444/09). In these actions, the plaintiffs generally sought to certify class action suits against the defendants on behalf of current and former employees of VSL and Comverse Limited who had been granted stock options in Verint and/or CTI and who were allegedly damaged as a result of a suspension on option exercises during an extended filing delay period that is discussed in our and CTI’s historical public filings. On June 7, 2012, the Tel Aviv District Court, where the cases had been filed or transferred, allowed the plaintiffs to consolidate and amend their complaints against the three defendants: VSL, CTI, and Comverse Limited.

On October 31, 2012, CTI distributed all of the outstanding shares of common stock of Comverse, Inc., its principal operating subsidiary and parent company of Comverse Limited, to CTI’s shareholders (the “Comverse Share Distribution”). In the period leading up to the Comverse Share Distribution, CTI either sold or transferred substantially all of its business operations and assets (other than its equity ownership interests in Verint and in its then-subsubsidiary, Comverse, Inc.) to Comverse, Inc. or to unaffiliated third parties. As the result of these transactions, Comverse, Inc. became an independent company and ceased to be affiliated with CTI, and CTI ceased to have any material assets other than its equity interests in Verint. Prior to the completion of the Comverse Share Distribution, the plaintiffs sought to compel CTI to set aside up to \$150.0 million in assets to secure any future judgment, but the District Court did not rule on this motion. In February 2017, Mavenir Inc. became successor-in-interest to Comverse, Inc.

On February 4, 2013, Verint acquired the remaining CTI shell company in a merger transaction (the “CTI Merger”). As a result of the CTI Merger, Verint assumed certain rights and liabilities of CTI, including any liability of CTI arising out of the foregoing legal actions. However, under the terms of a Distribution Agreement entered into in connection with the Comverse Share Distribution, we, as successor to CTI, are entitled to indemnification from Comverse, Inc. (now Mavenir) for any losses we may suffer in our capacity as successor to CTI related to the foregoing legal actions.

Following an unsuccessful mediation process, on August 28, 2016, the District Court (i) denied the plaintiffs’ motion to certify the suit as a class action with respect to all claims relating to Verint stock options and (ii) approved the plaintiffs’ motion to certify the suit as a class action with respect to claims of current or former employees of Comverse Limited (now part of

Mavenir) or of VSL who held unexercised CTI stock options at the time CTI suspended option exercises. The court also ruled that the merits of the case would be evaluated under New York law.

As a result of this ruling (which excluded claims related to Verint stock options from the case), one of the original plaintiffs in the case, Ms. Deutsch, was replaced by a new representative plaintiff, Mr. David Vaaknin. CTI appealed portions of the District Court's ruling to the Israeli Supreme Court. On August 8, 2017, the Israeli Supreme Court partially allowed CTI's appeal and ordered the case to be returned to the District Court to determine whether a cause of action exists under New York law based on the parties' expert opinions.

Following a second unsuccessful round of mediation in mid to late 2018, the proceedings resumed. The plaintiffs have filed a motion to amend the class certification motion and CTI has filed a corresponding motion to dismiss and a response. These motions are now before the court following a third unsuccessful round of mediation in mid-2019.

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.

#### **Item 4. Mine Safety Disclosures**

Not applicable.



## **PART II**

### **Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities**

#### **Market Information**

Our common stock trades on the NASDAQ Global Select Market under the symbol “VRNT”.

#### **Holders**

There were approximately 1,690 holders of record of our common stock at March 16, 2020. Such record holders include holders who are nominees for an undetermined number of beneficial owners.

#### **Dividends**

We have not declared or paid any cash dividends on our equity securities and have no current plans to pay any dividends on our equity securities, except as may be required by the terms of any preferred equity securities we may issue. We intend to retain our earnings to finance the development of our business, repay debt, and for other corporate purposes. Any future determination as to the payment of dividends on our common stock will be made by our board of directors at its discretion, subject to the limitations contained in our 2017 Credit Agreement and the terms of any preferred equity securities we may issue, and will depend upon our earnings, financial condition, capital requirements, and other relevant factors.

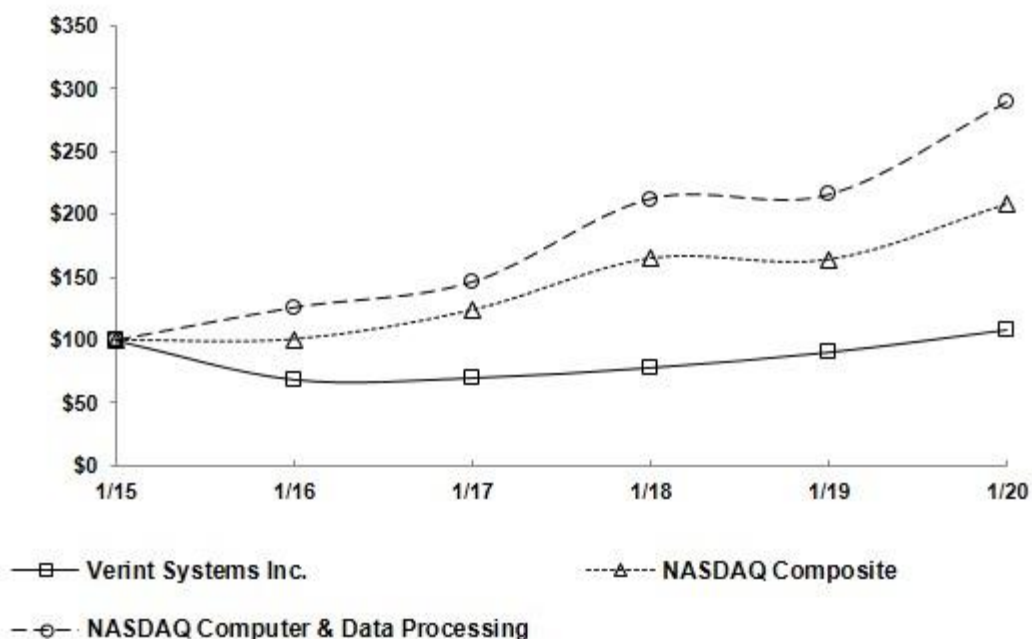
For equity compensation plan information, please refer to Item 12 in Part III of this Annual Report.

#### **Stock Performance Graph**

The following table compares the cumulative total stockholder return on our common stock with the cumulative total return on the NASDAQ Composite Index and the NASDAQ Computer & Data Processing Services Index, assuming an investment of \$100 on January 31, 2015 through January 31, 2020, and the reinvestment of any dividends. The comparisons in the graph below are based upon the closing sale prices on NASDAQ for our common stock from January 31, 2015 through January 31, 2020. This data is not indicative of, nor intended to forecast, future performance of our common stock.

## COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among Verint Systems Inc., the NASDAQ Composite Index and the NASDAQ Computer & Data Processing Index



\*\$100 invested on 1/31/15 in stock or index, including reinvestment of dividends.  
Fiscal year ending January 31.

January 31,	2015	2016	2017	2018	2019	2020
Verint Systems Inc.	\$ 100.00	\$ 68.58	\$ 69.97	\$ 78.21	\$ 90.61	\$ 108.65
NASDAQ Composite Index	\$ 100.00	\$ 100.70	\$ 124.09	\$ 165.58	\$ 164.45	\$ 208.91
NASDAQ Computer & Data Processing Index	\$ 100.00	\$ 125.86	\$ 146.18	\$ 212.25	\$ 215.53	\$ 289.19

*Note: This graph shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section nor shall it be deemed incorporated by reference in any filing under the Securities Act or the Exchange Act, regardless of any general incorporation language in such filing.*

### Recent Sales of Unregistered Securities

None.

### Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On December 4, 2019, we announced that our board of directors had authorized a new share repurchase program whereby we may repurchase up to \$300 million of common stock over the period ending on February 1, 2021.

Share repurchase activity under this program during the three months ended January 31, 2020 was as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
November 1, 2019 - November 30, 2019	—	\$ —	—	\$ —
December 1, 2019 - December 31, 2019	1,406,644	\$ 53.17	1,406,644	\$ 225,100
January 1, 2020 - January 31, 2020	712,075	\$ 57.90	712,075	\$ 183,980
<b>Total</b>	<b>2,118,719</b>	<b>\$ 54.76</b>	<b>2,118,719</b>	<b>\$ 183,980</b>

(1) Represents the approximate weighted-average price paid per share.

From time to time, we have purchased treasury stock from directors, officers, and other employees to facilitate income tax withholding and payment requirements upon vesting of equity awards during Company-imposed trading blackout or lockup periods. There was no such activity during the three months ended January 31, 2020.

## Item 6. Selected Financial Data

The following selected consolidated financial data has been derived from our audited consolidated financial statements. The data below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under Item 7 and our consolidated financial statements and notes thereto included under Item 8 of this report.

Our historical results should not be viewed as indicative of results expected for any future period.

### Five-Year Selected Financial Highlights:

Consolidated Statements of Operations Data					
(in thousands, except per share data)	Year Ended January 31,				
	2020	2019	2018	2017	2016
Revenue	\$ 1,303,634	\$ 1,229,747	\$ 1,135,229	\$ 1,062,106	\$ 1,130,266
Operating income	\$ 87,856	\$ 114,235	\$ 48,630	\$ 17,366	\$ 67,852
Net income (loss)	\$ 35,683	\$ 70,220	\$ (3,454)	\$ (26,246)	\$ 22,228
Net income (loss) attributable to Verint Svstems Inc.	\$ 28,684	\$ 65,991	\$ (6,627)	\$ (29,380)	\$ 17,638
<b>Net income (loss) per share attributable to Verint Svstems Inc.:</b>					
Basic	\$ 0.43	\$ 1.02	\$ (0.10)	\$ (0.47)	\$ 0.29
Diluted	\$ 0.43	\$ 1.00	\$ (0.10)	\$ (0.47)	\$ 0.28
<b>Weighted-average shares:</b>					
Basic	66,129	64,913	63,312	62,593	61,813
Diluted	67,355	66,245	63,312	62,593	62,921

We have never declared a cash dividend to common stockholders.

### Consolidated Balance Sheet Data

(in thousands)	January 31,				
	2020	2019	2018	2017	2016
Total assets	\$ 3,016,058	\$ 2,867,027	\$ 2,580,620	\$ 2,362,784	\$ 2,355,735
Long-term debt, including current maturities	\$ 837,048	\$ 782,128	\$ 772,984	\$ 748,871	\$ 738,087
Finance lease obligations, including current portions	\$ 9,917	\$ 4,282	\$ 4,350	\$ 68	\$ —
Total stockholders' equity	\$ 1,242,437	\$ 1,260,804	\$ 1,132,336	\$ 1,015,040	\$ 1,068,164

During the five-year period ended January 31, 2020, we acquired a number of businesses, the operating results of which have been included in our consolidated financial statements since their respective acquisition dates. Further details regarding our business combinations for the three years ended January 31, 2020 appear in Note 5, “Business Combinations and Divestitures” to our consolidated financial statements included under Item 8 of this report.

In addition to business combinations, our consolidated operating results and consolidated financial condition during the five-year period ended January 31, 2020 included the following other notable transactions and items:

As of and for the year ended January 31,	Description
2020	• Reflects our February 1, 2019 adoption of ASU No. 2016-02, <i>Leases (Topic 842)</i> , which resulted in the recognition of operating lease right-of-use assets of approximately \$100.4 million and lease liabilities for operating leases of approximately \$110.4 million on our consolidated balance sheet as of February 1, 2019.
2019	• Reflects our February 1, 2018 adoption of ASU No. 2014-09, <i>Revenue from Contracts with Customers (Topic 606)</i> using the modified retrospective approach. The comparative information has not been restated and continues to be reported under the accounting standards in effect for the periods presented.
2018	• Provisional deferred income tax expense of \$15.0 million related to withholding on foreign earnings which may be repatriated.

## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following management’s discussion and analysis of our financial condition and results of operations should be read in conjunction with “Business” under Item 1, “Selected Financial Data” under Item 6, and our consolidated financial statements and the related notes thereto included under Item 8 of 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 in “Risk Factors” under Item 1A of this report.

### Overview

#### Recent Developments

##### *Separation of Businesses*

On December 4, 2019, we announced our intention to separate into two independent publicly traded companies: one which will consist of our Customer Engagement Solutions business, and one which will consist of our Cyber Intelligence Solutions business. We expect to implement the separation through a pro-rata distribution of common stock of a new entity that will hold the Cyber Intelligence Solutions business to our stockholders (the “Spin-Off”) that is intended to be tax-free to our stockholders for U.S. federal income tax purposes. We expect to complete the Spin-Off shortly after the end of our fiscal year ending January 31, 2021. We believe the two independent, publicly traded companies will both benefit from the separation and be well-

positioned to pursue their own strategies, drive opportunities to accelerate growth and extend their market leadership. The separation will make it easier for investors to evaluate and make independent investment decisions in each business. We believe that both our businesses are leaders in their respective markets and the separation will enable them to achieve better performance over the long term as a result of several factors, including having; separate boards of directors with further differentiated skillsets to support tailored strategic plans; specific incentive programs more closely aligned with standalone business performance; capital structures tailored to the unique characteristics of each business; and enhanced appeal to a broader set of investors suited to the strategic and financial characteristics of each company.

We expect to incur significant costs in connection with the planned separation of our Cyber Intelligence Solutions business. The costs include developing stand-alone Cyber Intelligence Solutions information systems and related IT costs, third-party advisory, consulting, legal and professional services, as well as other items that are incremental and one-time in nature that are related to the planned Spin-Off. We capitalized \$4.0 million of these costs and expensed \$5.3 million for the year ended January 31, 2020. The expense portion is reflected in selling, general and administrative expenses.

#### *Apax Investment*

On December 4, 2019, we also announced that Valor Parent LP, an affiliate of Apax Partners will make an investment in us in an amount of up to \$400 million, subject to customary closing conditions including the receipt of required regulatory and government approvals. Refer to “Liquidity and Capital Resources-Overview” for more information.

#### *COVID-19 Pandemic*

During the fourth quarter ended January 31, 2020, concerns related to the spread of COVID-19 began to create global business disruptions as well as disruptions in our operations and to create potential negative impacts on our revenues and other financial results. COVID-19 was declared a pandemic by the World Health Organization on March 11, 2020. The extent to which COVID-19 will impact our financial condition or results of operations is currently uncertain and depends on factors including the impact on our customers, partners, and vendors and on the operation of the global markets in general. Because an increasing portion of our business is based on a subscription model, the effect of COVID-19 on our results of operations may also not be fully reflected for some time.

We are currently conducting business with substantial modifications to employee travel, employee work locations, virtualization or cancellation of customer and employee events, and remote sales, implementation, and support activities, among other modifications. These decisions may delay or reduce sales and harm productivity and collaboration. We have observed other companies and governments making similar alteration to their normal business operations, including restrictions imposed by our customers on our ability to access their sites for implementations and support, and in general, the markets are experiencing a significant level of uncertainty at the current time. The pandemic could have an adverse impact on demand for our customers’ products and services, which in turn, could negatively impact the willingness of our customers to enter into or renew contracts with us. The pandemic has impacted our ability to complete certain implementations, negatively impacting our ability to recognize revenue, and could also negatively impact the payment of accounts receivable and collections. We may take further actions that alter our business operations as the situation evolves. As a result, the ultimate impact of the COVID-19 pandemic and the effects of the operational alterations we have made in response on our business, financial condition, liquidity, and financial results cannot be predicted at this time.

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

Verint is a global leader in Actionable Intelligence solutions. In a world of massive information growth, our solutions empower organizations with crucial, actionable insights and enable decision makers to anticipate, respond, and take action. Today, over 10,000 organizations in more than 180 countries, including over 85 percent of the Fortune 100, use Verint’s Actionable Intelligence solutions, deployed in the cloud and on premises, to make more informed, timely, and effective decisions.

Our Actionable Intelligence leadership is powered by innovative, enterprise-class software built with artificial intelligence, analytics, automation, and deep domain expertise established by working closely with some of the most sophisticated and forward-thinking organizations in the world. We believe we have one of the industry's strongest R&D teams focused on actionable intelligence consisting of approximately one-third of our approximately 6,500 professionals. Our innovative solutions are backed-up by a strong IP portfolio with over 1,000 patents and patent applications worldwide across areas including data capture, artificial intelligence, machine learning, unstructured data analytics, predictive analytics, and automation.

Verint's Actionable Intelligence strategy is focused on two use cases and the Company has two operating segments: Customer Engagement and Cyber Intelligence. For each of the years ended January 31, 2020, 2019, and 2018, our Customer Engagement segment represented approximately 65% of our total revenue, while for each of those same years, our Cyber Intelligence segment represented approximately 35% of our total revenue. Generally, we make business decisions by evaluating the risks and rewards of the opportunities available to us in the markets served by each of our segments. We view each operating segment differently and allocate capital, personnel, resources, and management attention accordingly. In reviewing each operating segment, we also review the performance of that segment by geography. Our marketing and sales strategies, expansion opportunities, and product offerings may differ materially within a particular segment geographically, as may our allocation of resources between segments. When making decisions regarding investments in our business, capital expenditures, or other decisions that may affect our profitability, we also consider the leverage ratio in our revolving credit facility. See "Liquidity and Capital Resources" for more information.

### ***Key Trends and Factors That May Impact our Performance***

We see the following business trends and factors which may impact our performance:

#### ***Customer Engagement***

- **Digital Transformation.** Many organizations are going through digital transformations by expanding their customer service interactions to include digital channels, such as chat, virtual assistants, mobile apps and social media. While these new channels make it easier for consumers to connect, they caused organizations increased system complexity and new challenges. In many cases these new customer touch points reside in different functional groups and are not connected, resulting in siloed information, a decentralized customer service workforce and difficulty gaining insight into customer experiences. To facilitate effective digital transformations, organizations are looking for vendors that help them to connect silos across the enterprise, take proactive action to improve customer experience and facilitate open and modular design to simplify integration across systems.
- **Cloud Migration.** Many organizations are looking to modernize their legacy customer engagement operations by transitioning to the cloud, adopting modern architectures that facilitate the orchestration of disparate systems and the sharing of data across enterprise functions. Organizations which are at different stages of migrating to the cloud and other modernization initiatives are also looking for vendors that can help them evolve customer engagement at their own pace while protecting their legacy investments with minimal disruption to their operations.
- **Automation Adoption.** Many organizations are seeking solutions that incorporate artificial intelligence and analytics to reduce manual work and increase workforce efficiency through automation. They also seek to empower their customers with self-service backed by AI-powered bots and human/bot collaboration, to elevate the customer experience in a fast, personalized way.

#### ***Cyber Intelligence***

- **Security Threats Becoming Increasingly Pervasive and Complex.** Governments, critical infrastructure providers, and enterprises face many types of security threats from criminal and terrorist organizations and foreign governments. Some of these security threats come from well-organized and well-funded organizations that utilize new and

increasingly sophisticated methods. As a result, security and intelligence organizations find it more difficult and complicated to detect, investigate and neutralize threats. Many of these organizations are seeking to deploy more advanced data mining solutions that generate predictive intelligence and accelerate investigations by correlating massive amounts of data from a wide range of disparate sources to uncover previously unknown connections to identify suspicious behaviors and current and future threats.

- **Shortage of Security Analysts Increasing the Need for Automation.** Security organizations are using data mining solutions to help conduct investigations and generate actionable insights. Typically, data mining solutions require security organizations to employ analysts and data scientists to operate them. However, there is a shortage of such qualified personnel globally leading to elongated investigations and increased risk that security threats go undetected or are not addressed. To overcome this challenge, many security organizations are seeking advanced data mining solutions that automate functions historically performed manually to improve the quality and speed of investigations. These organizations are also increasingly seeking artificial intelligence and other advanced data analysis tools to gain actionable intelligence faster with fewer analysts and data scientists.
- **Security Organizations Seeking Faster Innovation Through Open Software Solutions.** As security threats have become more pervasive and complex, security organizations have been seeking faster innovation from security vendors. Historically, security organizations purchased customized solutions incorporating software, hardware and integration services. This project-based approach resulted in closed systems, limiting the pace of innovation as upgrades were complex, costly and time consuming. Today, we see a growing preference to purchase software solutions that are open and can run on standard hardware, that are faster and easier to deploy, and that can be refreshed more quickly to keep up with the accelerating pace of evolving threats.

See Item 1, “Business”, of this report for more information on key trends that we believe are driving demand for our solutions and “Risk Factors” under Item 1A of this report for a more complete description of risks that may impact future revenue and profitability. As discussed above, the current COVID-19 pandemic is also a material factor that may negatively impact us and demand for our solutions.

## Critical Accounting Policies and Estimates

An appreciation of our critical accounting policies is necessary to understand our financial results. The accounting policies outlined below are considered to be critical because they can materially affect our operating results and financial condition, as these policies may require us to make difficult and subjective judgments regarding uncertainties. The accuracy of these estimates and the likelihood of future changes depend on a range of possible outcomes and a number of underlying variables, many of which are beyond our control, and there can be no assurance that our estimates are accurate.

### *Revenue Recognition*

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, initial and renewal support, project management, hosting services, bundled SaaS, optional managed services, product warranties, business advisory consulting and training services. We recognize revenue when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. We generate all of our revenue from contracts with customers.

We account for revenue in accordance with Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our revenue recognition policies require us to make significant judgments and estimates. In applying our revenue recognition policy, we must determine which portions of our revenue are recognized at a point in time (generally product revenue) and which portions must be deferred and recognized over time (generally services and support revenue). We



analyze various factors including, but not limited to, the selling price of undelivered services when sold on a stand-alone basis, our pricing policies, the creditworthiness of our customers, and contractual terms and conditions in helping us to make such judgments about revenue recognition. Changes in judgment on any of these factors could materially impact the timing and amount of revenue recognized in a given period.

Our contracts with customers often include promises to transfer multiple products and services to a customer. In contracts with multiple performance obligations, we identify each performance obligation and evaluate whether the performance obligations are distinct within the context of the contract at contract inception. Performance obligations that are not distinct at contract inception are combined. Contracts that include software customization may result in the combination of the customization services with the software license as one distinct performance obligation. The transaction price is generally in the form of a fixed fee at contract inception, and excludes taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by us from a customer.

We allocate the transaction price to each distinct performance obligation based on the estimated standalone selling price (“SSP”) for each performance obligation. Judgment is required to determine the SSP for each distinct performance obligation. In instances where SSP is not directly observable, such as when we do not sell the product or service separately, we estimate the SSP of each performance obligation based on either a cost-plus-margin approach or an adjusted market assessment approach. We may have more than one SSP for individual products and services due to the stratification of those products and services by customers and circumstances. In these instances, we may use information such as the size of the customer and geographic region in determining the SSP.

We then look to how control transfers to the customer in order to determine the timing of revenue recognition. Software license revenue is typically recognized when the software is delivered and/or made available for download as this is the point the user of the software can direct the use of, and obtain substantially all of the remaining benefits from the functional intellectual property. We do not recognize software revenue related to the renewal of software licenses earlier than the beginning of the renewal period. In contracts that include customer acceptance, we recognize revenue when we have delivered the software and received customer acceptance. We recognize support revenue, which includes software updates on a when-and-if-available basis, telephone support, and bug fixes or patches, over the term of the customer support agreement, which is typically one year. Revenue related to professional services and customer education services is typically recognized as the services are performed.

Some of our customer contracts require significant customization of the software to meet the particular requirements specified by each customer. The contract pricing is stated as a fixed amount and generally results in the transfer of control of the applicable performance obligation over time. We recognize revenue based on the proportion of labor hours expended to the total hours expected to complete the performance obligation. The determination of the total labor hours expected to complete the performance obligation on fixed fee contracts involves significant judgment. We incorporate revisions to hour and cost estimates when the causal facts become known. We measure our estimate of completion on fixed-price contracts, which in turn determines the amount of revenue we recognize, based primarily on actual hours incurred to date and our estimate of remaining hours necessary to complete the contract.

Our products are generally not sold with a right of return and credits and incentives granted have been minimal in both amount and frequency. Shipping and handling activities that are billed to customers and occur after control over a product has transferred to a customer are accounted for as fulfillment costs and are included in cost of revenue. Historically, these expenses have not been material.

### ***Accounting for Business Combinations***

We allocate the purchase price of acquired companies to the tangible and intangible assets acquired, including in-process research and development assets, and liabilities assumed, based upon their estimated fair values at the acquisition date. These fair values are typically estimated with assistance from independent valuation specialists. The purchase price allocation process

requires us to make significant estimates and assumptions, especially at the acquisition date with respect to intangible assets, contractual support obligations assumed, contingent consideration arrangements, and pre-acquisition contingencies.

Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and are inherently uncertain.

Examples of critical estimates in valuing certain of the intangible assets we have acquired or may acquire in the future include but are not limited to:

- future expected cash flows from software license sales, support agreements, consulting contracts, other customer contracts, and acquired developed technologies;
- expected costs to develop in-process research and development into commercially viable products and estimated cash flows from the projects when completed;
- the acquired company's brand and competitive position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company's product portfolio;
- cost of capital and discount rates; and
- estimating the useful lives of acquired assets as well as the pattern or manner in which the assets will amortize.

In connection with the purchase price allocations for applicable acquisitions, we estimate the fair value of the contractual support obligations we are assuming from the acquired business. The estimated fair value of the support obligations is determined utilizing a cost build-up approach, which determines fair value by estimating the costs related to fulfilling the obligations plus a reasonable profit margin. The estimated costs to fulfill the support obligations are based on the historical direct costs related to providing the support services. The sum of these costs and operating profit represents an approximation of the amount that we would be required to pay a third party to assume the support obligations.

### ***Goodwill and Other Intangible Assets***

We test goodwill for impairment at the reporting unit level, which can be an operating segment or one level below an operating segment, on an annual basis as of November 1, or more frequently if changes in facts and circumstances indicate that impairment in the value of goodwill may exist. As of January 31, 2020, our reporting units are Customer Engagement, Cyber Intelligence (excluding situational intelligence solutions), and Situational Intelligence, which is a component of our Cyber Intelligence operating segment.

In testing for goodwill impairment, we may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we elect to bypass a qualitative assessment, or if our qualitative assessment indicates that goodwill impairment is more likely than not, we perform quantitative impairment testing. If our quantitative testing determines that the carrying value of a reporting unit exceeds its fair value, goodwill impairment is recognized in an amount equal to that excess, limited to the total goodwill allocated to that reporting unit.

For reporting units where we decide to perform a qualitative assessment, we assess and make judgments regarding a variety of factors which potentially impact the fair value of a reporting unit, including general economic conditions, industry and market-specific conditions, customer behavior, cost factors, our financial performance and trends, our strategies and business plans, capital requirements, management and personnel issues, and our stock price, among others. We then consider the totality of these and other factors, placing more weight on the events and circumstances that are judged to most affect a reporting unit's fair value or the carrying amount of its net assets, to reach a qualitative conclusion regarding whether it is more likely than not that the fair value of a reporting unit exceeds its carrying amount.

For reporting units where we perform quantitative impairment testing, we utilize one or more of three primary approaches to assess fair value: (a) an income-based approach, using projected discounted cash flows, (b) a market-based approach, using valuation multiples of comparable companies, and (c) a transaction-based approach, using valuation multiples for recent acquisitions of similar businesses made in the marketplace.

Our estimate of fair value of each reporting unit is based on a number of subjective factors, including: (a) appropriate consideration of valuation approaches (income approach, comparable public company approach, and comparable transaction approach), (b) estimates of future growth rates, (c) estimates of our future cost structure, (d) discount rates for our estimated cash flows, (e) selection of peer group companies for the comparable public company and the comparable transaction approaches, (f) required levels of working capital, (g) assumed terminal value, and (h) time horizon of cash flow forecasts.

The determination of reporting units also requires judgment. We assess whether a reporting unit exists within a reportable segment by identifying the unit, determining whether the unit qualifies as a business under GAAP, and assessing the availability and regular review by segment management of discrete financial information for the unit.

We review intangible assets that have finite useful lives and other long-lived assets when an event occurs indicating the potential for impairment. If any indicators are present, we perform a recoverability test by comparing the sum of the estimated undiscounted future cash flows attributable to the assets in question to their carrying amounts. If the undiscounted cash flows used in the test for recoverability are less than the long-lived assets carrying amount, we determine the fair value of the long-lived asset and recognize an impairment loss if the carrying amount of the long-lived asset exceeds its fair value. The impairment loss recognized is the amount by which the carrying amount of the long-lived asset exceeds its fair value.

For all of our goodwill and other intangible asset impairment reviews, the assumptions and estimates used in the process are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy or our internal forecasts. Although we believe the assumptions, judgments, and estimates we have used in our assessments are reasonable and appropriate, a material change in any of our assumptions or external factors could lead to future goodwill or other intangible asset impairment charges.

Based upon our November 1, 2019 quantitative goodwill impairment review of each reporting unit, we concluded that the estimated fair values of our Customer Engagement, Cyber Intelligence, and Situational Intelligence reporting units significantly exceeded their carrying values. Our Customer Engagement, Cyber Intelligence, and Situational Intelligence reporting units carried goodwill of \$1.3 billion, \$136.0 million, and \$22.2 million, respectively, at January 31, 2020.

### ***Income Taxes***

We account for income taxes under the asset and liability method, which includes the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in our consolidated financial statements. Under this approach, deferred taxes are recorded for the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus deferred taxes. Deferred taxes result from differences between the financial statement and tax bases of our assets and liabilities, and are adjusted for changes in tax rates and tax laws when changes are enacted. The effects of future changes in income tax laws or rates are not anticipated.

We are subject to income taxes in the United States and numerous foreign jurisdictions. The calculation of our income tax provision involves the application of complex tax laws and requires significant judgment and estimates. On December 22, 2017, the 2017 Tax Act was enacted in the United States. The 2017 Tax Act significantly revised the Internal Revenue Code and it included fundamental changes to taxation of U.S. multinational corporations. Compliance with the 2017 Tax Act requires significant complex computations not previously required by U.S. tax law.

We evaluate the realizability of our deferred tax assets for each jurisdiction in which we operate at each reporting date, and we establish a valuation allowance when it is more likely than not that all or a portion of our deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income of the same character and in the same jurisdiction. We consider all available positive and negative evidence in making this assessment, including, but not limited to, the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies. In circumstances where there is sufficient negative evidence indicating that our deferred tax assets are not more likely than not realizable, we establish a valuation allowance.

We use a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate tax positions taken or expected to be taken in a tax return by assessing whether they are more likely than not sustainable, based solely on their technical merits, upon examination, and including resolution of any related appeals or litigation process. The second step is to measure the associated tax benefit of each position as the largest amount that we believe is more likely than not realizable. Differences between the amount of tax benefits taken or expected to be taken in our income tax returns and the amount of tax benefits recognized in our financial statements represent our unrecognized income tax benefits, which we either record as a liability or as a reduction of deferred tax assets. Our policy is to include interest (expense and/or income) and penalties related to unrecognized income tax benefits as a component of the provision for income taxes.

### ***Accounting for Stock-Based Compensation***

We recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of the award.

During the three-year period ended January 31, 2020, restricted stock units were our predominant stock-based payment award. The fair value of these awards is equivalent to the market value of our common stock on the grant date.

We periodically award restricted stock units to executive officers and certain employees that vest upon the achievement of specified performance goals or market conditions. The recognition of the compensation costs of the performance-based awards with performance goals requires an assessment of the probability that the specified performance criteria will be achieved. At each reporting date, we update our assessment of the probability that the specified performance criteria will be achieved and adjust our estimate of the fair value of the award, if necessary. For the performance-based awards with market conditions, the condition is incorporated into the grant date fair value valuation of the award and compensation costs are recognized even if the market condition is not satisfied.

Changes in assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense recognized. The assumptions we use in calculating the fair value of stock-based payment awards represent our best estimates, which involve inherent uncertainties and the application of judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

### **Results of Operations**

The following discussion includes a comparison of our results of operations and liquidity and capital resources for the years ended January 31, 2020 and 2019. A discussion regarding our financial condition and results of operations for the year ended January 31, 2019 compared to the year ended January 31, 2018 can be found under Item 7 in our Annual Report on Form 10-K for the fiscal year ended January 31, 2019, filed with the SEC on March 28, 2019, which is hereby incorporated by reference herein and considered part of this Annual Report on Form 10-K only to the extent referenced and is available free of charge on the SEC's website at [www.sec.gov](http://www.sec.gov) and our website at [www.verint.com/investor-relations](http://www.verint.com/investor-relations).

### ***Seasonality and Cyclicity***

As is typical for many software and technology companies, our business is subject to seasonal and cyclical factors. In most years, 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, in some years, 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 years ended January 31, 2020, 2019, and 2018:

(in thousands, except per share data)	Year Ended January 31,		
	2020	2019	2018
Revenue	\$ 1,303,634	\$ 1,229,747	\$ 1,135,229
Operating income	\$ 87,856	\$ 114,235	\$ 48,630
Net income (loss) attributable to Verint Systems Inc.	\$ 28,684	\$ 65,991	\$ (6,627)
Net income (loss) per common share attributable to Verint Systems Inc.:			
Basic	\$ 0.43	\$ 1.02	\$ (0.10)
Diluted	\$ 0.43	\$ 1.00	\$ (0.10)

*Year Ended January 31, 2020 compared to Year Ended January 31, 2019.* Our revenue increased approximately \$73.9 million, or 6%, from \$1,229.7 million in the year ended January 31, 2019 to \$1,303.6 million in the year ended January 31, 2020. The increase consisted of a \$73.7 million increase in service and support revenue and a \$0.2 million increase in product revenue. In our Customer Engagement segment, revenue increased approximately \$50.2 million, or 6%, from \$796.3 million in the year ended January 31, 2019 to \$846.5 million in the year ended January 31, 2020. The increase consisted of a \$48.5 million increase in service and support revenue and a \$1.7 million increase in product revenue. In our Cyber Intelligence segment, revenue increased approximately \$23.6 million, or 5%, from \$433.5 million in the year ended January 31, 2019 to \$457.1 million in the year ended January 31, 2020. The increase consisted of a \$25.1 million increase in service and support revenue, partially offset by a \$1.5 million decrease in product revenue. For additional details on our revenue by segment, see “— Revenue by Operating Segment”. Revenue in the Americas, EMEA, and APAC represented approximately 52%, 29%, and 19% of our total revenue, respectively, in the year ended January 31, 2020, compared to approximately 54%, 26%, and 20%, respectively, in the year ended January 31, 2019. Further details of changes in revenue are provided below.

Operating income was \$87.9 million in the year ended January 31, 2020 compared to \$114.2 million in the year ended January 31, 2019. This decrease in operating income was primarily due to an \$85.7 million increase in operating expenses, which primarily consisted of a \$62.7 million increase in selling, general and administrative expenses, a \$22.6 million increase in net research and development expenses, and a \$0.4 million increase in amortization of other acquired intangible assets, partially offset by a \$59.4 million increase in gross profit, reflecting increased gross profit in both of our segments and a decrease in amortization of acquired technology intangible assets. Further details of changes in operating income are provided below.

Net income attributable to Verint Systems Inc. was \$28.7 million, and diluted net income per common share was \$0.43, in the year ended January 31, 2020, compared to net income attributable to Verint Systems Inc. of \$66.0 million, and diluted net income per common share of \$1.00, in the year ended January 31, 2019. The decrease in net income attributable to Verint Systems Inc. and diluted net income per common share in the year ended January 31, 2020 was primarily due to a \$26.3 million decrease in operating income, as described above, a \$10.1 million increase in our provision for income taxes, and a \$2.8 million

increase in net income attributable to our noncontrolling interests, partially offset by a \$1.9 million decrease in total other expense, net. Further details of these changes 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 year ended January 31, 2020 to average exchange rates for the year ended January 31, 2019, the U.S. dollar strengthened relative to the euro, British pound sterling, Australian dollar, Brazilian real 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 year ended January 31, 2020, had foreign exchange rates remained unchanged from rates in effect for the year ended January 31, 2019, our revenue would have been approximately \$12.6 million higher and our cost of revenue and operating expenses on a combined basis would have been approximately \$9.6 million higher, which would have resulted in a \$3.0 million increase in operating income.

As of January 31, 2020, we employed approximately 6,500 professionals, including part-time employees and certain contractors, compared to approximately 6,100 at January 31, 2019.

### Revenue by Operating Segment

The following table sets forth revenue for each of our operating segments for the years ended January 31, 2020, 2019, and 2018:

(in thousands)	Year Ended January 31,			% Change	
	2020	2019	2018	2020 - 2019	2019 - 2018
Customer Engagement	\$ 846,525	\$ 796,287	\$ 740,067	6%	8%
Cyber Intelligence	457,109	433,460	395,162	5%	10%
<b>Total revenue</b>	<b>\$ 1,303,634</b>	<b>\$ 1,229,747</b>	<b>\$ 1,135,229</b>	<b>6%</b>	<b>8%</b>

### Customer Engagement Segment

*Year Ended January 31, 2020 compared to Year Ended January 31, 2019.* Customer Engagement revenue increased approximately \$50.2 million, or 6%, from \$796.3 million in the year ended January 31, 2019 to \$846.5 million in the year ended January 31, 2020. The increase consisted of a \$48.5 million increase in service and support revenue and a \$1.7 million increase in product revenue. The increase in service and support revenue was primarily driven by growth in recurring revenue as we continued to see positive demand from customers across our portfolio of cloud-based solutions and, to a lesser extent, an increase in support revenue. Our customers have indicated a preference for cloud-based solutions, including existing customers that are migrating from on premises to cloud-based offerings. Over time, we expect support revenue will continue to decrease as a percentage of total recurring revenue as we continue to focus on increasing cloud revenue as a key strategic priority. The increase in product revenue was primarily due to an increase in recurring revenue, as we recognized revenue on several large, multi-year unbundled SaaS contracts during the current period, and the recognition of a large nonrecurring license arrangement executed during the year ended January 31, 2020 with no comparable transaction in the prior period. Our product revenue can fluctuate from period to period, as some large contracts can represent a significant share of our product revenue for a given period. We expect our revenue mix to continue to shift to recurring sources, which is consistent with our cloud-first strategy and a general market shift from on premises to cloud solutions.

### Cyber Intelligence Segment

*Year Ended January 31, 2020 compared to Year Ended January 31, 2019.* Cyber Intelligence revenue increased approximately \$23.6 million, or 5%, from \$433.5 million in the year ended January 31, 2019 to \$457.1 million in the year ended January 31, 2020. The increase consisted of a \$25.1 million increase in service and support revenue, partially offset by a \$1.5 million decrease in product revenue. The increase in service and support revenue was primarily attributable to an increase in support and professional services revenue from existing customers. The decrease in product revenue was primarily due to a decrease in



product deliveries, including a reduction in pass-through hardware revenue, and the recognition of a long-term customization project in the year ended January 31, 2019 with no comparable transaction in the current period, partially offset by an increase in progress realized during the current period on long-term projects for which revenue is recognized over time using the percentage-of-completion (“POC”) method.

### ***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**

We derive and report our revenue in two categories: (a) product revenue, including licensing of software products, unbundled SaaS, 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, initial and renewal support, project management, hosting services, cloud deployments, bundled SaaS, optional managed services, product warranties, and business advisory consulting and training services.

The following table sets forth product revenue and service and support revenue for the years ended January 31, 2020, 2019, and 2018:

(in thousands)	Year Ended January 31,			% Change	
	2020	2019	2018	2020 - 2019	2019 - 2018
Product revenue	\$ 454,875	\$ 454,650	\$ 399,662	—%	14%
Service and support revenue	848,759	775,097	735,567	10%	5%
<b>Total revenue</b>	<b>\$ 1,303,634</b>	<b>\$ 1,229,747</b>	<b>\$ 1,135,229</b>	<b>6%</b>	<b>8%</b>

### ***Product Revenue***

*Year Ended January 31, 2020 compared to Year Ended January 31, 2019.* Product revenue increased approximately \$0.2 million, from \$454.7 million for the year ended January 31, 2019 to \$454.9 million for the year ended January 31, 2020, resulting from a \$1.7 million increase in our Customer Engagement segment and a \$1.5 million decrease in our Cyber Intelligence segment.

For additional information see “—Revenue by Operating Segment”.

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

*Year Ended January 31, 2020 compared to Year Ended January 31, 2019.* Service and support revenue increased approximately \$73.7 million, or 10%, from \$775.1 million for the year ended January 31, 2019 to \$848.8 million for the year ended January 31, 2020, resulting from a \$48.6 million increase in our Customer Engagement segment and a \$25.1 million increase in our Cyber Intelligence segment.

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 years ended January 31, 2020, 2019, and 2018:



(in thousands)	Year Ended January 31,			% Change	
	2020	2019	2018	2020 - 2019	2019 - 2018
Cost of product revenue	\$ 127,183	\$ 129,922	\$ 131,989	(2)%	(2)%
Cost of service and support revenue	312,599	293,888	276,582	6%	6%
Amortization of acquired technology	23,984	25,403	38,216	(6)%	(34)%
<b>Total cost of revenue</b>	<b>\$ 463,766</b>	<b>\$ 449,213</b>	<b>\$ 446,787</b>	<b>3%</b>	<b>1%</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, among others, 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. 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 Cyber 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.

As with many other technology companies, our software products tend to have higher gross margins than our hardware products, so the mix of products we sell in a particular period can have a significant impact on our gross margins in that period.

*Year Ended January 31, 2020 compared to Year Ended January 31, 2019.* Cost of product revenue decreased approximately \$2.7 million, or 2%, from \$129.9 million for the year ended January 31, 2019 to \$127.2 million for the year ended January 31, 2020, primarily due to decreased cost of product revenue in our Cyber Intelligence segment, driven primarily by a decrease in subcontractor costs, as a result of our investments in R&D to further productize our portfolio and, to a lesser extent, a reduction in the amount of pass-through hardware reselling activity. Our overall product gross margins increased from 71% in the year ended January 31, 2019 to 72% in the year ended January 31, 2020. Product gross margins in our Cyber Intelligence segment increased from 61% in the year ended January 31, 2019 to 64% in the year ended January 31, 2020 primarily due to a change in product mix, a decrease in product customization work that is not considered a separate performance obligation, and a reduction in the amount of pass-through hardware reselling activity. Cyber Intelligence product margins are subject to considerable fluctuation from period to period, based on the product mix sold. Product gross margins in our Customer Engagement segment were 84% in each of the years ended January 31, 2020 and 2019.

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

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

*Year Ended January 31, 2020 compared to Year Ended January 31, 2019.* Cost of service and support revenue increased approximately \$18.7 million, or 6%, from \$293.9 million in the year ended January 31, 2019 to \$312.6 million in the year ended January 31, 2020. The increase was primarily due to increased employee compensation and related expenses as a result of additional services employee headcount to support the delivery of our services and support revenue and an increase in data center and cloud costs associated with the increase in cloud revenue. Our overall service and support gross margins were 63% and 62% in the years ended January 31, 2020 and 2019, respectively.

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

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

*Year Ended January 31, 2020 compared to Year Ended January 31, 2019.* Amortization of acquired technology decreased approximately \$1.4 million, or 6%, from \$25.4 million in the year ended January 31, 2019 to \$24.0 million in the year ended January 31, 2020. The decrease was attributable to acquired technology intangible assets from historical business combinations becoming fully amortized during the year ended January 31, 2020, partially offset by amortization expense of acquired technology intangible assets associated with recent business combinations.

Further discussion regarding our business combinations appears in Note 5, “Business Combinations and Divestitures” to our consolidated financial statements included under Item 8 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 years ended January 31, 2020, 2019, and 2018:

(in thousands)	Year Ended January 31,			% Change	
	2020	2019	2018	2020 - 2019	2019 - 2018
Research and development, net	\$ 231,683	\$ 209,106	\$ 190,643	11%	10%

*Year Ended January 31, 2020 compared to Year Ended January 31, 2019.* Research and development, net increased approximately \$22.6 million, or 11%, from \$209.1 million in the year ended January 31, 2019 to \$231.7 million in the year ended January 31, 2020. The increase was primarily due to a \$18.8 million increase in employee compensation and related expenses as a result of increased investment in R&D headcount, a \$5.5 million increase in R&D contractor expenses primarily related to our Cyber Intelligence segment, a \$3.6 million increase in stock-based compensation expenses as a result of a change in R&D employee bonus payment structure, and a \$1.4 million increase in software subscription expenses related to internal-use software, partially offset by a \$9.0 million increase in capitalized software development costs in the year ended January 31, 2020 compared to the year ended January 31, 2019.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of personnel costs and related expenses, professional fees, changes in the fair values of our obligations under contingent consideration arrangements, sales and marketing expenses, including travel costs, 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 years ended January 31, 2020, 2019, and 2018:

(in thousands)	Year Ended January 31,			% Change	
	2020	2019	2018	2020 - 2019	2019 - 2018
Selling, general and administrative	\$ 488,871	\$ 426,183	\$ 414,960	15%	3%

*Year Ended January 31, 2020 compared to Year Ended January 31, 2019.* Selling, general and administrative expenses increased approximately \$62.7 million, or 15%, from \$426.2 million in the year ended January 31, 2019 to \$488.9 million in the year ended January 31, 2020. This increase was primarily attributable to a \$23.0 million increase in employee compensation expenses due to increased headcount as a result of recent acquisitions, a \$10.0 million increase in stock-based compensation

expenses due to a year-over-year increase in our stock price, an increase in the number of grant participants, and a change in employee bonus payment structure, a \$7.9 million increase in professional fees related to a shareholder proxy contest that was settled during the three months ended July 31, 2019, a \$5.3 million increase in professional fees related to the planned separation of our businesses (as discussed in “-Overview” above), a \$4.9 million increase in software subscription expenses related to internal-use software, a \$3.3 million increase in the use of contractors for corporate support activities, a \$2.9 million increase in depreciation expense on fixed assets used for general administration purposes, a \$2.8 million increase in facility expenses as a result of recent acquisitions, and a \$2.3 million loss recognized on the disposition of an insignificant business in our Customer Engagement segment. Selling, general, and administrative expenses were also impacted by a \$3.1 million increase due to the change in the fair value of our obligations under contingent consideration arrangements, from a net benefit of \$3.6 million in the year ended January 31, 2019 to a net benefit of \$0.5 million during the year ended January 31, 2020, as a result of revised outlooks for achieving the performance targets under several unrelated contingent consideration arrangements. These increases were partially offset by a \$4.4 million decrease in legal fees primarily associated with acquisition activity.

The impact of contingent consideration arrangements on our operating results can vary over time as we revise our outlook for achieving the performance targets underlying the arrangements. This impact on our operating results may be more significant in some periods than in others, depending on a number of factors, including the magnitude of the change in the outlook for each arrangement separately as well as the number of contingent consideration arrangements in place, the liabilities requiring adjustment in that period, and the net effect of those adjustments.

### Amortization of Other Acquired Intangible Assets

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

The following table sets forth amortization of other acquired intangible assets for the years ended January 31, 2020, 2019, and 2018:

(in thousands)	Year Ended January 31,			% Change	
	2020	2019	2018	2020 - 2019	2019 - 2018
Amortization of other acquired intangible assets	\$ 31,458	\$ 31,010	\$ 34,209	1%	(9)%

*Year Ended January 31, 2020 compared to Year Ended January 31, 2019.* Amortization of other acquired intangible assets increased approximately \$0.5 million, or 1%, from \$31.0 million in the year ended January 31, 2019 to \$31.5 million in the year ended January 31, 2020 as a result of an increase in amortization expense from acquired intangible assets from recent business combinations, partially offset by acquired customer-related intangible assets from historical business combinations becoming fully amortized during the year ended January 31, 2020.

Further discussion regarding our business combinations appears in Note 5, “Business Combinations and Divestitures” to our consolidated financial statements included under Item 8 of this report.

### Other Expense, Net

The following table sets forth total other expense, net for the years ended January 31, 2020, 2019, and 2018:

(in thousands)	Year Ended January 31,			% Change	
	2020	2019	2018	2020 - 2019	2019 - 2018
Interest income	\$ 5,620	\$ 4,777	\$ 2,477	18%	93%
Interest expense	(40,378)	(37,344)	(35,959)	8%	4%
Losses on early retirements of debt	—	—	(2,150)	—%	*
Other income (expense):					
Foreign currency (losses) gains	(56)	(5,519)	6,760	(99)%	(182)%
Gains (losses) on derivatives	599	2,511	(17)	(76)%	*
Other, net	(338)	(898)	(841)	(62)%	7%
Total other income (expense), net	205	(3,906)	5,902	(105)%	(166)%
<b>Total other expense, net</b>	<b>\$ (34,553)</b>	<b>\$ (36,473)</b>	<b>\$ (29,730)</b>	<b>(5)%</b>	<b>23%</b>

\* Percentage is not meaningful.

*Year Ended January 31, 2020 compared to Year Ended January 31, 2019.* Total other expense, net, decreased by \$1.9 million from \$36.5 million in the year ended January 31, 2019 to \$34.6 million in the year ended January 31, 2020.

Interest expense increased to \$40.4 million in the year ended January 31, 2020 from \$37.3 million in the year ended January 31, 2019 primarily due to higher interest rates on outstanding borrowings discussed in Note 7, “Long-term Debt” to our consolidated financial statements included under Item 8 of this report and a \$1.0 million reversal of accrued interest related to a legal matter which was settled in the year ended January 31, 2019.

We recorded insignificant net foreign currency losses in the year ended January 31, 2020 compared to \$5.5 million of net foreign currency losses in the year ended January 31, 2019. Our foreign currency gains and losses are primarily the result of the fluctuation of the U.S. dollar relative to other foreign currencies, mainly the British pound sterling, euro, Israeli shekel, Brazilian real, and Singapore dollar.

In the year ended January 31, 2020, there were net gains on derivative financial instruments (not designated as hedging instruments) of \$0.6 million, compared to \$2.5 million of net gains on such instruments for the year ended January 31, 2019. The net gains in the current period primarily reflected gains on contracts executed to hedge movements in the exchange rate between the U.S. dollar and the Singapore dollar.

## Provision for Income Taxes

The following table sets forth our provision for income taxes for the years ended January 31, 2020, 2019, and 2018:

(in thousands)	Year Ended January 31,		
	2020	2019	2018
Provision for income taxes	\$ 17,620	\$ 7,542	\$ 22,354

*Year Ended January 31, 2020 compared to Year Ended January 31, 2019.* Our effective income tax rate was 33.1% for the year ended January 31, 2020, compared to an effective income tax rate of 9.7% for the year ended January 31, 2019. For the year ended January 31, 2020, our effective income tax rate was higher than the U.S. federal statutory income tax rate of 21.0% primarily due to the impact of U.S. taxation of certain foreign activities of \$12.0 million, offset by a net tax benefit of \$6.7 million recorded in relation to changes in unrecognized income tax benefits and other items as a result of an audit settlement in a foreign jurisdiction, the mix and levels of income and losses among taxing jurisdictions, and other changes in unrecognized income tax benefits.

For the year ended January 31, 2019, our effective income tax rate was lower than the U.S. federal statutory income tax rate of 21.0% due to net reduction in valuation allowances of \$24.1 million, the mix and levels of income and losses among taxing jurisdictions, and changes in unrecognized income tax benefits. The net reduction in valuation allowances primarily related to reductions in U.S. valuation allowances as a result of deferred tax liabilities recorded in connection with business

combinations, and the utilization of significant NOLs, which reduced our deferred tax assets. As a result, we ended the year in a net federal deferred tax liability position in the U.S. The deferred income tax liabilities recorded in connection with business combinations were 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 business combination accounting.

In accordance with the provisions of SAB No. 118, as of January 31, 2018 we considered amounts related to the 2017 Tax Act to be reasonably estimated. During the year ended January 31, 2019, we refined and completed the accounting for the 2017 Tax Act as we obtained, prepared, and analyzed additional information and as additional legislative, regulatory, and accounting guidance and interpretations became available, resulting in no adjustment under SAB No. 118.

## **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.

On December 4, 2019, we announced that Valor Parent LP (the “Apax Investor”), an affiliate of Apax Partners (“Apax”) will make an investment in us in an amount of up to \$400 million, subject to customary closing conditions including the receipt of required regulatory and government approvals. Under the terms of the agreement, the Apax Investor will initially purchase \$200 million of our Series A convertible preferred stock, which is expected to occur during the first quarter of our fiscal year ending January 31, 2021, with an initial conversion price of \$53.50. The initial conversion price represents a conversion premium of 17.1% over the volume-weighted average price per share of our common stock over the 45 consecutive trading days immediately prior to the signing date. Assuming completion of the Spin-Off described above, the Series A convertible preferred stock will not participate in the Spin-Off distribution of the shares of the company holding the Company’s Cyber Intelligence Solutions business, and instead, the conversion price will be adjusted based on the ratio of the trading prices of the two companies over a short period following the Spin-Off, subject to a collar. Shortly following the Spin-Off, the Apax Investor will purchase, subject to certain conditions, up to \$200 million of Series B convertible preferred stock in the Company, as the entity holding the Customer Engagement Solutions business. The Series B convertible preferred stock will be convertible at a conversion price that is 100% of the average of the volume-weighted average price per share of the common stock for the 20 consecutive trading days immediately following the consummation of the Spin-Off, subject to a collar on the minimum and maximum enterprise value of the Company post consummation of the Spin-Off. Following the closing of the Series A investment, Apax’s ownership in us on an as-converted basis will be approximately 5%. Following completion of the Spin-Off and assuming the issuance of the Series B preferred stock, Apax’s ownership in us on an as-converted basis will be between 11.5% and 15%. The convertible preferred stock will pay dividends at an annual rate of 5.2% until the 48-month anniversary of the closing of the Series A preferred stock investment, and thereafter at a rate of 4.0%, subject to adjustment under certain circumstances. Dividends will be cumulative and payable semiannually in arrears in cash. All dividends that are not paid in cash will remain accumulated dividends with respect to each share of preferred stock. We intend to use the proceeds from the initial Apax investment in connection with the stock repurchase program (as described below under “Liquidity and Capital Resources Requirements”) that we announced on December 4, 2019, and for general corporate purposes.

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 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 currently sufficient to support our business operations, including debt

service, capital expenditure requirements, and in connection with the Apax investment described above, dividends on the convertible preferred stock.

On June 29, 2017, we entered into the 2017 Credit Agreement with certain lenders, and terminated a prior credit agreement. The 2017 Credit Agreement was amended on January 31, 2018 (the “2018 Amendment”). Further discussion of our 2017 Credit Agreement and 2018 Amendment 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 may finance such acquisitions using cash, debt, stock, or a combination of the foregoing, however, we have used cash as consideration for substantially all of our historical business acquisitions, including approximately \$74 million and \$90 million of net cash expended for business acquisitions during the years ended January 31, 2020 and 2019, respectively.

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 capital through the issuance of additional equity or the incurrence of additional debt.

A considerable portion of our operating income is earned outside the United States. Cash, cash equivalents, short-term investments, and restricted cash, cash equivalents, and bank time deposits (excluding any long-term portions) held by our subsidiaries outside of the United States were \$426.6 million and \$399.4 million as of January 31, 2020 and 2019, respectively, and are generally used to fund the subsidiaries’ operating requirements and to invest in growth initiatives, including business acquisitions. These subsidiaries also held long-term restricted cash and cash equivalents, and restricted bank time deposits of \$26.3 million and \$23.1 million at January 31, 2020 and 2019, respectively.

We currently intend to continue to indefinitely reinvest a portion of the earnings of our foreign subsidiaries, which, as a result of the 2017 Tax Act, may now be repatriated without incurring additional U.S. federal income taxes.

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. As noted above, we currently intend to indefinitely reinvest a portion of the earnings of our foreign subsidiaries to finance foreign activities. Except to the extent of the U.S. tax provided on earnings of our foreign subsidiaries as of January 31, 2020, and withholding taxes of \$15.0 million accrued as of January 31, 2020, with respect to certain identified cash that may be repatriated to the U.S., we have not provided tax on the outside basis difference of foreign subsidiaries nor have we provided for any additional withholding or other tax that may be applicable should a future distribution be made from any unremitted earnings of foreign subsidiaries. Due to complexities in the laws of the foreign jurisdictions and the assumptions that would have to be made, it is not practicable to estimate the total amount of income and withholding taxes that would have to be provided on such earnings.

The following table summarizes our total cash, cash equivalents, restricted cash, cash equivalents, and bank time deposits, and short-term investments, as well as our total debt, as of January 31, 2020 and 2019:

(in thousands)	January 31,	
	2020	2019
Cash and cash equivalents	\$ 379,146	\$ 369,975
Restricted cash and cash equivalents, and restricted bank time deposits (excluding long term portions)	43,860	42,262
Short-term investments	20,215	32,329
<b>Total cash, cash equivalents, restricted cash and cash equivalents, restricted bank time deposits, and short-term investments</b>	<b>\$ 443,221</b>	<b>\$ 444,566</b>
<b>Total debt, including current portions</b>	<b>\$ 837,048</b>	<b>\$ 782,128</b>

### *Capital Allocation Framework*



As noted above, after cash utilization required for working capital, capital expenditures, required debt service, and in connection with the Apax investment described above, dividends on the convertible preferred stock, we expect that our primary usage of cash will be for business combinations and the completion of our current stock repurchase program (including the repayment of any borrowings under our revolving credit facility used to fund the stock repurchase program). We will consider using any excess cash for additional share repurchases (subject to the terms of our 2017 Credit Agreement and convertible preferred stock to be issued in connection with the Apax investment) or to repay outstanding indebtedness.

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

The following table summarizes selected items from our consolidated statements of cash flows for the years ended January 31, 2020, 2019, and 2018:

(in thousands)	Year Ended January 31,		
	2020	2019	2018
Net cash provided by operating activities	\$ 237,904	\$ 215,251	\$ 176,327
Net cash used in investing activities	(125,801)	(175,723)	(146,194)
Net cash used in financing activities	(111,322)	(21,881)	(5,503)
Effect of foreign currency exchange rate changes on cash, cash equivalents, restricted cash, and restricted cash equivalents	(1,823)	(3,158)	4,251
<b>Net (decrease) increase in cash, cash equivalents, restricted cash, and restricted cash equivalents</b>	<b>\$ (1,042)</b>	<b>\$ 14,489</b>	<b>\$ 28,881</b>

Our operating activities generated \$237.9 million of cash during the year ended January 31, 2020, which was offset by \$237.1 million of net cash used in combined investing and financing activities during this period. Further discussion of these items appears below.

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

Net cash provided by operating activities is driven primarily by our net income or loss, as adjusted for non-cash items, and working capital changes. Operating activities generated \$237.9 million of net cash during the year ended January 31, 2020, compared to \$215.3 million generated during the year ended January 31, 2019. Our improved operating cash flow in the current year was primarily due to the net effect of changes in operating assets and liabilities, the net effect of non-cash items, and \$10.5 million of lower combined interest and net income tax payments, partially offset by lower net income, as compared to the prior year.

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 year ended January 31, 2020, our investing activities used \$125.8 million of net cash, including \$74.1 million of net cash utilized for business acquisitions, \$52.3 million of payments for property, equipment, and capitalized software development costs, of which \$4.0 million relates to the separation of our businesses as described above, and a \$14.2 million increase in restricted bank time deposits during the period. Restricted bank time deposits are typically deposits, which do not qualify as cash equivalents, used to secure bank guarantees in connection with sales contracts, the amounts of which will fluctuate from period to period. The cash used by these investing activities was partially offset by \$11.9 million of net maturities and sales of short-term investments and proceeds from settlements of our derivative financial instruments not designated as hedges.

During the year ended January 31, 2019, our investing activities used \$175.7 million of net cash, including \$90.0 million of net cash utilized for business acquisitions, \$39.0 million of payments for property, equipment, and capitalized software



development costs, \$25.9 million of net purchases of short-term investments, and a \$21.3 million increase in restricted bank time deposits during the period. The cash used by these investing activities was partially offset by proceeds from settlements of our derivative financial instruments not designated as hedges.

We had no significant commitments for capital expenditures at January 31, 2020.

### ***Net Cash Used in Financing Activities***

For the year ended January 31, 2020, our financing activities used \$111.3 million of net cash, the most significant portions of which were \$113.7 million of payments to repurchase treasury stock, \$24.5 million for the financing portion of payments under contingent consideration arrangements related to prior business combinations, payments of \$6.0 million related to deferred purchase price of a prior period business combination, \$6.5 million for repayments of borrowings and other financing obligations, and \$5.5 million of distributions and dividends to the noncontrolling shareholders of two of our subsidiaries. The cash used by these financing activities was partially offset by \$45.0 million of proceeds from borrowings under our revolving credit facility used to fund our stock repurchase program.

For the year ended January 31, 2019, our financing activities used \$21.9 million of net cash, the most significant portions of which were \$10.7 million for the financing portion of payments under contingent consideration arrangements related to prior business combinations, \$6.0 million for repayments of borrowings and other financing obligations, dividend payments of \$4.4 million to the noncontrolling interest holders in our joint venture, which serves as a systems integrator for certain Asian markets, and \$0.2 million paid for costs related to the 2017 Credit Agreement.

### ***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, in connection with the Apax investment described above, dividends on the convertible preferred stock, working capital needs, ordinary course capital expenditures, research and development spending, and other commitments for at least the next 12 months. Currently, we have no plans to pay any cash dividends on our common stock, which are subject to certain restrictions under our 2017 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 or increase our borrowings under our credit facility.

On March 29, 2016, we announced that our board of directors had authorized a common stock repurchase program of up to \$150 million over two years following the date of announcement. This program expired on March 29, 2018. We made a total of \$46.9 million in repurchases and we did not acquire any shares of treasury stock during the year ended January 31, 2019 under the program.

On December 4, 2019, we announced that our board of directors had authorized a new share repurchase program whereby we may repurchase up to \$300 million of common stock over the period ending on February 1, 2021. During the year ended January 31, 2020, we acquired approximately 2,119,000 shares of treasury stock at a cost of \$116.1 million under this program, of which \$2.8 million was settled in cash in February 2020.

### ***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 (“Notes”), 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 public 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 a prior 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 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. We currently expect to refinance the Notes at or prior to maturity with new convertible notes or other debt.

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. Holders of the Notes 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.

As of January 31, 2020, 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 January 31, 2020, 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 January 31, 2020, no Warrants had been exercised and all Warrants remained outstanding.

## **Credit Agreements**

On June 29, 2017, we entered into the 2017 Credit Agreement with certain lenders, and terminated a prior credit agreement.

The 2017 Credit Agreement provides for \$725.0 million of senior secured credit facilities, comprised of a \$425.0 million term loan maturing on June 29, 2024 (the “2017 Term Loan”) and a \$300.0 million revolving credit facility maturing on June 29, 2022 (the “2017 Revolving Credit Facility”), subject to increase and reduction from time to time according to the terms of the 2017 Credit Agreement. The majority of the proceeds from the 2017 Term Loan were used to repay all outstanding term loans under our prior credit agreement.

The maturity dates of the 2017 Term Loan and 2017 Revolving Credit Facility will be accelerated to March 1, 2021, if on such date any Notes remain outstanding.

The 2017 Term Loan was subject to an original issuance discount of approximately \$0.5 million. This discount is being amortized as interest expense over the term of the 2017 Term Loan using the effective interest method.

Interest rates on loans under the 2017 Credit Agreement are periodically reset, at our option, at either a Eurodollar Rate or an ABR rate (each as defined in the 2017 Credit Agreement), plus in each case a margin.

We are required to pay a commitment fee with respect to unused availability under the 2017 Revolving Credit Facility at a rate per annum determined by reference to our Consolidated Total Debt to Consolidated EBITDA (each as defined in the 2017 Credit Agreement) leverage ratio (the “Leverage Ratio”).

The 2017 Term Loan requires quarterly principal payments of approximately \$1.1 million, which commenced on August 1, 2017, with the remaining balance due on June 29, 2024. Optional prepayments of loans under the 2017 Credit Agreement are generally permitted without premium or penalty.

On January 31, 2018, we entered into the 2018 Amendment to our 2017 Credit Agreement, providing for, among other things, a reduction of the interest rate margins on the 2017 Term Loan from 2.25% to 2.00% for Eurodollar loans, and from 1.25% to

1.00% for ABR loans. The vast majority of the impact of the 2018 Amendment was accounted for as a debt modification. For the portion of the 2017 Term Loan which was considered extinguished and replaced by new loans, we wrote off \$0.2 million of unamortized deferred debt issuance costs as a loss on early retirement of debt during the three months ended January 31, 2018. The remaining unamortized deferred debt issuance costs and discount are being amortized over the remaining term of the 2017 Term Loan.

For loans under the 2017 Revolving Credit Facility, the margin is determined by reference to our Leverage Ratio. Borrowings under the 2017 Revolving Credit Facility were \$45.0 million as of January 31, 2020. As of January 31, 2020, the interest rate on our revolving credit facility borrowings was 3.41%.

As of January 31, 2020, the interest rate on the 2017 Term Loan was 3.85%. Taking into account the impact of the original issuance discount and related deferred debt issuance costs, the effective interest rate on the 2017 Term Loan was approximately 4.02% at January 31, 2020. As of January 31, 2019, the interest rate on the 2017 Term Loan was 4.52%.

In February 2016, we executed a pay-fixed, receive-variable interest rate swap agreement with a multinational financial institution to partially mitigate risks associated with the variable interest rate on the term loans under our prior credit agreement, under which we paid interest at a fixed rate of 4.143% and received variable interest of three-month LIBOR (subject to a minimum of 0.75%), plus a spread of 2.75%, on a notional amount of \$200.0 million (the “2016 Swap”). Although the prior credit agreement was terminated on June 29, 2017, the 2016 Swap remained in effect until September 6, 2019, and served as an economic hedge to partially mitigate the risk of higher borrowing costs under the 2017 Credit Agreement resulting from increases in market interest rates. Effective June 29, 2017, concurrent with the execution of the 2017 Credit Agreement and termination of the prior credit agreement, the 2016 Swap was no longer formally designated as a cash flow hedge for accounting purposes, and therefore subsequent settlements were reported within other income (expense), net on the consolidated statement of operations, not within interest expense. The 2016 Swap matured on September 6, 2019.

In April 2018, we executed a pay-fixed, receive-variable interest rate swap agreement with a multinational financial institution to partially mitigate risks associated with the variable interest rate on our 2017 Term Loan for periods following the termination of the 2016 Swap, under which we pay interest at a fixed rate of 2.949% and receive variable interest of three-month LIBOR (subject to a minimum of 0.00%), on a notional amount of \$200.0 million (the “2018 Swap”). The effective date of the 2018 Swap was September 6, 2019, and settlements with the counterparty will occur on a quarterly basis, beginning on November 1, 2019. The 2018 Swap will terminate on June 29, 2024.

During the operating term of the 2018 Swap, if we elect three-month LIBOR at the periodic interest rate reset dates for at least \$200.0 million of our 2017 Term Loan, the annual interest rate on that amount of the 2017 Term Loan will be fixed at 4.949% (including the impact of our current 2.00% interest rate margin on Eurodollar loans) for the applicable interest rate period.

The 2018 Swap is designated as a cash flow hedge and as such, changes in its fair value are recognized in accumulated other comprehensive income (loss) in the consolidated balance sheet and are reclassified into the consolidated statement of operations within interest expense in the period in which the hedged transaction affects earnings.

Our obligations under the 2017 Credit Agreement are guaranteed by each of our direct and indirect existing and future material domestic wholly owned restricted subsidiaries, and are secured by a security interest in substantially all of our assets and the assets of the guarantor subsidiaries, subject to certain exceptions.

The 2017 Credit Agreement contains certain customary affirmative and negative covenants for credit facilities of this type. The 2017 Credit Agreement also contains a financial covenant that, solely with respect to the 2017 Revolving Credit Facility, requires us to maintain a Leverage Ratio of no greater than 4.50 to 1. At January 31, 2020, our Leverage Ratio was approximately 2.2 to 1. The limitations imposed by the covenants are subject to certain exceptions as detailed in the 2017 Credit Agreement.

The 2017 Credit Agreement provides for events of default with corresponding grace periods that we believe are customary for credit facilities of this type. Upon an event of default, all of our obligations owed under the 2017 Credit Agreement may be declared immediately due and payable, and the lenders' commitments to make loans under the 2017 Credit Agreement may be terminated.

### ***Contractual Obligations***

At January 31, 2020, our contractual obligations were as follows:

(in thousands)	Payments Due by Period				
	Total	< 1 year	1-3 years	3-5 years	> 5 years
Long-term debt obligations, including interest	\$ 946,044	\$ 27,896	\$ 490,723	\$ 427,425	\$ —
Operating lease obligations	134,206	28,675	43,289	34,718	27,524
Finance lease obligations	10,805	3,195	5,584	2,026	—
Purchase obligations	228,010	139,572	53,256	35,182	—
Other long-term obligations	240	47	94	95	4
<b>Total contractual obligations</b>	<b>\$ 1,319,305</b>	<b>\$ 199,385</b>	<b>\$ 592,946</b>	<b>\$ 499,446</b>	<b>\$ 27,528</b>

The long-term debt obligations reflected above include projected interest payments of \$86.7 million over the term of our outstanding debt as of January 31, 2020, assuming interest rates consistent with those in effect for our 2017 Term Loan as of January 31, 2020.

Operating lease obligations reflected above exclude future sublease income from certain space we have subleased to third parties. As of January 31, 2020, total expected future sublease income was \$3.7 million and will range from \$0.6 million to \$0.9 million on an annual basis through February 2025.

We entered into leases for infrastructure equipment that qualify as finance leases during the years ended January 31, 2020 and 2019.

Our purchase obligations are associated with agreements for purchases of goods or services generally including agreements that are enforceable and legally binding and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transactions. Agreements to purchase goods or services that have cancellation provisions with no penalties are excluded from these purchase obligations.

Our consolidated balance sheet at January 31, 2020 included \$22.4 million of non-current tax reserves, net of related benefits (including interest and penalties of \$2.9 million) for uncertain tax positions. However, these amounts are not included in the table above because we are unable to reasonably estimate the timing of payments for these obligations. We do not expect to make any significant payments for these uncertain tax positions within the next 12 months.

### ***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 year ended January 31, 2020, we made \$33.1 million of payments under contingent consideration arrangements. As of January 31, 2020, potential future cash payments under contingent consideration arrangements, including consideration earned in completed performance periods which is still to be paid, total \$136.9 million, the estimated fair value of which was \$42.9 million, including \$22.9 million reported in accrued expenses and other current liabilities, and \$20.0 million reported in other liabilities. The performance periods associated with these potential payments extend through January 2022.

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

As of January 31, 2020, 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**

See also Note 1, “Summary of Significant Accounting Policies” to our consolidated financial statements included under Item 8 of this report for additional information about recent accounting pronouncements recently adopted and those not yet effective.

## **Item 7A. 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 use derivative instruments 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.

### **Interest Rate Risk on Our Debt**

In June 2014, we issued \$400.0 million in aggregate principal amount of 1.50% convertible senior notes due June 1, 2021. Holders may convert the Notes prior to maturity upon the occurrence of certain conditions. Upon conversion, we would be required to pay the holders, at our election, cash, shares of common stock, or a combination of both. Concurrent with the issuance of the Notes, we entered into the Note Hedges and sold the Warrants. These separate transactions were completed to reduce our exposure to potential dilution upon conversion of the Notes.

The Notes have a fixed annual interest rate of 1.50% and therefore do not have interest rate risk exposure. However, the fair values of the Notes are subject to interest rate risk, market risk, and other factors due to the convertible feature. The fair values of the Notes are also affected by our common stock price. Generally, the fair values of Notes will increase as interest rates fall and/or our common stock price increases, and decrease as interest rates rise and/or our common stock price decreases. Changes in the fair values of the Notes do not impact our financial position, cash flows, or results of operations due to the fixed nature of the debt obligations. We do not carry the Notes at fair value on our consolidated balance sheet, but we report the fair value of the Notes for disclosure purposes.

On June 29, 2017, we entered into the 2017 Credit Agreement with certain lenders and terminated our prior credit agreement. The 2017 Credit Agreement provides for \$725.0 million of senior secured credit facilities, comprised of the \$425.0 million 2017 Term Loan maturing on June 29, 2024 and the \$300.0 million 2017 Revolving Credit Facility maturing on June 29, 2022, subject to increase and reduction from time to time according to the terms of the 2017 Credit Agreement.

Interest rates on loans under the 2017 Credit Agreement are periodically reset, at our option, at either a Eurodollar Rate or an ABR rate (each as defined in the 2017 Credit Agreement), plus in each case a margin. The margin for the 2017 Term loan is fixed at 2.00% for Eurodollar loans, and 1.00% for ABR loans. For loans under the Revolving Credit Facility, the margin is determined by reference to our Consolidated Total Debt to Consolidated EBITDA (each as defined in the 2017 Credit Agreement) leverage ratio. As of January 31, 2020, we have \$414.4 million of outstanding term loan borrowings and \$45.0 million of outstanding borrowings under the revolving credit facility. As of January 31, 2020, the interest rate on our term loan borrowings was 3.85%, and the interest rate on our revolving credit facility borrowings was 3.41%.

Because the interest rates applicable to borrowings under the 2017 Credit Agreement are variable, we are exposed to market risk from changes in the underlying index rates, which affect our cost of borrowing. To partially mitigate risks associated with



the variable interest rates on the term loan borrowings under the prior credit agreement, in February 2016, we executed a pay-fixed, receive-variable interest rate swap agreement with a multinational financial institution under which we paid interest at a fixed rate of 4.143% and received variable interest of three-month LIBOR (subject to a minimum of 0.75%), plus a spread of 2.75%, on a notional amount of \$200.0 million (the “2016 Swap”). Although the prior credit agreement was terminated on June 29, 2017, the 2016 Swap remained in effect until September 6, 2019, and served as an economic hedge to partially mitigate the risk of higher borrowing costs under the 2017 Credit Agreement resulting from increases in market interest rates. Settlements with the counterparty under the 2016 Swap occurred quarterly and the 2016 Swap matured on September 6, 2019.

Prior to June 29, 2017, the 2016 Swap was designated as a cash flow hedge for accounting purposes and as such, changes in its fair value were recognized in accumulated other comprehensive income (loss) in the consolidated balance sheet and were reclassified into the statement of operations within interest expense in the period in which the hedged transaction affected earnings. Hedge ineffectiveness, if any, was recognized currently in the consolidated statement of operations.

In April 2018, we executed a pay-fixed, receive-variable interest rate swap agreement with a multinational financial institution to partially mitigate risks associated with the variable interest rate on our 2017 Term Loan for periods following the termination of the 2016 Swap in September 2019, under which we pay interest at a fixed rate of 2.949% and receive variable interest of three-month LIBOR (subject to a minimum of 0.00%), on a notional amount of \$200.0 million (the “2018 Swap”). The effective date of the 2018 Swap was September 6, 2019, and settlements with the counterparty occur on a quarterly basis, and began on November 1, 2019. The 2018 Swap is designated as a cash flow hedge for accounting purposes and will terminate on June 29, 2024. As of January 31, 2020, the fair value of the 2018 Swap was a loss of \$13.5 million.

During the operating term of the 2018 Swap, if we elect three-month LIBOR at the periodic interest rate reset dates for at least \$200.0 million of our 2017 Term Loan, the annual interest rate on that amount of the 2017 Term Loan will be fixed at 4.949% (including the impact of our current 2.00% interest rate margin on Eurodollar loans) for the applicable interest rate period.

The periodic interest rates on borrowings under the 2017 Credit Agreement are currently a function of several factors, the most important of which is LIBOR, which is the rate we elect for the vast majority of our periodic interest rate reset events.

The Financial Conduct Authority of the United Kingdom plans to phase out LIBOR by the end of 2021, and we are considering the impact of the planned phase out would have on this facility. The Alternative Reference Rates Committee has proposed the Secured Overnight Financing Rate (“SOFR”) as its recommended alternative to LIBOR. However, it is currently uncertain what, if any, alternative reference interest rates, including SOFR, or other reforms will be enacted in response to the planned phase out, and we cannot assure you that an alternative to LIBOR (on which the Eurodollar Rate is based) that we find acceptable will be available to us.

Excluding the impact of the interest swap agreement, upon our borrowings as of January 31, 2020, for each 1.00% increase in the applicable LIBOR rate, our annual interest expense would increase by approximately \$4.6 million.

### **Interest Rate Risk on Our Investments**

We invest in cash, cash equivalents, bank time deposits, and marketable debt securities. Market interest rate changes increase or decrease the interest income we generate from these interest-bearing assets. Our cash, cash equivalents, and bank time deposits are primarily maintained at high credit-quality financial institutions around the world, and our marketable debt security investments are restricted to highly rated corporate debt securities. We have not invested in marketable debt securities with remaining maturities in excess of twelve months or in marketable equity securities during the three-year period ended January 31, 2020.

The primary objective of our investment activities is the preservation of principal while maximizing investment income and minimizing risk. We have investment guidelines relative to diversification and maturities designed to maintain safety and liquidity.



As of January 31, 2020 and 2019, we had cash and cash equivalents totaling approximately \$379.1 million and \$370.0 million, respectively, consisting of demand deposits, bank time deposits with maturities of 90 days or less, money market accounts, and marketable debt securities with remaining maturities of 90 days or less. At such dates we also held \$70.2 million and \$65.5 million, respectively, of restricted cash, cash equivalents, and restricted bank time deposits (including long-term portions) which were not available for general operating use. These restricted balances primarily represent deposits to secure bank guarantees in connection with customer sales contracts. The amounts of these deposits can vary depending upon the terms of the underlying contracts. We also had short-term investments of \$20.2 million and \$32.3 million at January 31, 2020 and 2019, respectively, consisting of bank time deposits and marketable debt securities of corporations, all with remaining maturities in excess of 90 days, but less than one year, at the time of purchase.

To provide a meaningful assessment of the interest rate risk associated with our investment portfolio, we performed a sensitivity analysis to determine the impact a change in interest rates would have on the value of the investment portfolio assuming, during the year ending January 31, 2020, average short-term interest rates increase or decrease by 50 basis points relative to average rates realized during the year ended January 31, 2019. Such a change would cause our projected interest income from cash, cash equivalents, restricted cash and cash equivalents, bank time deposits, and short-term investments to increase or decrease by approximately \$2.3 million, assuming a similar level of investments in the year ending January 31, 2021 as in the year ended January 31, 2020.

Due to the short-term nature of our cash and cash equivalents, time deposits, money market accounts, and marketable debt securities, their carrying values approximate their market values and are not generally subject to price risk due to fluctuations in interest rates.

### **Foreign Currency Exchange Risk**

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. We are exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries into U.S. dollars for consolidated reporting purposes. If there are changes in foreign currency exchange rates, the conversion of the foreign subsidiaries' financial statements into U.S. dollars results in an unrealized gain or loss which is recorded as a component of accumulated other comprehensive loss within stockholders' equity.

For the year ended January 31, 2020, a significant portion of our operating expenses, primarily labor expenses, were denominated in the local currencies where our foreign operations are located, primarily Israel, the United Kingdom, Germany, Singapore, and Australia. We also generate some portion of our revenue in foreign currencies, mainly the euro, British pound sterling, Singapore dollar, and Australian dollar. As a result, our consolidated U.S. dollar operating results are subject to potential material adverse impact from fluctuations in foreign currency exchange rates between the U.S. dollar and the other currencies in which we transact.

In addition, we have certain monetary assets and liabilities that are denominated in currencies other than the respective entity's functional currency. Changes in the functional currency value of these assets and liabilities result in gains or losses which are reported within other income (expense), net in our consolidated statement of operations. We recorded net foreign currency losses of \$0.1 million and \$5.5 million for the years ended January 31, 2020, and 2019, respectively, and gains of \$6.8 million, for the year ended January 31, 2018.

From time to time, we enter into foreign currency forward contracts in an effort to reduce the volatility of cash flows primarily related to forecasted payroll and payroll-related expenses denominated in Israeli shekels. These contracts are generally limited to durations of approximately 12 months or less. We have also periodically entered into foreign currency forward contracts to manage exposures resulting from forecasted customer collections denominated in currencies other than the respective entity's

functional currency and exposures from cash, cash equivalents, and short-term investments and accounts payable denominated in currencies other than the applicable functional currency.

During the years ended January 31, 2020 and 2019, we recorded \$0.6 million and \$1.9 million of net gains on foreign currency forward contracts not designated as hedges for accounting purposes. For the year ended January 31, 2018, net losses on foreign currency forward contracts not designated as hedges for accounting purposes were \$2.5 million. We had \$0.7 million of net unrealized gains on outstanding foreign currency forward contracts as of January 31, 2020, with notional amounts totaling \$89.0 million. We had \$0.7 million of net unrealized losses on outstanding foreign currency forward contracts as of January 31, 2019, with notional amounts totaling \$123.0 million.

A sensitivity analysis was performed on all of our foreign exchange derivatives as of January 31, 2020. This sensitivity analysis was based on a modeling technique that measures the hypothetical market value resulting from a 10% shift in the value of exchange rates relative to the U.S. dollar, and assumes no changes in interest rates. A 10% increase in the relative value of the U.S. dollar would decrease the estimated fair value of our foreign exchange derivatives by approximately \$2.8 million. Conversely, a 10% decrease in the relative value of the U.S. dollar would increase the estimated the fair value of these financial instruments by approximately \$3.4 million.

The counterparties to our foreign currency forward contracts are multinational commercial banks. While we believe the risk of counterparty nonperformance is not material, past disruptions in the global financial markets have impacted some of the financial institutions with which we do business. A sustained decline in the financial stability of financial institutions as a result of disruption in the financial markets could affect our ability to secure creditworthy counterparties for our foreign currency hedging programs.

**Item 8. Financial Statements and Supplementary Data****VERINT SYSTEMS INC. AND SUBSIDIARIES****Index to Consolidated Financial Statements**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Verint Systems Inc.  
Melville, New York

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Verint Systems Inc. and subsidiaries (the “Company”) as of January 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), stockholders’ equity, and cash flows, for each of the three years in the period ended January 31, 2020, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended January 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of January 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 31, 2020, expressed an unqualified opinion on the Company’s internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### ***Revenue Recognition - Over Time Accounting - Input Method - Refer to Note 2 to the financial statements***

##### *Critical Audit Matter Description*

The Company recognizes revenue for contracts in the Cyber Intelligence Solutions segment that require significant customization of the software to meet the requirements of the customer over the term of the contract (“over time”) as the Company’s performance does not create an asset with an alternative use and the Company has an enforceable right to payment including a reasonable profit throughout the process. The Company uses labor hours incurred to measure progress towards completion for contracts involving significant customization and the extent of progress towards completion is measured based on the ratio of labor hours incurred to the total estimated labor hours at completion of the performance obligation. The Company’s determination of revenue recognition for contracts accounted for over time that require significant customization of the software involves estimating the total labor hours needed to complete the contracts and updating those estimates throughout the life of those contracts. This requires management to make significant estimates related to forecasts of future labor hours for contracts for which revenue is recognized over time. Changes in the estimates of total labor at completion for such contracts could have a significant impact on the timing or amount of revenue recognition during the year.

Given the judgments necessary to estimate total labor hours at completion for contracts involving significant customization for which revenue is recognized over time, auditing such estimates required extensive audit effort due to the complexity of long-term contracts and a high degree of auditor judgment when performing audit procedures and evaluating the results of those procedures.

#### *How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the estimates of future labor hours and labor hours at completion included the following, among others:

- We tested the effectiveness of controls over revenue recognized over time, including those over labor hours incurred to date and estimates of future labor hours at completion.
- We selected a sample of contracts accounted for over time that required significant customization of the software and performed the following;
  - Evaluated whether the contracts were properly included in management’s calculation of revenue recognized over time based on the terms and conditions of each contract.
  - Tested the completeness and accuracy of labor hours incurred by agreeing to supporting documentation and time-charged records and corroborating the labor hours incurred with project managers.
  - Evaluated the reasonableness and consistency of the methods and assumptions used by management to develop the estimates of future labor hours and labor hours at completion.
  - Evaluated management’s ability to achieve the estimates of future labor hours and labor hours at completion by comparing the estimates to management’s work plans and performing corroborating inquiries with the Company’s project managers related to their expectation of labor hours at completion.
- Evaluated management’s ability to estimate total labor hours by comparing the estimated labor hours at contract inception to actual labor hours incurred at project completion or as of year-end.

/s/ DELOITTE & TOUCHE LLP

New York, New York

March 31, 2020

We have served as the Company’s auditor since 2001.

**VERINT SYSTEMS INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**

(in thousands, except share and per share data)	January 31,	
	2020	2019
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 379,146	\$ 369,975
Restricted cash and cash equivalents, and restricted bank time deposits	43,860	42,262
Short-term investments	20,215	32,329
Accounts receivable, net of allowance for doubtful accounts of \$5.3 million and \$3.8 million, respectively	382,435	375,663
Contract assets	64,961	63,389
Inventories	20,495	24,952
Prepaid expenses and other current assets	87,946	97,776
<b>Total current assets</b>	<b>999,058</b>	<b>1,006,346</b>
Property and equipment, net	116,111	100,134
Operating lease right-of-use assets	102,149	—
Goodwill	1,469,211	1,417,481
Intangible assets, net	197,764	225,183
Deferred income taxes	13,802	21,040
Other assets	117,963	96,843
<b>Total assets</b>	<b>\$ 3,016,058</b>	<b>\$ 2,867,027</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 71,604	\$ 71,621
Accrued expenses and other current liabilities	229,698	208,481
Current maturities of long-term debt	4,250	4,343
Contract liabilities	397,350	377,376
<b>Total current liabilities</b>	<b>702,902</b>	<b>661,821</b>
Long-term debt	832,798	777,785
Long-term contract liabilities	40,565	30,094
Operating lease liabilities	90,372	—
Deferred income taxes	39,829	43,171
Other liabilities	67,155	93,352
<b>Total liabilities</b>	<b>1,773,621</b>	<b>1,606,223</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity:</b>		
Preferred stock - \$0.001 par value; authorized 2,207,000 shares at January 31, 2020 and 2019, respectively; none issued.	—	—
Common stock - \$0.001 par value; authorized 120,000,000 shares. Issued 68,529,000 and 66,998,000 shares; outstanding 64,738,000 and 65,333,000 shares at January 31, 2020 and 2019, respectively	68	67
Additional paid-in capital	1,660,889	1,586,266
Treasury stock, at cost 3,791,000 and 1,665,000 shares at January 31, 2020 and 2019, respectively	(174,134)	(57,598)
Accumulated deficit	(105,590)	(134,274)
Accumulated other comprehensive loss	(151,865)	(145,225)
<b>Total Verint Systems Inc. stockholders' equity</b>	<b>1,229,368</b>	<b>1,249,236</b>
Noncontrolling interests	13,069	11,568
<b>Total stockholders' equity</b>	<b>1,242,437</b>	<b>1,260,804</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 3,016,058</b>	<b>\$ 2,867,027</b>

See notes to consolidated financial statements.

**VERINT SYSTEMS INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations**

(in thousands, except per share data)	Year Ended January 31,		
	2020	2019	2018
<b>Revenue:</b>			
Product	\$ 454,875	\$ 454,650	\$ 399,662
Service and support	848,759	775,097	735,567
<b>Total revenue</b>	<b>1,303,634</b>	<b>1,229,747</b>	<b>1,135,229</b>
<b>Cost of revenue:</b>			
Product	127,183	129,922	131,989
Service and support	312,599	293,888	276,582
Amortization of acquired technology	23,984	25,403	38,216
<b>Total cost of revenue</b>	<b>463,766</b>	<b>449,213</b>	<b>446,787</b>
<b>Gross profit</b>	<b>839,868</b>	<b>780,534</b>	<b>688,442</b>
<b>Operating expenses:</b>			
Research and development, net	231,683	209,106	190,643
Selling, general and administrative	488,871	426,183	414,960
Amortization of other acquired intangible assets	31,458	31,010	34,209
<b>Total operating expenses</b>	<b>752,012</b>	<b>666,299</b>	<b>639,812</b>
<b>Operating income</b>	<b>87,856</b>	<b>114,235</b>	<b>48,630</b>
<b>Other income (expense), net:</b>			
Interest income	5,620	4,777	2,477
Interest expense	(40,378)	(37,344)	(35,959)
Losses on early retirements of debt	—	—	(2,150)
Other income (expense), net	205	(3,906)	5,902
<b>Total other expense, net</b>	<b>(34,553)</b>	<b>(36,473)</b>	<b>(29,730)</b>
<b>Income before provision for income taxes</b>	<b>53,303</b>	<b>77,762</b>	<b>18,900</b>
Provision for income taxes	17,620	7,542	22,354
<b>Net income (loss)</b>	<b>35,683</b>	<b>70,220</b>	<b>(3,454)</b>
Net income attributable to noncontrolling interests	6,999	4,229	3,173
<b>Net income (loss) attributable to Verint Systems Inc.</b>	<b>\$ 28,684</b>	<b>\$ 65,991</b>	<b>\$ (6,627)</b>
<b>Net income (loss) per common share attributable to Verint Systems Inc.:</b>			
<b>Basic</b>	<b>\$ 0.43</b>	<b>\$ 1.02</b>	<b>\$ (0.10)</b>
<b>Diluted</b>	<b>\$ 0.43</b>	<b>\$ 1.00</b>	<b>\$ (0.10)</b>
<b>Weighted-average common shares outstanding:</b>			
<b>Basic</b>	<b>66,129</b>	<b>64,913</b>	<b>63,312</b>
<b>Diluted</b>	<b>67,355</b>	<b>66,245</b>	<b>63,312</b>

See notes to consolidated financial statements.



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

(in thousands)	Year Ended January 31,		
	2020	2019	2018
<b>Net income (loss)</b>	<b>\$ 35,683</b>	<b>\$ 70,220</b>	<b>\$ (3,454)</b>
<b>Other comprehensive (loss) income, net of reclassification adjustments:</b>			
Foreign currency translation adjustments	(772)	(34,485)	49,810
Net increase (decrease) from foreign exchange contracts designated as hedges	1,786	(4,774)	3,042
Net decrease from interest rate swap designated as a hedge	(9,473)	(4,028)	(1,021)
Benefit for income taxes on net increase (decrease) from foreign exchange contracts and interest rate swap designated as hedges	1,809	1,466	85
<b>Other comprehensive (loss) income</b>	<b>(6,650)</b>	<b>(41,821)</b>	<b>51,916</b>
<b>Comprehensive income</b>	<b>29,033</b>	<b>28,399</b>	<b>48,462</b>
Comprehensive income attributable to noncontrolling interests	6,989	4,173	3,693
<b>Comprehensive income attributable to Verint Systems Inc.</b>	<b>\$ 22,044</b>	<b>\$ 24,226</b>	<b>\$ 44,769</b>

See notes to consolidated financial statements.

**VERINT SYSTEMS INC. AND SUBSIDIARIES**  
**Consolidated Statements of Stockholders' Equity**

(in thousands)	Verint Systems Inc. Stockholders' Equity								
	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Verint Systems Inc. Stockholders' Equity	Non- controlling Interests	Total Stockholders' Equity
	Shares	Par Value							
<b>Balances as of January 31, 2017</b>	<b>62,419</b>	<b>\$ 64</b>	<b>\$ 1,449,335</b>	<b>\$ (57,147)</b>	<b>\$ (230,816)</b>	<b>\$ (154,856)</b>	<b>\$ 1,006,580</b>	<b>\$ 8,460</b>	<b>\$ 1,015,040</b>
Net (loss) income	—	—	—	—	(6,627)	—	(6,627)	3,173	(3,454)
Other comprehensive income	—	—	—	—	—	51,396	51,396	520	51,916
Stock-based compensation - equity-classified awards	—	—	57,414	—	—	—	57,414	—	57,414
Common stock issued for stock awards and stock bonuses	1,424	1	12,975	—	—	—	12,976	—	12,976
Treasury stock acquired	(7)	—	—	(278)	—	—	(278)	—	(278)
Initial noncontrolling interest related to business combination	—	—	—	—	—	—	—	2,300	2,300
Capital contributions by noncontrolling interest	—	—	—	—	—	—	—	595	595
Dividends to noncontrolling interest	—	—	—	—	—	—	—	(3,304)	(3,304)
Cumulative effect of adoption of ASU No. 2016-16	—	—	—	—	(869)	—	(869)	—	(869)
<b>Balances as of January 31, 2018</b>	<b>63,836</b>	<b>65</b>	<b>1,519,724</b>	<b>(57,425)</b>	<b>(238,312)</b>	<b>(103,460)</b>	<b>1,120,592</b>	<b>11,744</b>	<b>1,132,336</b>
Net income	—	—	—	—	65,991	—	65,991	4,229	70,220
Other comprehensive loss	—	—	—	—	—	(41,765)	(41,765)	(56)	(41,821)
Stock-based compensation - equity-classified awards	—	—	57,659	—	—	—	57,659	—	57,659
Common stock issued for stock awards and stock bonuses	1,501	2	8,883	—	—	—	8,885	—	8,885
Treasury stock acquired	(4)	—	—	(173)	—	—	(173)	—	(173)
Capital contributions by noncontrolling interest	—	—	—	—	—	—	—	60	60
Dividends to noncontrolling interest	—	—	—	—	—	—	—	(4,409)	(4,409)
Cumulative effect of adoption of ASU No. 2014-09	—	—	—	—	38,047	—	38,047	—	38,047
<b>Balances as of January 31, 2019</b>	<b>65,333</b>	<b>67</b>	<b>1,586,266</b>	<b>(57,598)</b>	<b>(134,274)</b>	<b>(145,225)</b>	<b>1,249,236</b>	<b>11,568</b>	<b>1,260,804</b>
Net income	—	—	—	—	28,684	—	28,684	6,999	35,683
Other comprehensive loss	—	—	—	—	—	(6,640)	(6,640)	(10)	(6,650)
Stock-based compensation - equity-classified awards	—	—	65,080	—	—	—	65,080	—	65,080
Common stock issued for stock awards and stock bonuses	1,531	1	9,543	—	—	—	9,544	—	9,544
Treasury stock acquired	(2,126)	—	—	(116,536)	—	—	(116,536)	—	(116,536)
Dividends or distribution to noncontrolling interest	—	—	—	—	—	—	—	(5,488)	(5,488)
<b>Balances as of January 31, 2020</b>	<b>64,738</b>	<b>\$ 68</b>	<b>\$ 1,660,889</b>	<b>\$ (174,134)</b>	<b>\$ (105,590)</b>	<b>\$ (151,865)</b>	<b>\$ 1,229,368</b>	<b>\$ 13,069</b>	<b>\$ 1,242,437</b>

See notes to consolidated financial statements.

**VERINT SYSTEMS INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**

(in thousands)	Year Ended January 31,		
	2020	2019	2018
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 35,683	\$ 70,220	\$ (3,454)
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>			
Depreciation and amortization	91,532	88,915	105,730
Provision for doubtful accounts	2,572	2,746	559
Stock-based compensation, excluding cash-settled awards	82,698	66,657	69,296
Amortization of discount on convertible notes	12,490	11,850	11,243
Provision (benefit) from deferred income taxes	2,145	(3,017)	(7,533)
Non-cash (gains) losses on derivative financial instruments, net	(599)	(2,511)	17
Losses on early retirements of debt	—	—	2,150
Other non-cash items, net	4,544	(2,328)	(428)
<b>Changes in operating assets and liabilities, net of effects of business combinations and divestitures:</b>			
Accounts receivable	(6,894)	(21,520)	(23,512)
Contract assets	(1,470)	5,751	—
Inventories	1,752	(8,208)	(2,865)
Prepaid expenses and other assets	13,523	(4,753)	(1,748)
Accounts payable and accrued expenses	(14,488)	(15,648)	10,158
Contract liabilities	27,575	32,919	9,686
Other liabilities	(13,290)	(7,328)	8,599
Other, net	131	1,506	(1,571)
<b>Net cash provided by operating activities</b>	<b>237,904</b>	<b>215,251</b>	<b>176,327</b>
<b>Cash flows from investing activities:</b>			
Cash paid for business combinations, including adjustments, net of cash acquired	(74,096)	(90,022)	(102,978)
Purchases of property and equipment	(35,028)	(31,686)	(35,530)
Purchases of investments	(47,407)	(59,065)	(11,875)
Maturities and sales of investments	59,324	33,118	8,721
Settlements of derivative financial instruments not designated as hedges	3,093	1,335	(1,558)
Cash paid for capitalized software development costs	(17,222)	(7,320)	(3,126)
Change in restricted bank time deposits, including long-term portion	(14,215)	(21,304)	362
Other investing activities	(250)	(779)	(210)
<b>Net cash used in investing activities</b>	<b>(125,801)</b>	<b>(175,723)</b>	<b>(146,194)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from borrowings, net of original issuance discount	45,000	—	444,341
Repayments of borrowings and other financing obligations	(6,478)	(5,983)	(431,888)
Payments of equity issuance, debt issuance, and other debt-related costs	(212)	(206)	(7,137)
Dividends or distributions paid to noncontrolling interests	(5,488)	(4,409)	(3,304)
Purchases of treasury stock	(113,690)	(173)	—
Payments of deferred purchase price and contingent consideration for business combinations (financing portion) and other financing activities	(30,454)	(11,110)	(7,515)
<b>Net cash used in financing activities</b>	<b>(111,322)</b>	<b>(21,881)</b>	<b>(5,503)</b>
Foreign currency effects on cash, cash equivalents, restricted cash, and restricted cash equivalents	(1,823)	(3,158)	4,251
<b>Net (decrease) increase in cash, cash equivalents, restricted cash, and restricted cash equivalents</b>	<b>(1,042)</b>	<b>14,489</b>	<b>28,881</b>
<b>Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of year</b>	<b>412,699</b>	<b>398,210</b>	<b>369,329</b>
<b>Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of year</b>	<b>\$ 411,657</b>	<b>\$ 412,699</b>	<b>\$ 398,210</b>
<b>Reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period to the condensed consolidated balance sheets:</b>			

Cash and cash equivalents	\$ 379,146	\$ 369,975	\$ 337,942
Restricted cash and cash equivalents included in restricted cash and cash equivalents, and restricted bank time deposits	24,513	40,152	32,955
Restricted cash and cash equivalents included in other assets	7,998	2,572	27,313
<b>Total cash, cash equivalents, restricted cash, and restricted cash equivalents</b>	<b>\$ 411,657</b>	<b>\$ 412,699</b>	<b>\$ 398,210</b>

See notes to consolidated financial statements.

## VERINT SYSTEMS INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### *Description of Business*

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

Verint is a global leader in Actionable Intelligence solutions. In a world of massive information growth, our solutions empower organizations with crucial, actionable insights and enable decision makers to anticipate, respond, and take action. Today, over 10,000 organizations in more than 180 countries, including over 85 percent of the Fortune 100, use Verint’s Actionable Intelligence solutions, deployed in the cloud and on premises, to make more informed, timely, and effective decisions.

Our Actionable Intelligence leadership is powered by innovative, enterprise-class software built with artificial intelligence, analytics, automation, and deep domain expertise established by working closely with some of the most sophisticated and forward-thinking organizations in the world. We believe we have one of the industry’s strongest research and development (“R&D”) teams focused on actionable intelligence consisting of approximately one-third of our approximately 6,500 professionals. Our innovative solutions are backed-up by a strong IP portfolio with over 1,000 patents and patent applications worldwide across areas including data capture, artificial intelligence, machine learning, unstructured data analytics, predictive analytics and automation.

On December 4, 2019, we announced our intention to separate into two independent publicly traded companies: one which will consist of our Customer Engagement Solutions business, and one which will consist of our Cyber Intelligence Solutions business. We expect to implement the separation through a pro-rata distribution of common stock of a new entity that will hold the Cyber Intelligence Solutions business to our stockholders (the “Spin-Off”) that is intended to be tax-free to our stockholders for U.S. federal income tax purposes. We expect to complete the Spin-Off shortly after the end of our fiscal year ending January 31, 2021. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview—Recent Developments” under Item 7 of this report for a more detailed discussion of the planned Spin-Off.

On December 4, 2019, we also announced that Valor Parent LP (the “Apax Investor”), an affiliate of Apax Partners (“Apax”) will make an investment in us in an amount of up to \$400 million, subject to customary closing conditions including the receipt of required regulatory and government approvals. Under the terms of the agreement, the Apax Investor will initially purchase \$200 million of our Series A convertible preferred stock, which is expected to occur during the first quarter of our fiscal year ending January 31, 2021. Shortly following the Spin-Off, the Apax Investor will purchase, subject to certain conditions, up to \$200 million of Series B convertible preferred stock in the Company, as the entity holding the Customer Engagement Solutions business. Following the closing of the Series A investment, Apax’s ownership in us on an as-converted basis will be approximately 5%. Following completion of the Spin-Off and assuming the issuance of the Series B preferred stock, Apax’s ownership in us on an as-converted basis will be between 11.5% and 15%. See “Management’s discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Overview” under Item 7 of this report for a more detailed discussion of the planned Apax investment.

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

##### *Impact of COVID-19 Pandemic*

During the fourth quarter ended January 31, 2020, concerns related to the spread of COVID-19 began to create global business disruptions as well as disruptions in our operations and to create potential negative impacts on our revenues and other financial

results. COVID-19 was declared a pandemic by the World Health Organization on March 11, 2020. The extent to which COVID-19 will impact our financial condition or results of operations is currently uncertain and depends on factors including the impact on our customers, partners, and vendors and on the operation of the global markets in general. Because an increasing portion of our business is based on a subscription model, the effect of COVID-19 on our results of operations may also not be fully reflected for some time. As of the date of the consolidated financial statements presented in this report (January 31, 2020), the impact of the COVID-19 pandemic was not significant. No asset impairments were recorded as of the balance sheet date as no triggering events or changes in circumstances had occurred as of year-end to require such an impairment; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future.

See Note 19, "Subsequent Events", for additional information regarding the impact of the COVID-19 pandemic.

### ***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of Verint Systems Inc., our wholly owned or otherwise controlled subsidiaries, and a joint venture in which we hold a 50% equity interest. The joint venture is a variable interest entity in which we are the primary beneficiary. Noncontrolling interests in less than wholly owned subsidiaries are reflected within stockholders' equity on our consolidated balance sheet, but separately from our stockholders' equity. We hold an option to acquire the noncontrolling interests in two majority owned subsidiaries and we account for the option as an in-substance investment in the noncontrolling common stock of each such subsidiary. We include the fair value of the option within other liabilities and do not recognize noncontrolling interests in these subsidiaries.

Equity investments in companies in which we have less than a 20% ownership interest and cannot exercise significant influence, and which do not have readily determinable fair values, are accounted for at cost, adjusted for changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer, less any impairment.

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 U.S. generally accepted accounting principles ("GAAP") requires our management to make estimates and assumptions, which may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### ***Restricted Cash and Cash Equivalents, and Restricted Bank Time Deposits***

Restricted cash and cash equivalents, and restricted bank time deposits are pledged as collateral or otherwise restricted as to use for vendor payables, general liability insurance, workers' compensation insurance, warranty programs, and other obligations.

### ***Investments***

Our investments generally consist of bank time deposits, and marketable debt securities of corporations, the U.S. government, and agencies of the U.S. government, all with remaining maturities in excess of 90 days at the time of purchase. We held no marketable debt securities at January 31, 2020 and 2019. Investments with maturities in excess of one year are included in other assets.

### ***Accounts Receivable, Net***

Trade accounts receivable are comprised of invoiced amounts due from customers for which we have an unconditional right to collect and are not interest-bearing. Credit is extended to customers based on an evaluation of their financial condition and other factors. We generally do not require collateral or other security to support accounts receivable.

### ***Concentrations of Credit Risk***

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents, bank time deposits, short-term investments, trade accounts receivable, and contract assets. We invest our cash in bank accounts, certificates of deposit, and money market accounts with major financial institutions, in U.S. government and agency obligations, and in debt securities of corporations. By policy, we seek to limit credit exposure on investments through diversification and by restricting our investments to highly rated securities.

We grant credit terms to our customers in the ordinary course of business. Concentrations of credit risk with respect to trade accounts receivable and contract assets are generally limited due to the large number of customers comprising our customer base and their dispersion across different industries and geographic areas. There are two customers in our Cyber Intelligence segment that combined accounted for \$51.7 million and \$84.3 million of our aggregated accounts receivable and contract assets, at January 31, 2020 and 2019, respectively. These amounts result from both direct and indirect contracts with governmental agencies outside of the U.S., which we believe present insignificant credit risk.

### ***Allowance for Doubtful Accounts***

We estimate the collectability of our accounts receivable balances each accounting period and adjust our allowance for doubtful accounts accordingly. Considerable judgment is required in assessing the collectability of accounts receivable, including consideration of the creditworthiness of each customer, their collection history, and the related aging of past due accounts receivable balances. We evaluate specific accounts when we learn that a customer may be experiencing a deteriorating financial condition due to lower credit ratings, bankruptcy, or other factors that may affect its ability to render payment. We write-off an account receivable and charge it against its recorded allowance at the point when it is considered uncollectible.

The following table summarizes the activity in our allowance for doubtful accounts for the years ended January 31, 2020, 2019, and 2018:

(in thousands)	Year Ended January 31,		
	2020	2019	2018
Allowance for doubtful accounts, beginning of year	\$ 3,777	\$ 2,217	\$ 1,842
Provisions charged to expense	2,572	2,746	559
Amounts written off	(1,176)	(1,172)	(482)
Other, including fluctuations in foreign exchange rates	151	(14)	298
<b>Allowance for doubtful accounts, end of year</b>	<b>\$ 5,324</b>	<b>\$ 3,777</b>	<b>\$ 2,217</b>

### ***Inventories***

Inventories are stated at the lower of cost or market. Cost is determined using the weighted-average method of inventory accounting. The valuation of our inventories requires us to make estimates regarding excess or obsolete inventories, including making estimates of the future demand for our products. Although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand, price, or technological developments could have a significant impact on the value of our inventory and reported operating results. Charges for excess and obsolete inventories are included within cost of revenue.

### ***Property and Equipment, net***



Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation is computed using the straight-line method based over the estimated useful lives of the assets. The vast majority of equipment, furniture and other is depreciated over periods ranging from three years to seven years. Software is typically depreciated over periods ranging from three years to four years. Buildings are depreciated over periods ranging from ten years to twenty-five years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease term. Finance leased assets are amortized over the related lease term.

The cost of maintenance and repairs of property and equipment is charged to operations as incurred. When assets are retired or disposed of, the cost and accumulated depreciation or amortization thereon are removed from the consolidated balance sheet and any resulting gain or loss is recognized in the consolidated statement of operations.

### ***Segment Reporting***

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.

We conduct our business through two operating segments, which are also our reportable segments—Customer Engagement Solutions ("Customer Engagement") and Cyber Intelligence Solutions ("Cyber Intelligence"). Organizing our business through two operating segments allows us to align our resources and domain expertise to effectively address the Actionable Intelligence market. We determine our reportable segments based on a number of factors our management uses to evaluate and run our business operations, including similarities of customers, products, and technology. Our Chief Executive Officer is our CODM, who primarily reviews segment revenue and segment operating contribution when assessing the financial performance of our segments and allocating resources.

Segment revenue includes adjustments associated with revenue of acquired companies, which are 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. Segment revenue adjustments can also result from aligning an acquired company's historical revenue recognition policies to our policies.

Segment contribution includes segment revenue and expenses incurred directly by the segment, including material costs, service costs, research and development, selling, marketing, and certain administrative expenses. When determining segment contribution, we do not allocate certain operating expenses which are provided by shared resources or are otherwise generally not controlled by segment management. These expenses are reported as "Shared support expenses" when reconciling segment contribution to operating income, the majority of which are expenses for administrative support functions, such as information technology, human resources, finance, legal, and other general corporate support, and for occupancy expenses. These unallocated expenses also include procurement, manufacturing support, and logistics expenses. We share resources across our segments for efficiency and to avoid duplicative costs.

In addition, segment contribution does not include amortization of acquired intangible assets, stock-based compensation, and other expenses that either can vary significantly in amount and frequency, are based upon subjective assumptions, or in certain cases are unplanned for or difficult to forecast, such as restructuring expenses and business combination transaction and integration expenses, all of which are not considered when evaluating segment performance.

Revenue from transactions between our operating segments is not material.

Please refer to Note 17, "Segment, Geographic, and Significant Customer Information" for further details regarding our operating segments.

### ***Goodwill and Other Acquired Intangible Assets***

For business combinations, the purchase prices are 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. Goodwill is assigned, at the acquisition date, to those reporting units expected to benefit from the synergies of the combination.

We test goodwill for impairment at the reporting unit level, which can be an operating segment or one level below an operating segment, on an annual basis as of November 1, or more frequently if changes in facts and circumstances indicate that impairment in the value of goodwill may exist. As of January 31, 2020, our reporting units are Customer Engagement, Cyber Intelligence (excluding situational intelligence solutions), and Situational Intelligence, which is a component of our Cyber Intelligence operating segment.

In testing for goodwill impairment, we may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we elect to bypass a qualitative assessment, or if our qualitative assessment indicates that goodwill impairment is more likely than not, we perform quantitative impairment testing. If our quantitative testing determines that the carrying value of a reporting unit exceeds its fair value, goodwill impairment is recognized in an amount equal to that excess, limited to the total goodwill allocated to that reporting unit.

We utilize some or all of three primary approaches to assess the fair value of a reporting unit: (a) an income-based approach, using projected discounted cash flows, (b) a market-based approach, using valuation multiples of comparable companies, and (c) a transaction-based approach, using valuation multiples for recent acquisitions of similar businesses made in the marketplace. Our estimate of fair value of each reporting unit is based on a number of subjective factors, including: (a) appropriate consideration of valuation approaches (income approach, comparable public company approach, and comparable transaction approach), (b) estimates of future growth rates, (c) estimates of our future cost structure, (d) discount rates for our estimated cash flows, (e) selection of peer group companies for the public company and the market transaction approaches, (f) required levels of working capital, (g) assumed terminal value, and (h) time horizon of cash flow forecasts.

Acquired identifiable intangible assets include identifiable acquired technologies, customer relationships, trade names, distribution networks, non-competition agreements, sales backlog, and in-process research and development. We amortize the cost of finite-lived identifiable intangible assets over their estimated useful lives, which are periods of 10 years or less. Amortization is based on the pattern in which the economic benefits of the intangible asset are expected to be realized, which typically is on a straight-line basis. The fair values assigned to identifiable intangible assets acquired in business combinations are 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.

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

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 years ended January 31, 2020 and 2019.

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

Our recorded amounts of cash and cash equivalents, restricted cash and cash equivalents, and restricted bank time deposits, accounts receivable, contract assets, investments, and accounts payable approximate fair value, due to the short-term nature of these instruments. We measure certain financial assets and liabilities at fair value based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

### ***Derivative Financial Instruments***

As part of our risk management strategy, when considered appropriate, we use derivative financial instruments including foreign currency forward contracts and interest rate swap agreements to hedge against certain foreign currency and interest rate exposures. Our intent is to mitigate gains and losses caused by the underlying exposures with offsetting gains and losses on the derivative contracts. By policy, we do not enter into speculative positions with derivative instruments.

We record all derivatives as assets or liabilities on our consolidated balance sheets at their fair values. Gains and losses from the changes in values of these derivatives are accounted for based on the use of the derivative and whether it qualifies for hedge accounting.

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

### ***Revenue Recognition***

We account for revenue in accordance with ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which was adopted on February 1, 2018, using the modified retrospective transition method. For further discussion of our accounting policies related to revenue see Note 2, "Revenue Recognition."

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

Our cost of revenue includes costs of materials, compensation and benefit costs for operations and service personnel, subcontractor costs, royalties and license fees related to third-party software included in our products, cloud infrastructure costs, depreciation of equipment used in operations and service, amortization of capitalized software development costs and certain purchased intangible assets, and related overhead costs. Costs that relate to satisfied (or partially satisfied) performance obligations in customer contracts (i.e. costs that relate to past performance) are expensed as incurred. Please refer to Note 2, "Revenue Recognition" under the heading "Costs to Obtain and Fulfill Contracts" for further details regarding customer contract costs.

### ***Research and Development, net***

With the exception of certain software development costs, all research and development costs are expensed as incurred, and consist primarily of personnel and consulting costs, travel, depreciation of research and development equipment, and related overhead and other costs associated with research and development activities.

We receive non-refundable grants from the Israeli Innovation Authority (“IIA”), formerly the Israel Office of the Chief Scientist (“OCS”), that fund a portion of our research and development expenditures. We currently only enter into non-royalty-bearing arrangements with the IIA which do not require us to pay royalties. Funds received from the IIA are recorded as a reduction to research and development expense. Royalties, to the extent paid, are recorded as part of our cost of revenue.

We also periodically derive benefits from participation in certain government-sponsored programs in other jurisdictions, for the support of research and development activities conducted in those locations.

### ***Software Development Costs***

Costs incurred to acquire or develop software to be sold, leased or otherwise marketed are capitalized after technological feasibility is established, and continue to be capitalized through the general release of the related software product. Amortization of capitalized costs begins in the period in which the related product is available for general release to customers and is recorded on a straight-line basis, which approximates the pattern in which the economic benefits of the capitalized costs are expected to be realized, over the estimated economic lives of the related software products, generally four years.

### ***Internal-Use Software***

We capitalize costs associated with software that is acquired, internally developed or modified solely to meet our internal needs. Capitalization begins when the preliminary project stage has been completed and management with the relevant authority authorizes and commits to the funding of the project. These capitalized costs include external direct costs utilized in developing or obtaining the applications and expenses for employees who are directly associated with the development of the applications. Capitalization of such costs continues until the project is substantially complete and is ready for its intended purpose. Capitalized costs of computer software developed for internal use are generally amortized over estimated useful lives of four years on a straight-line basis, which best represents the pattern of the software’s use.

### ***Income Taxes***

We account for income taxes under the asset and liability method which includes the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in our consolidated financial statements. Under this approach, deferred taxes are recorded for the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus deferred taxes. Deferred taxes result from differences between the financial statement and tax bases of our assets and liabilities, and are adjusted for changes in tax rates and tax laws when changes are enacted. The effects of future changes in income tax laws or rates are not anticipated.

We are subject to income taxes in the United States and numerous foreign jurisdictions. The calculation of our income tax provision involves the application of complex tax laws and requires significant judgment and estimates. On December 22, 2017, the Tax Cuts and Jobs Act (the “2017 Tax Act”) was enacted in the United States. The 2017 Tax Act significantly revised the Internal Revenue Code and it included fundamental changes to taxation of U.S. multinational corporations. Compliance with the 2017 Tax Act requires significant complex computations not previously required by U.S. tax law.

We evaluate the realizability of our deferred tax assets for each jurisdiction in which we operate at each reporting date, and establish valuation allowances when it is more likely than not that all or a portion of our deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income of the same character and in the same jurisdiction. We consider all available positive and negative evidence in making this assessment, including, but not limited to, the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies. In

circumstances where there is sufficient negative evidence indicating that our deferred tax assets are not more-likely-than-not realizable, we establish a valuation allowance.

We use a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate tax positions taken or expected to be taken in a tax return by assessing whether they are more-likely-than-not sustainable, based solely on their technical merits, upon examination and including resolution of any related appeals or litigation process. The second step is to measure the associated tax benefit of each position as the largest amount that we believe is more-likely-than-not realizable. Differences between the amount of tax benefits taken or expected to be taken in our income tax returns and the amount of tax benefits recognized in our financial statements represent our unrecognized income tax benefits, which we either record as a liability or as a reduction of deferred tax assets. Our policy is to include interest (expense and/or income) and penalties related to unrecognized income tax benefits as a component of the provision for income taxes.

### ***Functional Currencies and Foreign Currency Transaction Gains and Losses***

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.

Transactions denominated in currencies other than a functional currency are converted to the functional currency on the transaction date, and any resulting assets or liabilities are further translated at each reporting date and at settlement. Gains and losses recognized upon such translations are included within other income (expense), net in the consolidated statements of operations. We recorded net foreign currency losses of \$0.1 million and \$5.5 million for the years ended January 31, 2020 and 2019, respectively, and net foreign currency gains of \$6.8 million for the year ended January 31, 2018.

For consolidated reporting purposes, in those instances where a foreign subsidiary has a functional currency other than the U.S. dollar, revenue and expenses are translated into U.S. dollars using average exchange rates for the reporting period, while assets and liabilities are translated into U.S. dollars using period-end rates. The effects of foreign currency translation adjustments are included in stockholders' equity as a component of accumulated other comprehensive loss in the accompanying consolidated balance sheets.

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

We recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of the award. We recognize the fair value of the award as compensation expense over the period during which an employee is required to provide service in exchange for the award.

For performance stock units for which vesting is in part dependent on total shareholder return, the fair value of the award is estimated on the date of grant using a Monte Carlo Simulation. Expected volatility and expected term are input factors for that model and may require significant management judgment. Expected volatility is estimated utilizing daily historical volatility for Verint common stock price and the constituents of the specific comparator index over a period commensurate with the remaining award performance period. The risk-free interest rate used is equal to the implied daily yield of the zero-coupon U.S. Treasury bill that corresponds with the remaining performance period of the award as of the valuation date.

### ***Net Income (Loss) Per Common Share Attributable to Verint Systems Inc.***

Shares used in the calculation of basic net income (loss) per common share are based on the weighted-average number of common shares outstanding during the accounting period. Shares used in the calculation of basic net income per common share include vested but unissued shares underlying awards of restricted stock units when all necessary conditions for earning those shares have been satisfied at the award's vesting date, but exclude unvested shares of restricted stock because they are contingent upon future service conditions.

We have the option to pay cash, issue shares of common stock, or any combination thereof for the aggregate amount due upon conversion of our 1.50% convertible senior notes due June 1, 2021 (the “Notes”), further details for which appear in Note 7, “Long-Term Debt”. We currently intend to settle the principal amount of the Notes in cash upon conversion and as a result, only the amounts payable in excess of the principal amounts of the Notes, if any, are assumed to be settled with shares of common stock for purposes of computing diluted net income per share.

In periods for which we report a net loss, basic net loss per common share and diluted net loss per common share are identical since the effect of potential common shares is anti-dilutive and therefore excluded.

### ***Leases***

We determine if an arrangement is a lease at inception. Operating lease assets are presented as operating lease right-of-use (“ROU”) assets, and corresponding operating lease liabilities are presented within accrued expenses and other current liabilities (current portions), and as operating lease liabilities (long-term portions), on our consolidated balance sheets. Finance lease assets are included in property and equipment, and corresponding finance lease liabilities are included within accrued expenses and other current liabilities (current portions), and other liabilities (long-term portions), on our consolidated balance sheets.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the remaining lease payments over the lease term at commencement date. Our leases do not provide an implicit interest rate. We calculate the incremental borrowing rate to reflect the interest rate that we would have to pay to borrow on a collateralized basis an amount equal to the lease payments in a similar economic environment over a similar term, and consider our historical borrowing activities and market data in this determination. The operating lease ROU asset also includes any lease payments made and excludes lease incentives and initial direct costs incurred. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

We have lease agreements with lease and non-lease components, which we account for as a single lease component. Some of our leases contain variable lease payments, which are expensed as incurred unless those payments are based on an index or rate. Variable lease payments based on an index or rate are initially measured using the index or rate in effect at lease commencement and included in the measurement of the lease liability; thereafter, changes to lease payments due to rate or index updates are recorded as rent expense in the period incurred. We have elected not to recognize ROU assets and lease liabilities for short-term leases that have a term of twelve months or less. The effect of short-term leases on our ROU assets and lease liabilities was not material. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. In addition, we do not have any related party leases and our sublease transactions are de minimis.

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

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

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 supersedes the requirements in Topic 840, *Leases*, and requires lessees to recognize ROU assets and liabilities for leases with lease terms of more than twelve months. We adopted ASU No. 2016-02 as of February 1, 2019 using the modified retrospective transition method of applying the new standard at the adoption date. Results for reporting periods beginning on or after February 1, 2019 are presented under the new guidance, while prior periods amounts are not adjusted and continue to be reported in accordance with previous guidance. Disclosures required under the new standard will not be provided for dates and periods before February 1, 2019.

The new standard provided a number of optional practical expedients in transition. We elected the transition package of practical expedients available in the standard, which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification, and initial direct costs and the practical expedient to not account for lease and



non-lease components separately. We did not elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to us.

The adoption of ASU No. 2016-02 resulted in the recognition of ROU assets of approximately \$100.4 million and lease liabilities for operating leases of approximately \$110.4 million on our consolidated balance sheet as of February 1, 2019 with no material impact to our consolidated statements of operations. The ROU assets are lower than the operating lease liabilities primarily because previously recorded net deferred rent balances were reclassified into the ROU assets. There was no impact to our accumulated deficit upon adoption of the standard. The adoption of the new standard also resulted in significant additional disclosures regarding our leasing activities. Please refer to Note 15, “Leases” for further details.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which provides companies the option to reclassify from accumulated other comprehensive income to retained earnings the stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the “2017 Tax Act”). The stranded tax effect represents the difference between the amount previously recorded in other comprehensive income at the historical U.S. federal tax rate that remains in accumulated other comprehensive loss at the time the 2017 Tax Act was effective and the amount that would have been recorded using the newly enacted rate. We adopted this guidance on February 1, 2019, and the adoption did not have an impact on our consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation - Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting*, to simplify the accounting for nonemployee share-based payment transactions by expanding the scope of ASC Topic 718, *Compensation - Stock Compensation*, to include share-based payment transactions for acquiring goods and services from nonemployees. Under the new standard, most of the guidance on stock compensation payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. Adoption of this standard had an immaterial impact on our consolidated financial statements.

#### ***New Accounting Pronouncements Not Yet Effective***

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which affects general principles within Topic 740, Income Taxes and is meant to simplify and reduce the cost of accounting for income taxes. This standard is effective for interim and annual reporting periods beginning after December 15, 2020. We are currently reviewing this standard but do not expect that it will have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which requires customers in a hosting arrangement that is a service contract to follow existing internal-use software guidance to determine which implementation costs to capitalize and which costs to expense. This standard is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. We adopted this guidance prospectively to eligible costs incurred on or after February 1, 2020 and do not expect the implementation to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to The Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements. This standard is effective for annual reporting periods beginning after December 15, 2019, including interim reporting periods within those annual reporting periods, with early adoption permitted. Since the standard affects only disclosure requirements, we do not expect the adoption of the standard to have an impact on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments*. This new standard changes the impairment model for most financial assets and certain other



instruments. Entities will be required to use a model that will result in the earlier recognition of allowances for losses for trade and other receivables, held-to-maturity debt securities, loans, and other instruments. For available-for-sale debt securities with unrealized losses, the losses will be recognized as allowances rather than as reductions in the amortized cost of the securities. The new standard is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2019, with early adoption permitted. A modified retrospective adoption method is required, with a cumulative-effect adjustment to the opening retained earnings balance in the period of adoption. We are currently completing our evaluations of the impact of adopting this standard but do not expect its adoption to have a significant impact on our consolidated financial statements.

## **2. REVENUE RECOGNITION**

On February 1, 2018, we adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, using the modified retrospective method applied to those contracts that were not completed as of February 1, 2018. Results for reporting periods beginning after February 1, 2018 are presented under ASU No. 2014-09, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under prior guidance. For contracts that were modified before the effective date of ASU No. 2014-09, we recorded the aggregate effect of all modifications when identifying performance obligations and allocating the transaction price in accordance with the practical expedient provided for under the accounting standard, which permits an entity to record the aggregate effect of all contract modifications that occur before the beginning of the earliest period presented in accordance with the new standard when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations.

Under ASU No. 2014-09, an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. To determine revenue recognition for contracts that are within the scope of new standard, we perform the following five steps:

### *1) Identify the contract(s) with a customer*

A contract with a customer exists when (i) we enter into an enforceable contract with the customer that defines each party's rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance, and (iii) we determine that collection of substantially all consideration for goods or services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. We apply judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or in the case of a new customer, published credit and financial information pertaining to the customer. Our customary business practice is to enter into legally enforceable written contracts with our customers. The majority of our contracts are governed by a master agreement between us and the customer, which sets forth the general terms and conditions of any individual contract between the parties, which is then supplemented by a customer purchase order to specify the different goods and services, the associated prices, and any additional terms for an individual contract. Multiple contracts with a single counterparty entered into at the same time are evaluated to determine if the contracts should be combined and accounted for as a single contract.

### *2) Identify the performance obligations in the contract*

Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the goods or services either on its own or together with other resources that are readily available from third parties or from us, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised goods or services, we must apply judgment to determine whether promised goods or services are capable of being distinct and are distinct in the context of the contract. If these criteria are not met the promised goods or services are accounted for as a combined performance obligation. Generally, our contracts do not include non-distinct performance obligations, but certain

Cyber Intelligence customers require design, development, or significant customization of our products to meet their specific requirements, in which case the products and services are combined into one distinct performance obligation.

*3) Determine the transaction price*

The transaction price is determined based on the consideration to which we will be entitled in exchange for transferring goods or services to the customer. We assess the timing of transfer of goods and services to the customer as compared to the timing of payments to determine whether a significant financing component exists. As a practical expedient, we do not assess the existence of a significant financing component when the difference between payment and transfer of deliverables is a year or less, which is the case in the majority of our customer contracts. The primary purpose of our invoicing terms is not to receive or provide financing from or to customers. Our Cyber Intelligence contracts may require an advance payment to encourage customer commitment to the project and protect us from early termination of the contract. To the extent the transaction price includes variable consideration, we estimate the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method depending on the nature of the variable consideration. Variable consideration is included in the transaction price, if we assessed that a significant future reversal of cumulative revenue under the contract will not occur. Typically, our contracts do not provide our customers with any right of return or refund, and we do not constrain the contract price as it is probable that there will not be a significant revenue reversal due to a return or refund.

*4) Allocate the transaction price to the performance obligations in the contract*

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. However, if a series of distinct goods or services that are substantially the same qualifies as a single performance obligation in a contract with variable consideration, we must determine if the variable consideration is attributable to the entire contract or to a specific part of the contract. We allocate the variable amount to one or more distinct performance obligations but not all or to one or more distinct services that forms a part of a single performance obligation, when the payment terms of the variable amount relate solely to our efforts to satisfy that distinct performance obligation and it results in an allocation that is consistent with the overall allocation objective of ASU No. 2014-09. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis unless the transaction price is variable and meets the criteria to be allocated entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation. We determine standalone selling price ("SSP") based on the price at which the performance obligation is sold separately. If the SSP is not observable through past transactions, we estimate the SSP taking into account available information such as market conditions, including geographic or regional specific factors, competitive positioning, internal costs, profit objectives, and internally approved pricing guidelines related to the performance obligation.

*5) Recognize revenue when (or as) the entity satisfies a performance obligation*

We satisfy performance obligations either over time or at a point in time depending on the nature of the underlying promise. Revenue is recognized at the time the related performance obligation is satisfied by transferring a promised good or service to a customer. In the case of contracts that include customer acceptance criteria, revenue is not recognized until we can objectively conclude that the product or service meets the agreed-upon specifications in the contract.

We only apply the five-step model to contracts when it is probable that we will collect the consideration we are entitled to in exchange for the goods or services we transfer to our customers. Revenue is measured based on consideration specified in a contract with a customer, and excludes taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by us from a customer.

Shipping and handling activities that are billed to the customer and occur after control over a product has transferred to a customer are accounted for as fulfillment costs and are included in cost of revenue. Historically, these expenses have not been material.

## Nature of Goods and Services

We derive and report our revenue in two categories: (a) product revenue, including licensing of software products, and the sale of hardware products, and (b) service and support revenue, including revenue from installation services, initial and renewal support, project management, hosting services, cloud deployments, bundled SaaS, optional managed services, product warranties, business advisory consulting, and training services.

Our software licenses either provide our customers a perpetual right to use our software or the right to use our software for only a fixed term, in most cases between a one- and three-year time frame. Generally, our contracts do not provide significant services of integration and customization and installation services are not required to be purchased directly from us. The software is delivered before related services are provided and is functional without professional services, updates and technical support. We have concluded that the software license is distinct as the customer can benefit from the software on its own. Software revenue is typically recognized when the software is delivered or made available for download to the customer. We rarely sell our software licenses on a standalone basis and as a result SSP is not directly observable and must be estimated. We apply the adjusted market assessment approach, considering both market conditions and entity specific factors such as assessment of historical data of bundled sales of software licenses with other promised goods and services in order to maximize the use of observable inputs. Software SSP is established based on an appropriate discount from our established list price, taking into consideration whether there are certain stratifications of the population with different pricing practices. Revenue for hardware is recognized at a point in time, generally upon shipment or delivery.

In our Cyber Intelligence Solutions segment certain contracts require us to significantly customize our software and these contracts are generally recognized over time as we perform because our performance does not create an asset with an alternative use and we have an enforceable right to payment plus a reasonable profit for performance completed to date. Revenue is recognized over time based on the extent of progress towards completion of the performance obligation. We use labor hours incurred to measure progress for these contracts because it best depicts the transfer of the asset to the customer. Under the labor hours incurred measure of progress, the extent of progress towards completion is measured based on the ratio of labor hours incurred to date to the total estimated labor hours at completion of the distinct performance obligation. Due to the nature of the work performed in these arrangements, the estimation of total labor hours at completion is complex, subject to many variables and requires significant judgment. If circumstances arise that change the original estimates of revenues, costs, or extent of progress toward completion, revisions to the estimates are made. These revisions may result in increases or decreases in estimated revenues or costs, and such revisions are reflected in revenue on a cumulative catch-up basis in the period in which the circumstances that gave rise to the revision become known. We use the expected cost plus a margin approach to estimate the SSP of our significantly customized solutions.

Professional services revenues primarily consist of fees for deployment and optimization services, as well as training, and are generally recognized over time as the customer simultaneously receives and consumes the benefits of the professional services as the services are performed. Professional services that are billed on a time and materials basis are recognized over time as the services are performed. For contracts billed on a fixed price basis, revenue is recognized over time using an input method based on labor hours expended to date relative to the total labor hours expected to be required to satisfy the related performance obligation. We determine SSP for our professional services based on the price at which the performance obligation is sold separately, which is observable through past transactions.

Our bundled SaaS contracts are typically comprised of a right to access our software, maintenance, hosting fees and standard managed services. We do not provide the customer the contractual right to take possession of the software at any time during the hosting period under these contracts. The customer can only benefit from the SaaS license, maintenance and standard managed services when combined with the hosting service as the hosting service is the only way for the customer to access the software and benefit from the maintenance and managed services. Accordingly, each of the license, maintenance, hosting and standard managed services is not considered a distinct performance obligation in the context of the contract, and are combined into a single performance obligation (“bundled SaaS services”) and recognized ratably over the contract period. Our bundled SaaS customer contracts can consist of fixed, variable, and usage based fees. Typically, we invoice a portion of the fees at the

outset of the contract and then monthly or quarterly thereafter. Certain bundled SaaS contracts include a nonrefundable upfront fee for setup services, which are not distinct from the bundled SaaS services. Non-distinct setup services represent an advanced payment for future bundled SaaS services, and are recognized as revenue when those bundled SaaS services are satisfied, unless the nonrefundable fee is considered to be a material right, in which case the nonrefundable fee is recognized over the expected benefit period, which includes anticipated renewals. We determine SSP for our bundled SaaS services based on the price at which the performance obligation is sold separately, which is observable through past renewal transactions. We satisfy our bundled SaaS services by providing access to our software over time and processing transactions for usage based contracts. For non-usage based fees, the period of time over which we perform is commensurate with the contract term because that is the period during which we have an obligation to provide the service. The performance obligation is recognized on a time elapsed basis, by month for which the services are provided.

Customer support revenue is derived from providing telephone technical support services, bug fixes and unspecified software updates and upgrades to customers on a when-and-if-available basis. Each of these performance obligations provide benefit to the customer on a standalone basis and are distinct in the context of the contract. Each of these distinct performance obligations represent a stand ready obligation to provide service to a customer, which is concurrently delivered and has the same pattern of transfer to the customer, which is why we account for these support services as a single performance obligation. We recognize support services ratably over the contractual term, which typically is one year, and develop SSP for support services based on standalone renewal contracts.

Our Customer Engagement solutions are generally sold with a warranty of one year for hardware and 90 days for software. Our Cyber Intelligence solutions are generally sold with warranties that typically range from 90 days to three years and, in some cases, longer. These warranties do not represent an additional performance obligation as services beyond assuring that the software license and hardware complies with agreed-upon specifications are not provided.

### **Disaggregation of Revenue**

The following table provides information about disaggregated revenue for our Customer Engagement and Cyber Intelligence segments by product revenue and service and support revenue, as well as by the recurring or nonrecurring nature of revenue for each business segment. Recurring revenue is the portion of our revenue that we believe is likely to be renewed in the future. The recurrence of these revenue streams in future periods depends on a number of factors including contractual periods and customers' renewal decisions.

For our Customer Engagement segment:

- Recurring revenue primarily consists of cloud revenue and initial and renewal support revenue.
  - Cloud revenue consists primarily of SaaS revenue with some optional managed services revenue.
  - SaaS revenue consists predominately of bundled SaaS (software with standard managed services) with some unbundled SaaS (software licensing rights sold separately from managed services and accounted for as term-based licenses). Unbundled SaaS can be deployed in the cloud either by us or a cloud partner.
  - Bundled SaaS revenue is recognized over time and unbundled SaaS revenue is recognized at a point in time. Unbundled SaaS contracts are eligible for renewal after the initial fixed term, which in most cases is between a one- and three-year time frame.
- Nonrecurring revenue primarily consists of our perpetual licenses, consulting, implementation and installation services, and training.

For our Cyber Intelligence segment:

- Recurring revenue primarily consists of initial and renewal support, subscription software licenses, and SaaS in certain limited transactions.

- Nonrecurring revenue primarily consists of our perpetual licenses, long-term projects including software customizations that are recognized over time as control transfers to the customer using a percentage-of-completion (“POC”) method, consulting, implementation and installation services, training, and hardware.

(in thousands)	Year Ended January 31, 2020			Year Ended January 31, 2019		
	Customer Engagement	Cyber Intelligence	Total	Customer Engagement	Cyber Intelligence	Total
<b>Revenue:</b>						
Product	\$ 223,397	\$ 231,478	\$ 454,875	\$ 221,721	\$ 232,929	\$ 454,650
Service and support	623,128	225,631	848,759	574,566	200,531	775,097
<b>Total revenue</b>	<b>\$ 846,525</b>	<b>\$ 457,109</b>	<b>\$ 1,303,634</b>	<b>\$ 796,287</b>	<b>\$ 433,460</b>	<b>\$ 1,229,747</b>
<b>Revenue by recurrence:</b>						
Recurring revenue	\$ 534,378	\$ 192,578	\$ 726,956	\$ 465,671	\$ 165,265	\$ 630,936
Nonrecurring revenue	312,147	264,531	576,678	330,616	268,195	598,811
<b>Total revenue</b>	<b>\$ 846,525</b>	<b>\$ 457,109</b>	<b>\$ 1,303,634</b>	<b>\$ 796,287</b>	<b>\$ 433,460</b>	<b>\$ 1,229,747</b>

The following table provides a further disaggregation of revenue for our Customer Engagement segment:

(in thousands)	Years Ended January 31,	
	2020	2019
<b>Customer Engagement revenue</b>		
<b>Recurring revenue</b>		
Bundled SaaS revenue	\$ 115,925	\$ 84,715
Unbundled SaaS revenue	43,368	24,925
Optional managed services revenue	56,534	41,103
<b>Total cloud revenue</b>	<b>215,827</b>	<b>150,743</b>
Support revenue	318,551	314,928
<b>Total recurring revenue</b>	<b>534,378</b>	<b>465,671</b>
<b>Nonrecurring revenue</b>		
Perpetual revenue	179,882	196,125
Professional services revenue	132,265	134,491
<b>Total nonrecurring revenue</b>	<b>312,147</b>	<b>330,616</b>
<b>Total Customer Engagement revenue</b>	<b>\$ 846,525</b>	<b>\$ 796,287</b>

## Contract Balances

The following table provides information about accounts receivable, contract assets, and contract liabilities from contracts with customers:

(in thousands)	January 31,	
	2020	2019
Accounts receivable, net	\$ 382,435	\$ 375,663
Contract assets	\$ 64,961	\$ 63,389
Long-term contract assets (included in Other assets)	\$ 1,358	\$ 1,375
Contract liabilities	\$ 397,350	\$ 377,376
Long-term contract liabilities	\$ 40,565	\$ 30,094

We receive payments from customers based upon contractual billing schedules, and accounts receivable are recorded when the right to consideration becomes unconditional. Contract assets are rights to consideration in exchange for goods or services that we have transferred to a customer when that right is conditional on something other than the passage of time. The majority of

our contract assets represent unbilled amounts related to multi-year unbundled SaaS contracts and our significantly customized solutions as the right to consideration is subject to the contractually agreed upon billing schedule. We expect billing and collection of a majority of our contract assets to occur within the next twelve months and had no asset impairment related to contract assets in the years ended January 31, 2020 and 2019. There are two customers in our Cyber Intelligence segment that accounted for a combined \$51.7 million and \$84.3 million of our aggregated accounts receivable and contract assets at January 31, 2020 and January 31, 2019, respectively. These amounts result from both direct and indirect contracts with governmental agencies outside of the U.S. which we believe present insignificant credit risk. During the years ended January 31, 2020 and January 31, 2019, we transferred \$49.1 million and \$60.3 million, respectively, to accounts receivable from contract assets recognized at the beginning of each period, as a result of the right to the transaction consideration becoming unconditional. We recognized \$48.8 million and \$63.8 million of contract assets during the years ended January 31, 2020 and January 31, 2019, respectively. Contract assets recognized during the period primarily related to multi-year unbundled SaaS contracts in our Customer Engagement segment that are invoiced annually with license revenue recognized upfront.

Contract liabilities represent consideration received or consideration which is unconditionally due from customers prior to transferring goods or services to the customer under the terms of the contract. Revenue recognized during the years ended January 31, 2020 and January 31, 2019 from amounts included in contract liabilities at the beginning of each period was \$331.6 million and \$303.0 million, respectively.

### Remaining Performance Obligations

Transaction price allocated to remaining performance obligations (“RPO”) represents contracted revenue that has not yet been recognized, which includes contract liabilities and non-cancelable amounts that will be invoiced and recognized as revenue in future periods. The majority of our arrangements are for periods of up to three years, with a significant portion being one year or less.

We elected to exclude amounts of variable consideration attributable to sales- or usage-based royalties in exchange for a license of our IP from the remaining performance obligations. The timing and amount of revenue recognition for our remaining performance obligations is influenced by several factors, including seasonality, the timing of support renewals, and the revenue recognition for certain projects, particularly in our Cyber Intelligence segment, that can extend over longer periods of time, delivery under which, for various reasons, may be delayed, modified, or canceled. Further, we have historically generated a large portion of our business each quarter by orders that are sold and fulfilled within the same reporting period. Therefore, the amount of remaining obligations may not be a meaningful indicator of future results.

The following table provides information about remaining performance obligations for each of our operating segments:

(in thousands)	January 31, 2020			January 31, 2019		
	Customer Engagement	Cyber Intelligence	Total	Customer Engagement	Cyber Intelligence	Total
<b>RPO:</b>						
Expected to be recognized within 1 year	\$ 374,982	\$ 356,677	\$ 731,659	\$ 358,916	\$ 302,703	\$ 661,619
Expected to be recognized in more than 1 year	117,497	225,056	342,553	91,472	267,436	358,908
<b>Total RPO</b>	<b>\$ 492,479</b>	<b>\$ 581,733</b>	<b>\$ 1,074,212</b>	<b>\$ 450,388</b>	<b>\$ 570,139</b>	<b>\$ 1,020,527</b>

### Costs to Obtain and Fulfill Contracts

We capitalize commissions paid to internal sales personnel and agent commissions that are incremental to obtaining customer contracts. We have determined that these commissions are in fact incremental and would not have occurred absent the customer contract. Capitalized sales and agent commissions are amortized on a straight-line basis over the period the goods or services



are transferred to the customer to which the assets relate, which ranges from immediate to as long as six years, if commission amounts paid upon renewal are not commensurate with amounts paid on the initial contract. A portion of the initial commission payable on the majority of Customer Engagement contracts is amortized over the anticipated support renewal period, which is generally four to six years, due to commissions paid on support renewal contracts not being commensurate with amounts paid on the initial contract.

Total capitalized costs to obtain contracts were \$45.0 million as of January 31, 2020, of which \$7.7 million is included in prepaid expenses and other current assets and \$37.3 million is included in other assets on our consolidated balance sheet. Total capitalized costs to obtain contracts were \$36.3 million as of January 31, 2019, of which \$6.5 million is included in prepaid expenses and other current assets and \$29.8 million is included in other assets on our consolidated balance sheet. During the years ended January 31, 2020 and January 31, 2019, we expensed \$54.4 million and \$45.7 million, respectively, of sales and agent commissions, which are included in selling, general and administrative expenses and there was no impairment loss recognized for these capitalized costs.

We capitalize costs incurred to fulfill our contracts when the costs relate directly to the contract and are expected to generate resources that will be used to satisfy the performance obligation under the contract and are expected to be recovered through revenue generated under the contract. Costs to fulfill contracts are expensed to cost of revenue as we satisfy the related performance obligations. Total capitalized costs to fulfill contracts were \$14.7 million as of January 31, 2020, of which \$8.4 million is included in deferred cost of revenue and \$6.3 million is included in long-term deferred cost of revenue on our consolidated balance sheet. Total capitalized costs to fulfill contracts were \$14.9 million as of January 31, 2019, of which \$10.3 million is included in deferred cost of revenue and \$4.6 million is included in long-term deferred cost of revenue on our consolidated balance sheet. Deferred cost of revenue is classified in its entirety as current or long-term based on whether the related revenue will be recognized within twelve months of the origination date of the arrangement. The amounts capitalized primarily relate to nonrecurring costs incurred in the initial phase of our bundled SaaS arrangements (i.e., setup costs), which consist of costs related to the installation of systems and processes and prepaid third-party cloud infrastructure costs. Capitalized setup costs are amortized on a straight-line basis over the expected period of benefit, which includes anticipated contract renewals or extensions, consistent with the transfer to the customer of the services to which the asset relates. During the years ended January 31, 2020 and January 31, 2019, we amortized \$13.1 million and \$18.3 million, respectively, of contract fulfillment costs.

### 3. *NET INCOME (LOSS) PER COMMON SHARE ATTRIBUTABLE TO VERINT SYSTEMS INC.*

The following table summarizes the calculation of basic and diluted net income (loss) per common share attributable to Verint Systems Inc. for the years ended January 31, 2020, 2019, and 2018:

(in thousands, except per share amounts)	Year Ended January 31,		
	2020	2019	2018
Net income (loss)	\$ 35,683	\$ 70,220	\$ (3,454)
Net income attributable to noncontrolling interests	6,999	4,229	3,173
<b>Net income (loss) attributable to Verint Systems Inc.</b>	<b>\$ 28,684</b>	<b>\$ 65,991</b>	<b>\$ (6,627)</b>
<b>Weighted-average shares outstanding:</b>			
<b>Basic</b>	<b>66,129</b>	<b>64,913</b>	<b>63,312</b>
Dilutive effect of employee equity award plans	1,226	1,332	—
Dilutive effect of 1.50% convertible senior notes	—	—	—
Dilutive effect of warrants	—	—	—
<b>Diluted</b>	<b>67,355</b>	<b>66,245</b>	<b>63,312</b>
<b>Net income (loss) per common share attributable to Verint Systems Inc.:</b>			
<b>Basic</b>	<b>\$ 0.43</b>	<b>\$ 1.02</b>	<b>\$ (0.10)</b>
<b>Diluted</b>	<b>\$ 0.43</b>	<b>\$ 1.00</b>	<b>\$ (0.10)</b>



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

(in thousands)	Year Ended January 31,		
	2020	2019	2018
Stock options and restricted stock-based awards	900	276	1,187
1.50% convertible senior notes	6,205	6,205	6,205
Warrants	6,205	6,205	6,205

In periods for which we report a net loss attributable to Verint Systems Inc., basic net loss per common share and diluted net loss per common share are identical since the effect of all potential common shares is anti-dilutive and therefore excluded.

Our 1.50% convertible senior 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 7, “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 7, “Long-Term Debt”) do not impact the calculation of diluted net income (loss) per share under the treasury stock method, because their effect would be anti-dilutive. However, 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 would neutralize the dilutive effect of the common shares that we would issue under the Notes. As a result, actual conversion of any or all of the Notes would not increase our outstanding common stock. Up to 6,205,000 common shares could, however, be issued upon exercise of the Warrants. Further details regarding the Notes, Note Hedges, and the Warrants appear in Note 7, “Long-Term Debt”.

On December 4, 2019, we announced that Valor Parent LP, an affiliate of Apax Partners, will invest up to \$400 million in us, in the form of convertible preferred stock. The calculation of basic and diluted net income (loss) per common share will be impacted upon closing of the investment, which is expected to occur during the first quarter of our fiscal year ending January 31, 2021. Further details regarding the separation of our businesses and the convertible preferred stock investment appear in Note 1, “Summary of Significant Accounting Policies” under “Description of Business”.

#### 4. CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS

The following tables summarize our cash, cash equivalents, and short-term investments as of January 31, 2020 and 2019:

(in thousands)	January 31, 2020			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Cash and cash equivalents:</b>				
Cash and bank time deposits	\$ 379,057	\$ —	\$ —	\$ 379,057
Money market funds	89	—	—	89
<b>Total cash and cash equivalents</b>	<b>\$ 379,146</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 379,146</b>
<b>Short-term investments:</b>				
Bank time deposits	\$ 20,215	\$ —	\$ —	\$ 20,215
<b>Total short-term investments</b>	<b>\$ 20,215</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 20,215</b>

(in thousands)	January 31, 2019			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Cash and cash equivalents:</b>				
Cash and bank time deposits	\$ 359,266	\$ —	\$ —	\$ 359,266
Money market funds	10,709	—	—	10,709
<b>Total cash and cash equivalents</b>	<b>\$ 369,975</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 369,975</b>
<b>Short-term investments:</b>				
Bank time deposits	\$ 32,329	\$ —	\$ —	\$ 32,329
<b>Total short-term investments</b>	<b>\$ 32,329</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 32,329</b>

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.

During the years ended January 31, 2020, 2019, and 2018, proceeds from maturities and sales of available-for-sale securities were \$59.3 million, \$33.1 million, and \$8.7 million, respectively.

## 5. BUSINESS COMBINATIONS AND DIVESTITURES

### *Year Ended January 31, 2020*

During the year ended January 31, 2020, we completed four business combinations:

- On February 1, 2019, we completed the acquisition of a SaaS workforce optimization company focused on the small and medium-sized business (“SMB”) market as part of our strategy to expand our SMB portfolio. This company has been integrated into our Customer Engagement segment.
- On July 25, 2019, we completed the acquisition of a SaaS company focused on cloud-based knowledge management solutions as part of our strategy to add additional artificial intelligence and machine learning capabilities into our portfolio. This company is being integrated into our Customer Engagement segment.
- On December 18, 2019, we completed the acquisition of two software companies under common control focused on multi source intelligence and fusion analytics domains. These companies are being integrated into our Cyber Intelligence segment.
- On January 13, 2020, we completed the acquisition of a SaaS based company providing web and mobile session replay solutions. This company is being integrated into our Customer Engagement segment.

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

The combined consideration for these business combinations of \$89.3 million consisted of (i) \$76.2 million of combined cash paid at closings or shortly thereafter, partially offset by \$2.4 million of cash acquired, resulting in net cash consideration at closing of \$73.8 million; and (ii) the fair value of the contingent consideration arrangements described below of \$15.3 million; offset by (iii) \$2.1 million of other purchase price adjustments. For three of the business combinations, we agreed to make potential additional cash payments to the respective former stockholders aggregating up to approximately \$23.5 million, contingent upon the achievement of certain performance targets over periods extending through January 2022, the fair value of which was estimated to be \$15.3 million at the acquisition date. Cash paid for these business combinations was funded by cash on hand.

The purchase prices for these business combinations were allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition dates, with the remaining unallocated purchase prices recorded

as goodwill. The fair value assigned to identifiable intangible assets acquired were determined primarily by using the income approach, which discounts expected future cash flows to present value using estimates and assumptions determined by management.

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 \$50.7 million of goodwill associated with these business combinations, \$39.1 million and \$11.6 million was assigned to our Customer Engagement and Cyber Intelligence segments, respectively, and \$15.7 million of which is deductible for income tax purposes.

Revenue and net income (loss) attributable to these business combinations for the year ended January 31, 2020 were not material.

Transaction and related costs, consisting primarily of professional fees and integration expenses, directly related to these business combinations, totaled \$5.7 million and \$1.0 million for the year ended January 31, 2020 and 2019, 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 year ended January 31, 2020 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, goodwill, 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 year ended January 31, 2020:

(in thousands)	Amount
<b>Components of Purchase Prices:</b>	
Cash	\$ 76,198
Fair value of contingent consideration	15,253
Other purchase price adjustments	(2,137)
<b>Total purchase prices</b>	<b>\$ 89,314</b>
<b>Allocation of Purchase Prices:</b>	
<b>Net tangible assets (liabilities):</b>	
Accounts receivable	\$ 3,734
Other current assets, including cash acquired	14,086
Other assets	6,556
Current and other liabilities	(8,364)
Contract liabilities - current and long-term	(3,794)
Deferred income taxes	(4,061)
<b>Net tangible assets</b>	<b>8,157</b>
<b>Identifiable intangible assets:</b>	
Customer relationships	13,299
Developed technology	14,443
Trademarks and trade names	1,367
Non-compete agreements	1,307
<b>Total identifiable intangible assets</b>	<b>30,416</b>
<b>Goodwill</b>	<b>50,741</b>
<b>Total purchase prices allocation</b>	<b>\$ 89,314</b>

For these business combinations, customer relationships, developed technology, trademarks and trade names, and non-compete agreements were assigned estimated useful lives of from five years to nine years, four years to five years, three years to five years, and three years, respectively, the weighted average of which is approximately 6.1 years.

***Year Ended January 31, 2019***

**ForeSee Results, Inc.**

On December 19, 2018, we completed the acquisition of all of the outstanding shares of ForeSee Results, Inc. and all of the outstanding membership interests of RSR Acquisition LLC (together, “ForeSee”), a leading cloud Voice of the Customer (“VOC”) vendor with software solutions designed to measure and benchmark a 360-degree view of the customer across every touch point. ForeSee is based in Ann Arbor, Michigan.

The purchase price of \$65.2 million consisted of (i) \$58.9 million of cash paid at closing, funded from cash on hand, partially offset by \$0.4 million of ForeSee’s cash received in the acquisition, resulting in net cash consideration at closing of \$58.5 million; (ii) a post-closing deferred purchase price adjustment of \$6.0 million which was paid in April 2019; and (iii) \$0.3 million of other purchase price adjustments. The acquired business has been integrated into our Customer Engagement operating segment.

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

Among the factors contributing to the recognition of goodwill as a component of the ForeSee purchase price allocation were synergies in products and technologies, and the addition of a skilled, assembled workforce. The \$34.3 million of goodwill has been assigned to our Customer Engagement segment. For income tax purposes, \$1.1 million of this goodwill is deductible and \$33.2 million is not deductible.

In connection with the purchase price allocation for ForeSee, the estimated fair value of undelivered performance obligations under customer contracts assumed in the acquisition was determined utilizing a cost build-up approach. The cost build-up approach calculated fair value by estimating the costs required to fulfill the obligations plus a reasonable profit margin, which approximates the amount that we believe would be required to pay a third party to assume the performance obligations. The estimated costs to fulfill the performance obligations were based on the historical direct costs for delivering similar services. As a result, in allocating the purchase price, we recorded \$9.8 million of current and long-term contract liabilities, representing the estimated fair value of undelivered performance obligations for which payment had been received, which will be recognized as revenue as the underlying performance obligations are delivered. For undelivered performance obligations for which payment had not been received, we recorded a \$10.2 million asset as a component of the purchase price allocation, representing the estimated fair value of these obligations, \$5.5 million of which is included within prepaid expenses and other current assets, and \$4.7 million of which is included in other assets. We are amortizing this asset over the underlying delivery periods, which adjusts the revenue we recognize for providing these services to its estimated fair value.

Transaction and related costs directly related to the acquisition of ForeSee, consisting primarily of professional fees and integration expenses, were \$3.5 million and \$3.3 million for the years ended January 31, 2020 and 2019, respectively, and were expensed as incurred and are included in selling, general and administrative expenses.

Revenue attributable to ForeSee included in our consolidated statement of operations for the year ended January 31, 2019 was not material. A loss before provision (benefit) for income taxes of \$6.0 million attributable to ForeSee is included in our consolidated statement of operations for the year ended January 31, 2019.

The following table sets forth the components and the allocation of the purchase price for our acquisition of ForeSee, including adjustments identified subsequent to the valuation date, none of which were material:

(in thousands)	Amount
<b>Components of Purchase Price:</b>	
Cash	\$ 58,901
Deferred purchase price consideration	6,000
Other purchase price adjustments	262
<b>Total purchase price</b>	<b>\$ 65,163</b>
<b>Allocation of Purchase Price:</b>	
<b>Net tangible assets (liabilities):</b>	
Accounts receivable	\$ 7,245
Other current assets, including cash acquired	8,101
Other assets	6,075
Current and other liabilities	(12,710)
Contract liabilities - current and long-term	(9,821)
Deferred income taxes	(10,687)
<b>Net tangible liabilities</b>	<b>(11,797)</b>
<b>Identifiable intangible assets:</b>	
Customer relationships	19,400
Developed technology	20,000
Trademarks and trade names	3,300
<b>Total identifiable intangible assets</b>	<b>42,700</b>
<b>Goodwill</b>	<b>34,260</b>
<b>Total purchase price allocation</b>	<b>\$ 65,163</b>

The acquired customer relationships, developed technology, and trademarks and trade names were assigned estimated useful lives of five years and nine years, four years, and four years, respectively, the weighted average of which is approximately 6.1 years. The acquired identifiable intangible assets are being amortized on a straight-line basis, which we believe approximates the pattern in which the assets are utilized, over their estimated useful lives.

### Other Business Combinations

During the year ended January 31, 2019, we completed three other business combinations:

- On July 18, 2018, we completed the acquisition of a business that has been integrated into our Customer Engagement operating segment.
- On November 8, 2018, we completed the acquisition of a business that has been integrated into our Cyber Intelligence operating segment, in which we had a \$2.2 million, or approximately 19%, noncontrolling equity investment prior to the acquisition.
- On November 9, 2018, we acquired certain technology and other assets for use in our Customer Engagement operating segment in a transaction that qualified as a business combination.

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

The combined consideration for these business combinations was approximately \$51.3 million, including \$33.1 million of combined cash paid at the closings. For two of these business combinations, we also agreed to make potential additional cash payments to the respective former stockholders aggregating up to approximately \$35.5 million, contingent upon the achievement of certain performance targets over periods extending through January 2021. The fair value of these contingent consideration obligations was estimated to be \$15.9 million at the applicable acquisition dates. The acquisition date fair value

of our previously held equity interest was approximately \$2.2 million and was included in the measurement of the consideration transferred. Cash paid for these business combinations was funded by cash on hand.

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

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 \$25.1 million of goodwill associated with these business combinations, \$14.3 million and \$10.8 million was assigned to our Customer Engagement and Cyber Intelligence segments, respectively, and for income tax purposes is not deductible.

Revenue and net income (loss) attributable to these business combinations for the year ended January 31, 2019 were not material.

Transaction and related costs, consisting primarily of professional fees and integration expenses, directly related to these business combinations, totaled \$0.9 million for each of the years ended January 31, 2020 and 2019, 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 year ended January 31, 2019 are final.

The following table sets forth the components and the allocations of the combined purchase prices for the business combinations, other than ForeSee, completed during the year ended January 31, 2019, including adjustments identified subsequent to the respective valuation dates, none of which were material:

(in thousands)	Amount
<b>Components of Purchase Prices:</b>	
Cash	\$ 33,138
Fair value of contingent consideration	15,875
Fair value of previously held equity interest	2,239
<b>Total purchase prices</b>	<b>\$ 51,252</b>
<b>Allocation of Purchase Prices:</b>	
<b>Net tangible assets (liabilities):</b>	
Accounts receivable	\$ 1,897
Other current assets, including cash acquired	6,901
Other assets	9,432
Current and other liabilities	(2,151)
Contract liabilities - current and long-term	(771)
Deferred income taxes	(7,914)
<b>Net tangible assets</b>	<b>7,394</b>
<b>Identifiable intangible assets:</b>	
Customer relationships	7,521
Developed technology	10,692
Trademarks and trade names	500
<b>Total identifiable intangible assets</b>	<b>18,713</b>
<b>Goodwill</b>	<b>25,145</b>
<b>Total purchase price allocations</b>	<b>\$ 51,252</b>

For these business combinations, customer relationships, developed technology, and trademarks and trade names were assigned estimated useful lives of from seven years to ten years, three years to five years, and four years, respectively, the weighted average of which is approximately 6.6 years.

***Year Ended January 31, 2018***

During the year ended January 31, 2018, we completed seven business combinations:

- On February 1, March 20, October 3, November 3, December 19, and December 21, 2017, we completed acquisitions of businesses that were integrated into our Customer Engagement operating segment. One of the transactions was an asset acquisition that qualified as a business combination, and another of which retained a noncontrolling interest.
- On July 1, 2017, we completed the acquisition of a business that was integrated into our Cyber Intelligence operating segment.

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

The combined consideration for these business combinations was approximately \$134.8 million, including \$106.0 million of combined cash paid at the closings. For five of these business combinations, we also agreed to make potential additional cash payments to the respective former stockholders aggregating up to approximately \$47.3 million, contingent upon the achievement of certain performance targets over periods extending through January 2022. The fair value of these contingent consideration obligations was estimated to be \$25.9 million at the applicable acquisition dates. Cash paid for these business combinations was funded by cash on hand.

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

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 \$80.2 million of goodwill associated with these business combinations, \$76.4 million and \$3.8 million was assigned to our Customer Engagement and Cyber Intelligence segments, respectively. For income tax purposes, \$14.5 million of this goodwill is deductible and \$65.7 million is not deductible.

Revenue and the impact on net loss attributable to these business combinations for the year ended January 31, 2018 were not material.

Transaction and related costs, consisting primarily of professional fees and integration expenses, directly related to these business combinations, totaled \$0.4 million, \$2.5 million and \$4.9 million for the years ended January 31, 2020, 2019 and 2018, 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 year ended January 31, 2018 are final.

The following table sets forth the components and the allocations of the combined purchase prices for the business combinations completed during the year ended January 31, 2018, including adjustments identified subsequent to the respective valuation dates, none of which were material:



(in thousands)	Amount
<b>Components of Purchase Prices:</b>	
Cash	\$ 106,049
Fair value of contingent consideration	25,874
Other purchase price adjustments	2,897
<b>Total purchase prices</b>	<b>\$ 134,820</b>
<b>Allocation of Purchase Prices:</b>	
<b>Net tangible assets (liabilities):</b>	
Accounts receivable	\$ 4,184
Other current assets, including cash acquired	15,108
Other assets	2,765
Current and other liabilities	(12,512)
Contract liabilities - current and long-term	(4,424)
Deferred income taxes	(7,381)
<b>Net tangible liabilities</b>	<b>(2,260)</b>
<b>Identifiable intangible assets:</b>	
Customer relationships	24,812
Developed technology	29,614
Trademarks and trade names	2,456
<b>Total identifiable intangible assets</b>	<b>56,882</b>
<b>Goodwill</b>	<b>80,198</b>
<b>Total purchase price allocations</b>	<b>\$ 134,820</b>

For these business combinations, customer relationships, developed technology, and trademarks and trade names were assigned estimated useful lives of from three years to ten years, from three years to eight years, and from one year to seven years, respectively, the weighted average of which is approximately 6.8 years.

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

The pro forma impact of all business combinations completed during the three years ended January 31, 2020 was not material to our historical consolidated operating results and is therefore not presented.

The acquisition date fair values of contingent consideration obligations associated with business combinations are 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 include 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 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.

For the years ended January 31, 2020, 2019, and 2018, we recorded benefits of \$0.5 million, \$3.6 million, and \$8.3 million, respectively, within selling, general and administrative expenses for changes in the fair values of contingent consideration obligations associated with business combinations. The aggregate fair value of the remaining contingent consideration obligations associated with business combinations was \$42.9 million at January 31, 2020, of which \$22.9 million was recorded within accrued expenses and other current liabilities, and \$20.0 million was recorded within other liabilities.

Payments of contingent consideration earned under these agreements were \$33.1 million, \$13.6 million, and \$9.4 million for the years ended January 31, 2020, 2019, and 2018, respectively.

### ***Divestiture***

In January 2020, we completed the sale of an insignificant subsidiary in our Customer Engagement segment, which qualified as a separate business, as it no longer fit with our strategic direction or growth targets. In accordance with the terms of the sale agreement, the aggregate purchase price is equal to a percentage of net sales of the former subsidiary's products during the thirty-six month period following the transaction closing date. We determined the estimated fair value of the contingent consideration with the assistance of a third-party valuation specialist and estimates made by management. The transaction reduced goodwill by \$1.1 million and intangible assets by \$1.9 million. The transaction resulted in a loss of approximately \$2.2 million, which was recorded as part of selling, general, and administrative expenses in our consolidated statement of operations.

## 6. INTANGIBLE ASSETS AND GOODWILL

Acquisition-related intangible assets consisted of the following as of January 31, 2020 and 2019:

(in thousands)	January 31, 2020		
	Cost	Accumulated Amortization	Net
<b>Intangible assets with finite lives:</b>			
Customer relationships	\$ 465,130	\$ (328,069)	\$ 137,061
Acquired technology	294,841	(241,585)	53,256
Trade names	12,957	(6,783)	6,174
Distribution network	4,440	(4,440)	—
Non-competition agreements	1,307	(34)	1,273
<b>Total intangible assets</b>	<b>\$ 778,675</b>	<b>\$ (580,911)</b>	<b>\$ 197,764</b>

(in thousands)	January 31, 2019		
	Cost	Accumulated Amortization	Net
<b>Intangible assets with finite lives:</b>			
Customer relationships	\$ 452,918	\$ (299,549)	\$ 153,369
Acquired technology	285,230	(221,145)	64,085
Trade names	12,859	(5,130)	7,729
Distribution network	4,440	(4,440)	—
<b>Total intangible assets</b>	<b>\$ 755,447</b>	<b>\$ (530,264)</b>	<b>\$ 225,183</b>

The following table presents net acquisition-related intangible assets by reportable segment as of January 31, 2020 and 2019:

(in thousands)	January 31,	
	2020	2019
Customer Engagement	\$ 189,896	\$ 218,738
Cyber Intelligence	7,868	6,445
<b>Total</b>	<b>\$ 197,764</b>	<b>\$ 225,183</b>

Total amortization expense recorded for acquisition-related intangible assets was \$55.4 million, \$56.4 million, and \$72.4 million for the years ended January 31, 2020, 2019, and 2018, 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)

<b>Years Ending January 31,</b>	<b>Amount</b>
2021	\$ 50,083
2022	46,645
2023	38,570
2024	28,262
2025	11,814
Thereafter	22,390
<b>Total</b>	<b>\$ 197,764</b>

During the years ended January 31, 2020 and 2018, we recorded \$0.1 million and \$3.3 million, respectively, of impairments for certain acquired trade names and customer-related intangible assets, which is included within selling, general and administrative expenses. No impairments of acquired intangible assets were recorded during the year ended January 31, 2019.

Goodwill activity for the years ended January 31, 2020, and 2019, in total and by reportable segment, was as follows:

(in thousands)	Total	Reportable Segment	
		Customer Engagement	Cyber Intelligence
Year Ended January 31, 2019:			
Goodwill, gross, at January 31, 2018	\$ 1,455,164	\$ 1,307,136	\$ 148,028
Accumulated impairment losses through January 31, 2018	(66,865)	(56,043)	(10,822)
Goodwill, net, at January 31, 2018	1,388,299	1,251,093	137,206
Business combinations, including adjustments to prior period acquisitions	59,035	48,225	10,810
Foreign currency translation and other	(29,853)	(28,991)	(862)
Goodwill, net, at January 31, 2019	\$ 1,417,481	\$ 1,270,327	\$ 147,154
Year Ended January 31, 2020:			
Goodwill, gross, at January 31, 2019	\$ 1,484,346	\$ 1,326,370	\$ 157,976
Accumulated impairment losses through January 31, 2019	(66,865)	(56,043)	(10,822)
Goodwill, net, at January 31, 2019	1,417,481	1,270,327	147,154
Business combinations, including adjustments to prior period acquisitions	51,301	39,704	11,597
Foreign currency translation and other	429	1,037	(608)
Goodwill, net, at January 31, 2020	\$ 1,469,211	\$ 1,311,068	\$ 158,143
Balance at January 31, 2020			
Goodwill, gross, at January 31, 2020	\$ 1,536,076	\$ 1,367,111	\$ 168,965
Accumulated impairment losses through January 31, 2020	(66,865)	(56,043)	(10,822)
Goodwill, net, at January 31, 2020	\$ 1,469,211	\$ 1,311,068	\$ 158,143

For purposes of reviewing for potential goodwill impairment, we have three reporting units, consisting of Customer Engagement, Cyber Intelligence (excluding situational intelligence solutions), and Situational Intelligence, which is a component of our Cyber Intelligence operating segment. Based on our November 1, 2019 quantitative goodwill impairment reviews, we concluded that the estimated fair values of all of our reporting units significantly exceeded their carrying values. Based on our November 1, 2018 goodwill impairment qualitative review of each reporting unit, we determined that it is more likely than not that the fair value of each of our reporting units substantially exceeds the respective carrying amounts. Accordingly, there was no indication of impairment and a quantitative goodwill impairment test was not performed.

No changes in circumstances or indicators of potential impairment were identified between November 1 and January 31 in each of the years ended January 31, 2020 and 2019.

No goodwill impairment was identified for the years ended January 31, 2020, 2019, and 2018.

## 7. LONG-TERM DEBT

The following table summarizes our long-term debt at January 31, 2020 and 2019:

(in thousands)	January 31,	
	2020	2019
1.50% Convertible Senior Notes	\$ 400,000	\$ 400,000
June 2017 Term Loan	414,375	418,625
Borrowings under 2017 Revolving Credit Facility	45,000	—
Other debt	—	92
Less: Unamortized debt discounts and issuance costs	(22,327)	(36,589)
<b>Total debt</b>	<b>837,048</b>	<b>782,128</b>
Less: current maturities	4,250	4,343
<b>Long-term debt</b>	<b>\$ 832,798</b>	<b>\$ 777,785</b>

### 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 (“Notes”), 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 public 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 a prior credit agreement.

The Notes are unsecured and 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. If converted, we currently intend to pay cash in respect of the principal amount of the Notes. We currently expect to refinance the Notes at or prior to maturity with new convertible notes or other debt.

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.

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 other specified conditions for conversion have been satisfied. As of January 31, 2020, 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 debt and equity components of the Notes to be \$319.9 million and \$80.1 million respectively, at the issuance date assuming a 5.00% non-convertible borrowing rate. The equity component 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 of the Notes are presented as a reduction of long-term debt 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 January 31, 2020.

As of January 31, 2020, the carrying value of the debt component was \$380.6 million, which is net of unamortized debt discount and issuance costs of \$17.7 million and \$1.7 million, respectively. Including the impact of the debt discount and related deferred debt issuance costs, the effective interest rate on the Notes was approximately 5.29% for each of the years ended January 31, 2020, 2019, and 2018.

Based on the closing market price of our common stock on January 31, 2020, 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 January 31, 2020, 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 January 31, 2020, 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 Agreements***

#### **2017 Credit Agreement**

On June 29, 2017, we entered into a new credit agreement (the “2017 Credit Agreement”) with certain lenders and terminated the prior credit agreement.

The 2017 Credit Agreement provides for \$725.0 million of senior secured credit facilities, comprised of a \$425.0 million term loan maturing on June 29, 2024 (the “2017 Term Loan”) and a \$300.0 million revolving credit facility maturing on June 29, 2022 (the “2017 Revolving Credit Facility”), subject to increase and reduction from time to time according to the terms of the 2017 Credit Agreement. The maturity dates of the 2017 Term Loan and 2017 Revolving Credit Facility will be accelerated to March 1, 2021 if on such date any Notes remain outstanding.

The majority of the proceeds from the 2017 Term Loan were used to repay all outstanding terms loans under our prior credit agreement.

The 2017 Term Loan was subject to an original issuance discount of approximately \$0.5 million. This discount is being amortized as interest expense over the term of the 2017 Term Loan using the effective interest method.

Interest rates on loans under the 2017 Credit Agreement are periodically reset, at our option, at either a Eurodollar Rate or an ABR rate (each as defined in the 2017 Credit Agreement), plus in each case a margin.

On January 31, 2018, we entered into an amendment to the 2017 Credit Agreement (the “2018 Amendment”) providing for, among other things, a reduction of the interest rate margins on the 2017 Term Loan from 2.25% to 2.00% for Eurodollar loans, and from 1.25% to 1.00% for ABR loans. The vast majority of the impact of the 2018 Amendment was accounted for as a debt modification. For the portion of the 2017 Term Loan which was considered extinguished and replaced by new loans, we wrote off \$0.2 million of unamortized deferred debt issuance costs as a loss on early retirement of debt during the three months ended January 31, 2018. The remaining unamortized deferred debt issuance costs and discount are being amortized over the remaining term of the 2017 Term Loan.

As of January 31, 2020, the interest rate on the 2017 Term Loan was 3.85%. Taking into account the impact of the original issuance discount and related deferred debt issuance costs, the effective interest rate on the 2017 Term Loan was approximately 4.02% at January 31, 2020. As of January 31, 2019, the interest rate on the 2017 Term Loan was 4.52%.

Borrowings under the 2017 Revolving Credit Facility were \$45.0 million at January 31, 2020, which is included in long-term debt on our consolidated balance sheet. For borrowings under the 2017 Revolving Credit Facility, the margin is determined by reference to our Consolidated Total Debt to Consolidated EBITDA (each as defined in the 2017 Credit Agreement) leverage ratio (the “Leverage Ratio”). As of January 31, 2020, the interest rate on our revolving credit facility borrowings was 3.41%. In addition, we are required to pay a commitment fee with respect to unused availability under the 2017 Revolving Credit Facility at rates per annum determined by reference to our Leverage Ratio. The proceeds of borrowings under the 2017 Revolving Credit Facility were used to fund a portion of our new share repurchase program. Please refer to Note 9, “Stockholders’ Equity”, for more information regarding the share repurchase program.

The 2017 Term Loan requires quarterly principal payments of approximately \$1.1 million, which commenced on August 1, 2017, with the remaining balance due on June 29, 2024. Optional prepayments of loans under the 2017 Credit Agreement are generally permitted without premium or penalty.

Our obligations under the 2017 Credit Agreement are guaranteed by each of our direct and indirect existing and future material domestic wholly owned restricted subsidiaries, and are secured by a security interest in substantially all of our assets and the assets of the guarantor subsidiaries, subject to certain exceptions.

The 2017 Credit Agreement contains certain customary affirmative and negative covenants for credit facilities of this type. The 2017 Credit Agreement also contains a financial covenant that, solely with respect to the 2017 Revolving Credit Facility, requires us to maintain a Leverage Ratio of no greater than 4.50 to 1. The limitations imposed by the covenants are subject to certain exceptions as detailed in the 2017 Credit Agreement.

The 2017 Credit Agreement provides for events of default with corresponding grace periods that we believe are customary for credit facilities of this type. Upon an event of default, all of our obligations owed under the 2017 Credit Agreement may be declared immediately due and payable, and the lenders’ commitments to make loans under the 2017 Credit Agreement may be terminated.

## **Subsequent Event**

Subsequent to the year ended January 31, 2020, we increased the borrowings under our 2017 Revolving Credit Facility. As of the date of this report, we have a total of \$200.0 million outstanding under the revolving credit facility, which currently bears interest at a weighted average rate of 2.8% per annum.

### **Loss on Early Retirement of 2014 Term Loans**

Our prior credit agreement provided for senior secured credit facilities, comprised of \$943.5 million of term loans, of which \$300.0 million was borrowed in February 2014 and \$643.5 million was borrowed in March 2014 (together, the “2014 Term Loans”), the outstanding portion of which was scheduled to mature in September 2019, and a \$300.0 million revolving credit facility (the “Prior Revolving Credit Facility”), which was scheduled to mature in September 2018, subject to increase and reduction from time to time, in accordance with the terms of the prior credit agreement.

At the June 29, 2017 closing date of the 2017 Credit Agreement, there were \$3.2 million of unamortized deferred debt issuance costs and a \$0.1 million unamortized term loan discount associated with the 2014 Term Loans and the Prior Revolving Credit Facility. Of the \$3.2 million of unamortized deferred debt issuance costs, \$1.4 million was associated with commitments under the Prior Revolving Credit Facility provided by lenders that are continuing to provide commitments under the 2017 Revolving Credit Facility and therefore continued to be deferred, and are being amortized on a straight-line basis over the term of the 2017 Revolving Credit Facility. The remaining \$1.8 million of unamortized deferred debt issuance costs and the \$0.1 million unamortized discount, all of which related to the 2014 Term Loans, were written off as a \$1.9 million loss on early retirement of debt during the three months ended July 31, 2017.

### **2017 Credit Agreement Issuance Costs**

We incurred debt issuance costs of approximately \$6.8 million in connection with the 2017 Credit Agreement, of which \$4.1 million were associated with the 2017 Term Loan and \$2.7 million were associated with the 2017 Revolving Credit Facility, which were deferred and are being amortized as interest expense over the terms of the facilities under the 2017 Credit Agreement. As noted previously, during the three months ended January 31, 2018, we wrote off \$0.2 million of deferred debt issuance costs associated with the 2017 Term Loan as a result of the 2018 Amendment. Deferred debt issuance costs associated with the 2017 Term Loan are being amortized using the effective interest rate method, and deferred debt issuance costs associated with the 2017 Revolving Credit Facility are being amortized on a straight-line basis.

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

As of January 31, 2020, future scheduled principal payments on the 2017 Term Loan were as follows:

(in thousands)

<b>Years Ending January 31,</b>	<b>Amount</b>
2021	\$ 4,250
2022	4,250
2023	4,250
2024	4,250
2025	397,375
<b>Total</b>	<b>\$ 414,375</b>

### ***Interest Expense***



The following table presents the components of interest expense incurred on the Notes and on borrowings under our credit agreements for the years ended January 31, 2020, 2019, and 2018:

(in thousands)	Year Ended January 31,		
	2020	2019	2018
<b>1.50% Convertible Senior Notes:</b>			
Interest expense at 1.50% coupon rate	\$ 6,000	\$ 6,000	\$ 6,000
Amortization of debt discount	12,490	11,850	11,244
Amortization of deferred debt issuance costs	1,177	1,118	1,060
<b>Total Interest Expense - 1.50% Convertible Senior Notes</b>	<b>\$ 19,667</b>	<b>\$ 18,968</b>	<b>\$ 18,304</b>
<b>Borrowings under Credit Agreements:</b>			
Interest expense at contractual rates	\$ 18,021	\$ 17,741	\$ 15,412
Impact of interest rate swap agreement	792	—	254
Amortization of debt discounts	68	67	65
Amortization of deferred debt issuance costs	1,569	1,554	1,839
<b>Total Interest Expense - Borrowings under Credit Agreements</b>	<b>\$ 20,450</b>	<b>\$ 19,362</b>	<b>\$ 17,570</b>

## 8. SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENT INFORMATION

### Consolidated Balance Sheets

Inventories consisted of the following as of January 31, 2020 and 2019:

(in thousands)	January 31,	
	2020	2019
Raw materials	\$ 9,628	\$ 10,875
Work-in-process	4,749	5,567
Finished goods	6,118	8,510
<b>Total inventories</b>	<b>\$ 20,495</b>	<b>\$ 24,952</b>

Property and equipment, net consisted of the following as of January 31, 2020 and 2019:

(in thousands)	January 31,	
	2020	2019
Land and buildings	\$ 10,754	\$ 10,632
Leasehold improvements	35,463	31,694
Software	53,606	51,950
Equipment, furniture, and other	199,268	164,351
<b>Total cost</b>	<b>299,091</b>	<b>258,627</b>
Less: accumulated depreciation and amortization	(182,980)	(158,493)
<b>Total property and equipment, net</b>	<b>\$ 116,111</b>	<b>\$ 100,134</b>

Depreciation expense on property and equipment was \$28.5 million, \$25.5 million, and \$26.0 million in the years ended January 31, 2020, 2019, and 2018, respectively.

Other assets consisted of the following as of January 31, 2020 and 2019:

(in thousands)	January 31,	
	2020	2019
Deferred commissions	\$ 37,263	\$ 29,815
Capitalized software development costs, net	27,030	13,342
Long-term restricted cash and time deposits	26,362	23,193
Long-term deferred cost of revenue	6,345	4,630
Deferred debt issuance costs, net	2,005	2,836
Long-term security deposits	1,920	3,760
Other	17,038	19,267
<b>Total other assets</b>	<b>\$ 117,963</b>	<b>\$ 96,843</b>

Accrued expenses and other current liabilities consisted of the following as of January 31, 2020 and 2019:

(in thousands)	January 31,	
	2020	2019
Compensation and benefits	\$ 100,225	\$ 96,703
Contingent consideration - current portion	22,859	28,415
Operating lease obligations - current portion	22,656	1,794
Taxes other than income taxes	18,642	20,428
Income taxes	15,084	7,497
Distributor and agent commissions	10,097	11,446
Professional and consulting fees	4,367	3,929
Other	35,768	38,269
<b>Total accrued expenses and other current liabilities</b>	<b>\$ 229,698</b>	<b>\$ 208,481</b>

Other liabilities consisted of the following as of January 31, 2020 and 2019:

(in thousands)	January 31,	
	2020	2019
Unrecognized tax benefits, including interest and penalties	\$ 22,355	\$ 33,063
Contingent consideration - long-term portion	20,017	32,925
Derivative financial instruments - long-term portion	11,441	3,906
Finance lease obligations - long-term portion	7,210	3,067
Obligations for severance compensation	2,627	2,601
Deferred rent expense	—	12,254
Other	3,505	5,536
<b>Total other liabilities</b>	<b>\$ 67,155</b>	<b>\$ 93,352</b>

### Consolidated Statements of Operations

Other income (expense), net consisted of the following for the years ended January 31, 2020, 2019, and 2018:

(in thousands)	Year Ended January 31,		
	2020	2019	2018
Foreign currency (losses) gains, net	\$ (56)	\$ (5,519)	\$ 6,760
Gains (losses) on derivative financial instruments, net	599	2,511	(17)
Other, net	(338)	(898)	(841)
<b>Total other income (expense), net</b>	<b>\$ 205</b>	<b>\$ (3,906)</b>	<b>\$ 5,902</b>

### Consolidated Statements of Cash Flows

The following table provides supplemental information regarding our consolidated cash flows for the years ended January 31, 2020, 2019, and 2018:

(in thousands)	Year Ended January 31,		
	2020	2019	2018
Cash paid for interest	\$ 23,232	\$ 22,258	\$ 24,402
Cash payments of income taxes, net	\$ 15,391	\$ 26,887	\$ 23,450
<b>Non-cash investing and financing transactions:</b>			
Liabilities for contingent consideration in business combinations	\$ 15,253	\$ 15,944	\$ 27,605
Finance leases of property and equipment	\$ 6,404	\$ 1,137	\$ 4,350
Accrued but unpaid purchases of property and equipment	\$ 4,362	\$ 3,376	\$ 2,367
Accrued but unpaid purchases of treasury stock	\$ 2,846	\$ —	\$ —
Leasehold improvements funded by lease incentives	\$ 2,604	\$ 1,397	\$ —
Inventory transfers to property and equipment	\$ 825	\$ 1,699	\$ 437
Contingent receivable in exchange for sale of subsidiary	\$ 738	\$ —	\$ —

## 9. STOCKHOLDERS' EQUITY

### *Common Stock Dividends*

We did not declare or pay any dividends on our common stock during the years ended January 31, 2020, 2019, and 2018. Under the terms of our 2017 Credit Agreement, we are subject to certain restrictions on declaring and paying dividends on our common stock.

### *Share Repurchase Program*

On March 29, 2016, we announced that our board of directors had authorized a common stock repurchase program of up to \$150.0 million over two years. This program expired on March 29, 2018. We made a total of \$46.9 million in repurchases under the program.

On December 4, 2019, we announced that our board of directors had authorized a new share repurchase program whereby we may repurchase up to \$300.0 million of common stock over the period ending on February 1, 2021. We made \$116.1 million in repurchases under the program during the year ended January 31, 2020.

### *Treasury Stock*

Repurchased shares of common stock are recorded as treasury stock, at cost, but may from time to time be retired. At January 31, 2020, we held approximately 3,791,000 shares of treasury stock with a cost of \$174.1 million. At January 31, 2019, we held approximately 1,665,000 and shares of treasury stock with a cost of \$57.6 million.

During the year ended January 31, 2020 we acquired approximately 2,126,000 shares of treasury stock for a cost of \$116.5 million, which includes \$116.1 million of share repurchases under the new share repurchase program described above and other repurchases to facilitate income tax withholding upon vesting of equity awards. During the year ended January 31, 2019 we acquired approximately 4,000 shares of treasury stock for a cost of \$0.2 million. During the year ended January 31, 2018 we received approximately 7,000 shares of treasury stock in a nonmonetary transaction valued at \$0.3 million.

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

### *Accumulated Other Comprehensive Income (Loss)*

Accumulated other comprehensive income (loss) includes items such as foreign currency translation adjustments and unrealized gains and losses on 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 consolidated balance sheets. Accumulated other comprehensive income (loss) items have no impact on our net income (loss) as presented in our consolidated statements of operations.

The following table summarizes changes in the components of our accumulated other comprehensive income (loss) for the years ended January 31, 2020 and 2019:

(in thousands)	Unrealized Gains (Losses) on Derivative Financial Instruments Designated as	Unrealized Gain on Interest Rate Swap Designated as Hedge	Foreign Currency Translation Adjustments	Total
<b>Accumulated other comprehensive income (loss) at January 31, 2018</b>	<b>\$ 3,312</b>	<b>\$ —</b>	<b>\$ (106,772)</b>	<b>\$ (103,460)</b>
Other comprehensive loss before reclassifications	(8,083)	(3,043)	(34,429)	(45,555)
Amounts reclassified out of accumulated other comprehensive income (loss)	(3,790)	—	—	(3,790)
Net other comprehensive loss	(4,293)	(3,043)	(34,429)	(41,765)
<b>Accumulated other comprehensive loss at January 31, 2019</b>	<b>(981)</b>	<b>(3,043)</b>	<b>(141,201)</b>	<b>(145,225)</b>
Other comprehensive income (loss) before reclassifications	2,015	(8,102)	(762)	(6,849)
Amounts reclassified out of accumulated other comprehensive loss	408	(617)	—	(209)
Net other comprehensive income (loss)	1,607	(7,485)	(762)	(6,640)
<b>Accumulated other comprehensive income (loss) at January 31, 2020</b>	<b>\$ 626</b>	<b>\$ (10,528)</b>	<b>\$ (141,963)</b>	<b>\$ (151,865)</b>

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 consolidated statement of operations, with presentation location, for the years ended January 31, 2020, 2019, and 2018 were as follows:

	Year Ended January 31,			Financial Statement Location
(in thousands)	2020	2019	2018	
Unrealized gains (losses) on derivative financial instruments:				
Foreign currency forward contracts	\$ 11	\$ (350)	\$ 621	Cost of product revenue
	64	(388)	599	Cost of service and support revenue
	250	(2,138)	3,577	Research and development, net
	128	(1,343)	2,016	Selling, general and administrative
	453	(4,219)	6,813	Total, before income taxes
	(45)	429	(683)	(Provision) benefit for income taxes
	\$ 408	\$ (3,790)	\$ 6,130	Total, net of income taxes
Interest rate swap agreement	\$ (792)	\$ —	\$ (254)	Interest expense
	—	—	934	Other income (expense), net
	(792)	—	680	Total, before income taxes
	175	—	(389)	Benefit (provision) for income taxes
	\$ (617)	\$ —	\$ 291	Total, net of income taxes

## 10. RESEARCH AND DEVELOPMENT, NET

Our gross research and development expenses for the years ended January 31, 2020, 2019, and 2018, were \$233.1 million, \$211.0 million, and \$192.6 million, respectively. Reimbursements from the IIA and other government grant programs amounted to \$1.4 million, \$1.9 million, and \$2.0 million for the years ended January 31, 2020, 2019, and 2018, respectively, which were recorded as reductions of gross research and development expenses.

We capitalize certain costs incurred to develop our commercial software products, and we then recognize those costs within cost of product revenue as the products are sold. Activity for our capitalized software development costs for the years ended January 31, 2020, 2019, and 2018 was as follows:

(in thousands)	Year Ended January 31,		
	2020	2019	2018
Capitalized software development costs, net, beginning of year	\$ 13,342	\$ 9,228	\$ 9,509
Software development costs capitalized during the year	17,222	7,320	3,126
Amortization of capitalized software development costs	(3,561)	(3,101)	(3,338)
Foreign currency translation and other	27	(105)	(69)
<b>Capitalized software development costs, net, end of year</b>	<b>\$ 27,030</b>	<b>\$ 13,342</b>	<b>\$ 9,228</b>

There were no material impairments of such capitalized costs during the years ended January 31, 2020, 2019, and 2018.

## 11. INCOME TAXES

The components of income (loss) before provision for income taxes for the years ended January 31, 2020, 2019, and 2018 were as follows:

(in thousands)	Year Ended January 31,		
	2020	2019	2018
Domestic	\$ (49,703)	\$ (12,927)	\$ (44,502)
Foreign	103,006	90,689	63,402
<b>Total income before provision for income taxes</b>	<b>\$ 53,303</b>	<b>\$ 77,762</b>	<b>\$ 18,900</b>

The provision for income taxes for the years ended January 31, 2020, 2019, and 2018 consisted of the following:

(in thousands)	Year Ended January 31,		
	2020	2019	2018
<b>Current provision (benefit) for income taxes:</b>			
Federal	\$ 8,683	\$ (1,582)	\$ 4,364
State	1,033	2,299	1,215
Foreign	5,759	9,842	24,308
<b>Total current provision for income taxes</b>	<b>15,475</b>	<b>10,559</b>	<b>29,887</b>
<b>Deferred provision (benefit) for income taxes:</b>			
Federal	(4,096)	(4,099)	4,734
State	948	(2,687)	(58)
Foreign	5,293	3,769	(12,209)
<b>Total deferred provision (benefit) for income taxes</b>	<b>2,145</b>	<b>(3,017)</b>	<b>(7,533)</b>
<b>Total provision for income taxes</b>	<b>\$ 17,620</b>	<b>\$ 7,542</b>	<b>\$ 22,354</b>

The reconciliation of the U.S. federal statutory rate to our effective tax rate on income (loss) before provision for income taxes for the years ended January 31, 2020, 2019, and 2018 was as follows:

(in thousands)	Year Ended January 31,		
	2020	2019	2018
U.S. federal statutory income tax rate	21.0 %	21.0 %	33.8 %
Income tax provision at the U.S. federal statutory rate	\$ 11,193	\$ 16,330	\$ 6,394
State income tax provision	230	3,968	1,792
Foreign tax rate differential	11,700	9,516	(9,434)
Tax incentives	(8,395)	(7,377)	(3,891)
Valuation allowances	1,607	(24,099)	14,539
Stock-based and other compensation	(2,143)	678	(8,656)
Non-deductible expenses	2,752	(412)	(2,091)
Tax contingencies	(11,550)	(3,035)	5,017
U.S. tax effects of foreign operations	11,963	11,559	8,591
Impact of the 2017 Tax Act	—	—	9,641
Other, net	263	414	452
<b>Total provision for income taxes</b>	<b>\$ 17,620</b>	<b>\$ 7,542</b>	<b>\$ 22,354</b>
<b>Effective income tax rate</b>	<b>33.1%</b>	<b>9.7%</b>	<b>118.3%</b>

The table above reflects January 31, 2020 and 2019 U.S. federal statutory income tax rates of 21.0% and January 31, 2018 U.S. federal statutory income tax rate of 33.8% due to the 2017 Tax Act. The 2017 Tax Act includes a reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%. Section 15 of the Internal Revenue Code stipulates that our fiscal year ending January 31, 2018 had a blended corporate tax rate of 33.8% which is based on the applicable tax rates before and after the 2017 Tax Act and the number of days in the year.

Our operations in Israel have been granted “Approved Enterprise” (“AE”) status by the Investment Center of the Israeli Ministry of Industry, Trade and Labor, which makes us eligible for tax benefits under the Israeli Law for Encouragement of Capital Investments, 1959. Under the terms of the program, income attributable to an approved enterprise is exempt from income tax for a period of two years and is subject to a reduced income tax rate for the subsequent five years to eight years (generally 10% - 23%, depending on the percentage of foreign investment in the company). Our AE status expires between January 31, 2020 and January 31, 2021. Based on the current law, the company qualifies for an alternative tax incentive program as a Preferred Technological Enterprise (“PTE”). Pursuant to Amendment 73 to the Investment Law adopted in 2017, a company located in the Center of Israel that meets the conditions for PTE is subject to a 12% tax rate on eligible income. Income not eligible for PTE benefits is taxed at the regular corporate rate of 23%. In addition, certain operations in Cyprus qualify for favorable tax treatment under the Cypriot Intellectual Property Regime (“IP Regime”). This legislation exempts

80% of income and gains derived from patents, copyrights, and trademarks from taxation. These tax incentives decreased our effective tax rate by 10.1%, 9.0%, and 17.8% for the years ended January 31, 2020, 2019, and 2018, respectively.

Deferred tax assets and liabilities consisted of the following at January 31, 2020 and 2019:

(in thousands)	January 31,	
	2020	2019
<b>Deferred tax assets:</b>		
Accrued expenses	\$ 3,979	\$ 9,510
Operating lease liabilities	15,716	—
Fair value of derivatives	3,332	—
Loss carryforwards	30,063	25,451
Tax credits	7,021	9,239
Stock-based and other compensation	14,087	14,646
Capitalized research and development expenses	18	8,178
<b>Total deferred tax assets</b>	<b>74,216</b>	<b>67,024</b>
<b>Deferred tax liabilities:</b>		
Deferred cost of revenue	(7,588)	(8,173)
Goodwill and other intangible assets	(36,989)	(41,781)
Unremitted earnings of foreign subsidiaries	(12,257)	(12,257)
Operating lease right-of-use assets	(12,401)	—
Other, net	(4,674)	(2,418)
<b>Total deferred tax liabilities</b>	<b>(73,909)</b>	<b>(64,629)</b>
Valuation allowance	(26,334)	(24,526)
<b>Net deferred tax liabilities</b>	<b>\$ (26,027)</b>	<b>\$ (22,131)</b>
<b>Recorded as:</b>		
Deferred tax assets	\$ 13,802	\$ 21,040
Deferred tax liabilities	(39,829)	(43,171)
<b>Net deferred tax liabilities</b>	<b>\$ (26,027)</b>	<b>\$ (22,131)</b>

At January 31, 2020, we had U.S. federal NOL carryforwards of approximately \$293.5 million. These loss carryforwards expire in various years ending from January 31, 2021 to January 31, 2039. We had state NOL carryforwards of approximately \$194.9 million, expiring in years ending from January 31, 2021 to January 31, 2038. We had foreign NOL carryforwards of approximately \$93.9 million. At January 31, 2020, all but \$6.0 million of these foreign loss carryforwards had indefinite carryforward periods. Certain of these federal, state, and foreign loss carryforwards and credits are subject to Internal Revenue Code Section 382 or similar provisions, which impose limitations on their utilization following certain changes in ownership of the entity generating the loss carryforward. We had U.S. federal, state, and foreign tax credit carryforwards of approximately \$11.7 million at January 31, 2020, the utilization of which is subject to limitation. At January 31, 2020, approximately \$4.1 million of these tax credit carryforwards may be carried forward indefinitely. The balance of \$7.6 million expires in various years ending from January 31, 2021 to January 31, 2038.

We currently intend to continue to indefinitely reinvest a portion of the earnings of our foreign subsidiaries to finance foreign activities. Except to the extent of the U.S. tax provided on earnings of our foreign subsidiaries as of January 31, 2020 and withholding taxes of \$15.0 million accrued as of January 31, 2020 with respect to certain identified cash that may be repatriated to the U.S., we have not provided tax on the outside basis difference of foreign subsidiaries nor have we provided for any additional withholding or other tax that may be applicable should a future distribution be made from any unremitted earnings of foreign subsidiaries. Due to complexities in the laws of the foreign jurisdictions and the assumptions that would have to be made, it is not practicable to estimate the total amount of income and withholding taxes that would have to be provided on such earnings.

As required by the authoritative guidance on accounting for income taxes, we evaluate the realizability of deferred tax assets on a jurisdictional basis at each reporting date. Accounting for income taxes guidance requires that a valuation allowance be



established when it is more likely than not that all or a portion of the deferred tax assets will not be realized. In circumstances where there is sufficient negative evidence indicating that the deferred tax assets are not more likely than not realizable, we establish a valuation allowance. We have recorded valuation allowances in the amounts of \$26.3 million and \$24.5 million at January 31, 2020 and 2019, respectively.

Activity in the recorded valuation allowance consisted of the following for the years ended January 31, 2020 and 2019:

(in thousands)	Year Ended January 31,	
	2020	2019
Valuation allowance, beginning of year	\$ (24,526)	\$ (55,116)
Income tax benefit (provision)	(1,607)	24,099
Adoption of ASU No. 2014-09	—	5,763
Business combinations	—	124
Currency translation adjustment and other	(201)	604
<b>Valuation allowance, end of year</b>	<b>\$ (26,334)</b>	<b>\$ (24,526)</b>

In accordance with the authoritative guidance on accounting for uncertainty in income taxes, differences between the amount of tax benefits taken or expected to be taken in our income tax returns and the amount of tax benefits recognized in our financial statements, determined by applying the prescribed methodologies of accounting for uncertainty in income taxes, represent our unrecognized income tax benefits, which we either record as a liability or as a reduction of deferred tax assets.

For the years ended January 31, 2020, 2019, and 2018, the aggregate changes in the balance of gross unrecognized tax benefits were as follows:

(in thousands)	Year Ended January 31,		
	2020	2019	2018
Gross unrecognized tax benefits, beginning of year	\$ 109,066	\$ 115,709	\$ 148,639
Increases related to tax positions taken during the current year	2,464	8,843	12,260
Increases as a result of business combinations	286	1,032	43
Increases related to tax positions taken during prior years	147	10,305	9,226
Increases (decreases) related to foreign currency exchange rates	1,373	(2,253)	2,449
Reductions for tax positions of prior years	(17,388)	(23,415)	(8,266)
Reductions for settlements with tax authorities	(4,370)	(1,054)	(140)
Reduction for rate change due to the 2017 Tax Act	—	—	(48,004)
Lapses of statutes of limitations	(299)	(101)	(498)
<b>Gross unrecognized tax benefits, end of year</b>	<b>\$ 91,279</b>	<b>\$ 109,066</b>	<b>\$ 115,709</b>

As of January 31, 2020, we had \$91.3 million of unrecognized tax benefits, all of which, if recognized, would impact the effective income tax rate in future periods. We recorded \$1.9 million, \$0.7 million, and \$1.5 million of tax expense for interest and penalties related to uncertain tax positions in our provision for income taxes for the years ended January 31, 2020, 2019, and 2018, respectively. Accrued liabilities for interest and penalties were \$2.9 million and \$4.6 million at January 31, 2020 and 2019, respectively. Interest and penalties (expense and/or benefit) are recorded as a component of the provision for income taxes in the consolidated financial statements.

Our income tax returns are subject to ongoing tax examinations in several jurisdictions in which we operate. In Israel, we are no longer subject to income tax examination for years prior to January 31, 2018. In the United Kingdom, with the exception of years which are currently under examination, we are no longer subject to income tax examination for years prior to January 31, 2017. In the U.S., our federal returns are no longer subject to income tax examination for years prior to January 31, 2017. However, to the extent we generated NOLs or tax credits in closed tax years, future use of the NOL or tax credit carry forward balance would be subject to examination within the relevant statute of limitations for the year in which utilized.

As of January 31, 2020, income tax returns are under examination in the following significant tax jurisdictions:

<b>Jurisdiction</b>	<b>Tax Years</b>
United Kingdom	December 31, 2006, January 31, 2008, January 31, 2018
India	March 31, 2007, March 31, 2008, March 31, 2010 - March 31, 2013, March 31, 2017

We regularly assess the adequacy of our provisions for income tax contingencies. 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 expiration. We believe that it is reasonably possible that the total amount of unrecognized tax benefits at January 31, 2020 could decrease by approximately \$1.3 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 certain deferred taxes including the need for additional valuation allowances and the recognition of tax benefits.

## 12. FAIR VALUE MEASUREMENTS

### *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 January 31, 2020 and 2019:

(in thousands)	January 31, 2020		
	Fair Value Hierarchy Category		
	Level 1	Level 2	Level 3
<b>Assets:</b>			
Money market funds	\$ 89	\$ —	\$ —
Foreign currency forward contracts	—	812	—
Contingent consideration receivable	—	—	738
<b>Total assets</b>	<b>\$ 89</b>	<b>\$ 812</b>	<b>\$ 738</b>
<b>Liabilities:</b>			
Foreign currency forward contracts	\$ —	\$ 132	\$ —
Interest rate swap agreement	—	13,501	—
Contingent consideration - business combinations	—	—	42,875
Option to acquire noncontrolling interests of consolidated subsidiaries	—	—	2,900
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ 13,633</b>	<b>\$ 45,775</b>

(in thousands)	January 31, 2019		
	Fair Value Hierarchy Category		
	Level 1	Level 2	Level 3
<b>Assets:</b>			
Money market funds	\$ 10,709	\$ —	\$ —
Foreign currency forward contracts	—	1,401	—
Interest rate swap agreement	—	2,072	—
<b>Total assets</b>	<b>\$ 10,709</b>	<b>\$ 3,473</b>	<b>\$ —</b>
<b>Liabilities:</b>			
Foreign currency forward contracts	\$ —	\$ 2,086	\$ —
Interest rate swap agreements	—	4,028	—
Contingent consideration - business combinations	—	—	61,340
Option to acquire noncontrolling interests of consolidated subsidiaries	—	—	3,000
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ 6,114</b>	<b>\$ 64,340</b>

In January 2020, we completed the sale of an insignificant subsidiary in our Customer Engagement segment. In accordance with the terms of the sale agreement, 100% of the aggregate purchase price is contingent in nature based on a percentage of net sales of the former subsidiary's products during the thirty-six month period following the transaction closing. We include the

fair value of the contingent consideration receivable within prepaid expenses and other current assets and other assets on our consolidated balance sheet. The estimated fair value of this asset, which is measured using Level 3 inputs, as of January 31, 2020 was \$0.7 million. Due to the timing of this transaction, there was no change to the estimated fair value of this receivable recorded in operating expenses for the year ended January 31, 2020.

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 years ended January 31, 2020 and 2019:

(in thousands)	Year Ended January 31,	
	2020	2019
Fair value measurement, beginning of year	\$ 61,340	\$ 62,829
Contingent consideration liabilities recorded for business combinations	15,253	15,944
Changes in fair values, recorded in operating expenses	(531)	(3,561)
Payments of contingent consideration	(33,088)	(13,600)
Foreign currency translation and other	(99)	(272)
<b>Fair value measurement, end of year</b>	<b>\$ 42,875</b>	<b>\$ 61,340</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 consolidated statements of operations within selling, general and administrative expenses.

During the year ended January 31, 2017, we acquired two majority owned subsidiaries for which we hold an option to acquire the noncontrolling interests. We account for the option as an in-substance investment in the noncontrolling common stock of each such subsidiary. We include the fair value of the option within other liabilities and do not recognize noncontrolling interests in these subsidiaries. The following table presents the change in the estimated fair value of this liability, which is measured using Level 3 inputs, for the years ended January 31, 2020 and 2019:

(in thousands)	Year Ended January 31,	
	2020	2019
Fair value measurement, beginning of year	\$ 3,000	\$ 2,950
Change in fair value, recorded in operating expenses	(100)	50
<b>Fair value measurement, end of year</b>	<b>\$ 2,900</b>	<b>\$ 3,000</b>

There were no transfers between levels of the fair value measurement hierarchy during the years ended January 31, 2020 and 2019.

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

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

*Short-term Investments, Corporate Debt Securities, and Commercial Paper* - The fair values of short-term investments, as well as corporate debt securities and 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.

*Interest Rate Swap Agreements* - The fair values of our interest rate swap agreements are based in part on data received from the counterparty, and represents the estimated amount we would receive or pay to settle the agreements, taking into consideration current and projected future interest rates as well as the creditworthiness of the parties, all of which can be validated through readily observable data from external sources.

*Contingent Consideration Asset or Liability - Business Combinations and Divestitures* - The fair value of the contingent consideration related to business combinations and divestitures 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 2.1% to 4.9% in our calculations of the estimated fair values of our contingent consideration liabilities as of January 31, 2020. We utilized discount rates ranging from 3.8% to 5.8% in our calculations of the estimated fair values of our contingent consideration liabilities as of January 31, 2019. We utilized discount rates ranging from 4.3% to 4.9% in our calculation of the estimated fair value of our contingent consideration asset as of January 31, 2020.

*Option to Acquire Noncontrolling Interests of Consolidated Subsidiaries* - The fair value of the option is determined primarily by using the income approach, which discounts expected future cash flows to present value using estimates and assumptions determined by management. This fair value measurement is based upon significant inputs not observable in the market. We remeasure the fair value of the option at each reporting period, and any changes in fair value are recorded within selling, general, and administrative expenses. We utilized discount rates of 9.0% and 12.5% in our calculation of the estimated fair value of the option as of January 31, 2020 and 2019, respectively.

### ***Other Financial Instruments***

The carrying amounts of accounts receivable, contract assets, 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 and our revolving credit borrowings at January 31, 2020 were \$417 million and \$45 million, respectively. The estimated fair value of our term loan at January 31, 2019 was \$412 million. We had no revolving credit borrowings at January 31, 2019. 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 January 31, 2020 and 2019 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.

The estimated fair values of our Notes were approximately \$438 million and \$400 million at January 31, 2020 and 2019, respectively. The estimated fair value of the Notes is 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, operating lease right-of-use assets, and property, plant and equipment, are measured at fair value when there is an indication of impairment and the carrying amount exceeds the asset's projected undiscounted cash flows. These assets are recorded at fair value only when an

impairment charge is recognized. Further details regarding our regular impairment reviews appear in Note 1, “Summary of Significant Accounting Policies”.

As of January 31, 2020 and 2019, the carrying amount of our noncontrolling equity investments in privately-held companies without readily determinable fair values was \$3.8 million. There were no observable price changes in our investments in privately-held companies and we did not recognize any impairments or other adjustments during the years ended January 31, 2020 and 2019.

### **13. DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

Under our risk management strategy, we periodically use 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. 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.

We held outstanding foreign currency forward contracts with notional amounts of \$89.0 million and \$123.0 million as of January 31, 2020 and 2019, respectively.

#### **Interest Rate Swap Agreements**

To partially mitigate risks associated with the variable interest rates on the term loan borrowings under the prior credit agreement, in February 2016, we executed a pay-fixed, receive-variable interest rate swap agreement with a multinational financial institution under which we paid interest at a fixed rate of 4.143% and received variable interest of three-month LIBOR (subject to a minimum of 0.75%), plus a spread of 2.75%, on a notional amount of \$200.0 million (the “2016 Swap”). Although the prior credit agreement was terminated on June 29, 2017, the 2016 Swap agreement remained in effect until September 6, 2019, and served as an economic hedge to partially mitigate the risk of higher borrowing costs under our 2017 Credit Agreement resulting from increases in market interest rates. Settlements with the counterparty under the 2016 Swap occurred quarterly and the 2016 Swap matured on September 6, 2019.

Prior to June 29, 2017, the 2016 Swap was designated as a cash flow hedge for accounting purposes and as such, changes in its fair value were recognized in accumulated other comprehensive income (loss) in the consolidated balance sheet and were reclassified into the statement of operations within interest expense in the period in which the hedged transaction affected earnings. Hedge ineffectiveness, if any, was recognized currently in the consolidated statement of operations.

On June 29, 2017, concurrent with the execution of the 2017 Credit Agreement and termination of the prior credit agreement, the 2016 Swap was no longer designated as a cash flow hedge for accounting purposes and because occurrence of the specific forecasted variable cash flows which had been hedged by the 2016 Swap was no longer probable, the \$0.9 million fair value of the 2016 Swap at that date was reclassified from accumulated other comprehensive income (loss) into the consolidated

statement of operations as income within other income (expense), net. Ongoing changes in the fair value of the 2016 Swap were recognized within other income (expense), net in the consolidated statement of operations.

In April 2018, we executed a pay-fixed, receive-variable interest rate swap agreement with a multinational financial institution to partially mitigate risks associated with the variable interest rate on our 2017 Term Loan for periods following the termination of the 2016 Swap in September 2019, under which we pay interest at a fixed rate of 2.949% and receive variable interest of three-month LIBOR (subject to a minimum of 0.00%), on a notional amount of \$200.0 million (the “2018 Swap”). The effective date of the 2018 Swap was September 6, 2019, and settlements with the counterparty will occur on a quarterly basis, beginning on November 1, 2019. The 2018 Swap will terminate on June 29, 2024.

During the operating term of the 2018 Swap, if we elect three-month LIBOR at the periodic interest rate reset dates for at least \$200.0 million of our 2017 Term Loan, the annual interest rate on that amount of the 2017 Term Loan will be fixed at 4.949% (including the impact of our current 2.00% interest rate margin on Eurodollar loans) for the applicable interest rate period.

The 2018 Swap is designated as a cash flow hedge and as such, changes in its fair value are recognized in accumulated other comprehensive income (loss) in the consolidated balance sheet and are reclassified into the statement of operations within interest expense in the periods in which the hedged transactions affect earnings.

### Fair Values of Derivative Financial Instruments

The fair values of our derivative financial instruments and their classifications in our consolidated balance sheets as of January 31, 2020 and 2019 were as follows:

		January 31,	
(in thousands)	Balance Sheet Classification	2020	2019
<b>Derivative assets:</b>			
Foreign currency forward contracts:			
Designated as cash flow hedges	Prepaid expenses and other current assets	\$ 710	\$ 738
Not designated as hedging instruments	Prepaid expenses and other current assets	102	663
Interest rate swap agreements:			
Not designated as a hedging instrument	Prepaid expenses and other current assets	—	2,072
<b>Total derivative assets</b>		<b>\$ 812</b>	<b>\$ 3,473</b>
<b>Derivative liabilities:</b>			
Foreign currency forward contracts:			
Designated as cash flow hedges	Accrued expenses and other current liabilities	\$ 16	\$ 1,830
Not designated as hedging instruments	Accrued expenses and other current liabilities	116	256
Interest rate swap agreements:			
Designated as a cash flow hedge	Accrued expenses and other current liabilities	2,060	122
Designated as a cash flow hedge	Other liabilities	11,441	3,906
<b>Total derivative liabilities</b>		<b>\$ 13,633</b>	<b>\$ 6,114</b>

### Derivative Financial Instruments in Cash Flow Hedging Relationships

The effects of derivative financial instruments designated as cash flow hedges on accumulated other comprehensive loss (“AOCL”) and on the consolidated statement of operations for the years ended January 31, 2020, 2019, and 2018 were as follows:

(in thousands)	Year Ended January 31,		
	2020	2019	2018
<b>Net (losses) gains recognized in AOCL:</b>			
Foreign currency forward contracts	\$ 2,239	\$ (981)	\$ 3,312
Interest rate swap agreement	(10,265)	(3,043)	(341)
	<u>\$ (8,026)</u>	<u>\$ (4,024)</u>	<u>\$ 2,971</u>
<b>Net (losses) gains reclassified from AOCL to the consolidated statements of operations:</b>			
Foreign currency forward contracts	\$ 453	\$ (4,219)	\$ 6,813
Interest rate swap agreement	(792)	—	(254)
	<u>\$ (339)</u>	<u>\$ (4,219)</u>	<u>\$ 6,559</u>

For information regarding the line item locations of the net (losses) gains on derivative financial instruments reclassified out of AOCL into the consolidated statements of operations, see Note 9, “Stockholders’ Equity”.

There were no gains or losses from ineffectiveness of these cash flow hedges recorded for the year ended January 31, 2018. Effective with our February 1, 2018 adoption of ASU No. 2017-12, ineffectiveness of cash flow hedges is no longer recognized. All of the foreign currency forward contracts underlying the \$0.6 million of net unrealized losses recorded in our accumulated other comprehensive loss at January 31, 2020 mature within twelve months, and therefore we expect all such losses to be reclassified into earnings within the next twelve months. Approximately \$1.6 million of the \$10.5 million of net unrealized losses related to our interest rate swap agreement recorded in our accumulated other comprehensive loss at January 31, 2020 settle within twelve months, and therefore we expect those losses to be reclassified into earnings within the next twelve months.

#### Derivative Financial Instruments Not Designated as Hedging Instruments

Gains (losses) recognized on derivative financial instruments not designated as hedging instruments in our consolidated statements of operations for the years ended January 31, 2020, 2019, and 2018 were as follows:

(in thousands)	Classification in Consolidated Statements of Operations	Year Ended January 31,		
		2020	2019	2018
Foreign currency forward contracts	Other income (expense), net	\$ 647	\$ 1,891	\$ (2,546)
Interest rate swap agreements	Other income (expense), net	(48)	620	2,529
		<u>\$ 599</u>	<u>\$ 2,511</u>	<u>\$ (17)</u>

## 14. STOCK-BASED COMPENSATION AND OTHER BENEFIT PLANS

### Stock-Based Compensation Plans

#### Plan Summaries

We issue stock-based incentive awards to eligible employees, directors and consultants, including restricted stock units (“RSUs”), performance stock units (“PSUs”), stock options (both incentive and non-qualified), and other awards, under the terms of our outstanding stock benefit plans (the “Plans” or “Stock Plans”) and/or forms of equity award agreements approved by our board of directors.

Awards are generally subject to multi-year vesting periods. We recognize compensation expense for awards on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods, reduced by estimated forfeitures. Upon issuance of restricted stock, exercise of stock options, or issuance of shares under the Plans, we generally issue new shares of common stock, but occasionally may issue treasury shares.



### *New Stock-Based Compensation Plan*

On June 20, 2019, our stockholders approved the Verint Systems Inc. 2019 Long-Term Stock Incentive Plan (the “2019 Plan”). Upon approval of the 2019 Plan, additional awards are no longer permitted under our prior stock-based compensation plan (the “2017 Amended Plan”). Awards outstanding at June 20, 2019 under the 2017 Amended Plan or other previous stock-based compensation plans were not impacted by the approval of the 2019 Plan. Collectively, our stock-based compensation plans are referred to herein as the “Plans”.

The 2019 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, performance awards, other stock-based awards, and performance compensation awards. Subject to adjustment as provided in the 2019 Plan, up to an aggregate of (i) 9,475,000 shares of our common stock plus (ii) the number of shares of our common stock available for issuance under the 2017 Amended Plan as of June 20, 2019, plus (iii) the number of shares of our common stock that become available for issuance as a result of awards made under the 2017 Amended Plan or the 2019 Plan that are forfeited, cancelled, exchanged, or that terminate or expire, may be issued or transferred in connection with awards under the 2019 Plan. Each stock option or stock-settled stock appreciation right granted under the 2019 Plan will reduce the available plan capacity by one share and each other award will reduce the available plan capacity by 2.38 shares.

### *Stock-Based Compensation Expense*

We recognized stock-based compensation expense in the following line items on the consolidated statements of operations for the years ended January 31, 2020, 2019, and 2018:

(in thousands)	Year Ended January 31,		
	2020	2019	2018
<b>Component of income (loss) before (benefit) provision for income taxes:</b>			
Cost of revenue - product	\$ 2,014	\$ 1,309	\$ 1,561
Cost of revenue - service and support	6,170	4,426	6,904
Research and development, net	13,426	9,870	13,144
Selling, general and administrative	61,088	51,052	47,757
<b>Total stock-based compensation expense</b>	<b>82,698</b>	<b>66,657</b>	<b>69,366</b>
Income tax benefits related to stock-based compensation (before consideration of valuation allowances)	12,651	10,377	16,504
<b>Total stock-based compensation, net of taxes</b>	<b>\$ 70,047</b>	<b>\$ 56,280</b>	<b>\$ 52,862</b>

The following table summarizes stock-based compensation expense by type of award for the years ended January 31, 2020, 2019, and 2018:

(in thousands)	Year Ended January 31,		
	2020	2019	2018
Restricted stock units and restricted stock awards	\$ 65,080	\$ 57,639	\$ 57,188
Stock bonus program and bonus share program	17,543	8,943	12,108
<b>Total equity-settled awards</b>	<b>82,623</b>	<b>66,582</b>	<b>69,296</b>
Phantom stock units (cash-settled awards)	75	75	70
<b>Total stock-based compensation expense</b>	<b>\$ 82,698</b>	<b>\$ 66,657</b>	<b>\$ 69,366</b>

Awards under our stock bonus and bonus share programs 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.

Effective with our adoption of ASU No. 2016-09 on February 1, 2017, we recorded \$2.4 million and \$0.2 million of net excess tax benefits and a \$0.5 million net excess tax deficiency resulting from our Stock Plans as a component of income tax expense for the years ended January 31, 2020, 2019 and 2018, respectively.

### ***Restricted Stock Units and Performance Stock Units***

We periodically award RSUs to our directors, officers, and other employees. The fair value of these awards is equivalent to the market value of our common stock on the grant date. RSUs are not shares of our common stock and do not have any of the rights or privileges thereof, including voting or dividend rights. On the applicable vesting date, the holder of an RSU becomes entitled to a share of our common stock. RSUs are subject to certain restrictions and forfeiture provisions prior to vesting.

We periodically award PSUs to executive officers and certain employees that vest upon the achievement of specified performance goals or market conditions. We separately recognize compensation expense for each tranche of a PSU award as if it were a separate award with its own vesting date. For certain PSUs, an accounting grant date may be established prior to the requisite service period.

Once a performance vesting condition has been defined and communicated, and the requisite service period has begun, our estimate of the fair value of PSUs requires an assessment of the probability that the specified performance criteria will be achieved, which we update at each reporting date and adjust our estimate of the fair value of the PSUs, if necessary. All compensation expense for PSUs with market conditions is recognized if the requisite service period is fulfilled, even if the market condition is not satisfied.

RSUs and PSUs that are expected to settle with cash payments upon vesting, if any, are reflected as liabilities on our consolidated balance sheets. Such RSUs and PSUs were insignificant at January 31, 2020, 2019, and 2018.

The following table (“Award Activity Table”) summarizes activity for RSUs, PSUs, and other stock awards that reduce available Plan capacity under the Plans for the years ended January 31, 2020, 2019, and 2018:

(in thousands, except grant date fair values)	Year Ended January 31,					
	2020		2019		2018	
	Shares or Units	Weighted-Average Grant-Date Fair Value	Shares or Units	Weighted-Average Grant-Date Fair Value	Shares or Units	Weighted-Average Grant-Date Fair Value
Beginning balance	2,777	\$ 41.05	2,808	\$ 41.18	2,742	\$ 45.20
Granted	1,620	\$ 60.42	1,708	\$ 43.03	1,804	\$ 40.19
Released	(1,435)	\$ 40.59	(1,481)	\$ 43.67	(1,403)	\$ 45.96
Forfeited	(226)	\$ 45.57	(258)	\$ 41.07	(335)	\$ 48.92
<b>Ending balance</b>	<b>2,736</b>	<b>\$ 52.53</b>	<b>2,777</b>	<b>\$ 41.05</b>	<b>2,808</b>	<b>\$ 41.18</b>

With respect to 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 Plans 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 (since such shares are deemed to be purchased by the grantee at fair value in lieu of receiving an earned cash bonus). 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”.

Our RSU awards may include a provision which allows the 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 January 31, 2020, for such awards that are outstanding, settlement with cash payments was not considered probable, and therefore these awards have been accounted for as equity-classified awards and are included in the table above.

The following table summarizes PSU activity in isolation under the Plans for the years ended January 31, 2020, 2019, and 2018 (these amounts are already included in the Award Activity Table above):

(in thousands)	Year Ended January 31,		
	2020	2019	2018
Beginning balance	512	506	438
Granted	291	228	204
Released	(245)	(139)	(50)
Forfeited	(32)	(83)	(86)
<b>Ending balance</b>	<b>526</b>	<b>512</b>	<b>506</b>

Excluding PSUs, we granted 1,329,000 RSUs during the year ended January 31, 2020.

As of January 31, 2020, there was approximately \$83.3 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 1.5 years.

### *Stock Options*

We did not grant stock options during the years ended January 31, 2020, 2019, and 2018, and activity from stock options awarded in prior periods was not material during these years.

### *Phantom Stock Units*

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

Phantom stock unit activity for the years ended January 31, 2020, 2019, and 2018 was not significant.

### *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 are eligible to participate in this program to the extent that shares remain available for awards following the enrollment of all other participants. Shares awarded to executive officers with respect to the 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.

The following table summarizes activity under the stock bonus program during the years ended January 31, 2020, 2019, and 2018 in isolation. As noted above, shares issued in respect of the discount feature under the program reduce available plan capacity and are included in the Award Activity Table above. Other shares issued under the program do not reduce available plan capacity and are therefore excluded from the Award Activity Table above.

(in thousands)	Year Ended January 31,		
	2020	2019	2018
Shares in lieu of cash bonus - granted and released (not included in the Award Activity Table above)	97	19	21
Shares in respect of discount (included in the Award Activity Table above):			
Granted	16	—	—
Released	13	—	—

Awards under the stock bonus program for the performance period ended January 31, 2020 are expected to be issued during the first half of the year ending January 31, 2021.

In March 2019, our board of directors approved up to 150,000 shares of common stock, and a discount of 15%, for awards under our stock bonus program for the performance period ended January 31, 2020. In August 2019, our board of directors changed this maximum number of shares to 200,000 based on strong enrollment and made a corresponding reduction of 50,000 shares in the number of shares available for issuance under our bonus share program for the performance period ended January 31, 2020.

In March 2020, our board of directors approved up to 200,000 shares of common stock, and a discount of 15%, for awards under our stock bonus program for the performance period ended January 31, 2021.

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

Under our bonus share program, we may provide discretionary bonuses to employees or pay earned bonuses that are outside the stock bonus program in the form of shares of common stock. Unlike the stock bonus program, there is no enrollment for this program and no discount feature. 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. As noted above, shares issued under this program are included in the Award Activity Table above.

During the year ended January 31, 2018, approximately 293,000 shares of common stock were awarded and released under the bonus share program in respect of the performance period ended January 31, 2017. These shares are included in the Award Activity Table above.

During the year ended January 31, 2019, approximately 197,000 shares of common stock were awarded and released under the bonus share program in respect of the performance period ended January 31, 2018. These shares are included in the Award Activity Table above.

During the year ended January 31, 2020, approximately 59,000 shares of common stock were awarded and released under the bonus share program in respect of the performance period ended January 31, 2019.

For bonuses in respect of the year ended January 31, 2020, the board of directors has approved the use of up to 305,000 shares of common stock under this program, reduced by any shares used under the stock bonus program in respect of the performance period ended January 31, 2020. For example, assuming all 200,000 shares currently authorized for issuance under the stock bonus program for the performance period ended January 31, 2020 were issued, no more than 105,000 shares would be issued under the bonus share program for such performance period. Awards under the bonus share program for the performance period ended January 31, 2020 are expected to be issued during the first half of the year ending January 31, 2021.

For bonuses in respect of the year ending January 31, 2021, our board of directors has approved the use of up to 300,000 shares of common stock under this program, reduced by any shares used under the stock bonus program in respect of the same performance period.

The combined accrued liabilities for the stock bonus program and the bonus share program were \$17.3 million and \$9.3 million at January 31, 2020 and 2019, respectively.

## **Other Benefit Plans**

### ***401(k) Plan and Other Retirement Plans***

We maintain a 401(k) Plan for our full-time employees in the United States. The plan allows eligible employees who attain the age of 21 beginning with the first of the month following their date of hire to elect to contribute up to 60% of their annual compensation, subject to the prescribed maximum amount. We match employee contributions at a rate of 50%, up to a maximum annual matched contribution of \$2,000 per employee.

Employee contributions are always fully vested, while our matching contributions for each year vest on the last day of the calendar year provided the employee remains employed with us on that day.

Our matching contribution expenses for our 401(k) Plan were \$3.0 million, \$2.7 million, and \$2.5 million for the years ended January 31, 2020, 2019, and 2018, respectively.

We provide retirement benefits for non-U.S. employees as required by local laws or to a greater extent as we deem appropriate through plans that function similar to 401(k) plans. Funding requirements for programs required by local laws are determined on an individual country and plan basis and are subject to local country practices and market circumstances.

### ***Severance Pay***

We are obligated to make severance payments for the benefit of certain employees of our foreign subsidiaries. Severance payments made to Israeli employees are considered significant compared to all other subsidiaries with severance payment arrangements. Under Israeli law, we are obligated to make severance payments to employees of our Israeli subsidiaries, subject to certain conditions. In most cases, our liability for these severance payments is fully provided for by regular deposits to funds administered by insurance providers and by an accrual for the amount of our liability which has not yet been deposited.

Severance expenses for our Israeli employees for the years ended January 31, 2020, 2019, and 2018 were \$8.7 million, \$13.3 million, and \$7.1 million, respectively.

## ***15. LEASES***

We have entered into operating leases primarily for corporate offices, research and development facilities, datacenters, and automobiles. Our finance leases primarily relate to infrastructure equipment. Our leases have remaining lease terms of 1 year to 12 years, some of which may include options to extend the leases for up to 10 years, and some of which may include options to terminate the leases within 1 year. As of January 31, 2020, assets recorded under finance leases were \$13.3 million and accumulated depreciation associated with finance leases was \$0.7 million.

The components of lease expenses for the year ended January 31, 2020 were as follows:

	Year Ended January 31, 2020
(in thousands)	
<b>Operating lease expenses</b>	<b>\$ 29,898</b>
<b>Finance lease expenses:</b>	
Amortization of right-of-use assets	581
Interest on lease liabilities	226
<b>Total finance lease expenses</b>	<b>807</b>
Variable lease expenses	8,233
Short-term lease expenses	860
Sublease income	(908)
<b>Total lease expenses</b>	<b>\$ 38,890</b>

Other information related to leases was as follows:

	Year Ended January 31, 2020
(dollars in thousands)	
<b>Supplemental cash flow information</b>	
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>	
Operating cash flows from operating leases	\$ 27,599
Operating cash flows from finance leases	226
Financing cash flows from finance leases	2,522
<b>Right-of-use assets obtained in exchange for lease obligations:</b>	
Operating leases	\$ 22,472
Finance leases	6,405
<b>Weighted average remaining lease terms</b>	
Operating leases	6 years
Finance leases	4 years
<b>Weighted average discount rates</b>	
Operating leases	6.0%
Finance leases	5.2%

Maturities of lease liabilities as of January 31, 2020 were as follows:

	January 31, 2020	
	Operating Leases	Finance Leases
(in thousands)		
<b>Year Ending January 31,</b>		
2021	\$ 28,675	\$ 3,195
2022	23,275	3,110
2023	20,014	2,474
2024	18,313	1,250
2025	16,405	776
Thereafter	27,524	—
<b>Total future minimum lease payments</b>	<b>134,206</b>	<b>10,805</b>
Less: imputed interest	(21,179)	(888)
<b>Total</b>	<b>\$ 113,027</b>	<b>\$ 9,917</b>
<b>Reported as of January 31, 2020:</b>		
Accrued expenses and other current liabilities	\$ 22,655	\$ 2,707
Operating lease liabilities	90,372	—
Other liabilities	—	7,210
<b>Total</b>	<b>\$ 113,027</b>	<b>\$ 9,917</b>

As of January 31, 2020, we have additional operating leases for office facilities that have not yet commenced with future lease obligations of \$5.8 million. These operating leases will commence in 2020 with lease terms greater than 1 year to 6 years.

As previously disclosed in our January 31, 2019 Form 10-K and under the previous lease accounting standard, future minimum lease payments under non-cancelable operating leases as of January 31, 2019 were as follows:

(in thousands)			
Years Ending January 31,	Operating Leases	Capital Leases	
2020	\$ 22,769	\$ 1,343	
2021	21,942	1,252	
2022	19,157	1,130	
2023	16,882	765	
2024	15,152	107	
Thereafter	33,477	—	
<b>Total</b>	<b>\$ 129,379</b>	<b>4,597</b>	
Less: amount representing interest and other charges		(315)	
<b>Present value of minimum lease payments</b>		<b>\$ 4,282</b>	

## 16. COMMITMENTS AND CONTINGENCIES

### *Unconditional Purchase Obligations*

In the ordinary course of business, we enter into certain unconditional purchase obligations, which are agreements to purchase goods or services that are enforceable, legally binding, and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. Our purchase orders are based on current needs and are typically fulfilled by our vendors within a relatively short time horizon. As of January 31, 2020, our unconditional purchase obligations totaled approximately \$228.0 million.

### *Licenses and Royalties*

We license certain technology and pay royalties under such licenses and other agreements entered into in connection with research and development activities.

As discussed in Note 1, “Summary of Significant Accounting Policies”, we receive non-refundable grants from the IIA that fund a portion of our research and development expenditures. The Israeli law under which the IIA grants are made limits our ability to manufacture products, or transfer technologies, developed using these grants outside of Israel. If we were to seek approval to manufacture products, or transfer technologies, developed using these grants outside of Israel, we could be subject to additional royalty requirements or be required to pay certain redemption fees. If we were to violate these restrictions, we could be required to refund any grants previously received, together with interest and penalties, and may be subject to criminal penalties.

### *Off-Balance Sheet Risk*

In the normal course of business, we provide certain customers with financial performance guarantees, which are generally backed by standby letters of credit or surety bonds. In general, we would only be liable for the amounts of these guarantees in the event that our nonperformance permits termination of the related contract by our customer, which we believe is remote. At January 31, 2020, we had approximately \$95.6 million of outstanding letters of credit and surety bonds relating primarily to these performance guarantees. As of January 31, 2020, we believe we were in compliance with our performance obligations under all contracts for which there is a financial performance guarantee, and the ultimate liability, if any, incurred in connection



with these guarantees will not have a material adverse effect on our consolidated results of operations, financial position, or cash flows. Our historical non-compliance with our performance obligations has been insignificant.

### ***Indemnifications***

In the normal course of business, we provide indemnifications of varying scopes to customers against claims of intellectual property infringement made by third parties arising from the use of our products. Historically, costs related to these indemnification provisions have not been significant and we are unable to estimate the maximum potential impact of these indemnification provisions on our future results of operations.

To the extent permitted under Delaware law or other applicable law, we indemnify our directors, officers, employees, and agents against claims they may become subject to by virtue of serving in such capacities for us. We also have contractual indemnification agreements with our directors, officers, and certain senior executives. The maximum amount of future payments we could be required to make under these indemnification arrangements and agreements is potentially unlimited; however, we have insurance coverage that limits our exposure and enables us to recover a portion of any future amounts paid. We are not able to estimate the fair value of these indemnification arrangements and agreements in excess of applicable insurance coverage, if any.

### ***Legal Proceedings***

In March 2009, one of our former employees, Ms. Orit Deutsch, commenced legal actions in Israel against our primary Israeli subsidiary, Verint Systems Limited (“VSL”) (Case Number 4186/09) and against our affiliate CTI (Case Number 1335/09). Also in March 2009, a former employee of Comverse Limited (CTI’s primary Israeli subsidiary at the time), Ms. Roni Katriel, commenced similar legal actions in Israel against Comverse Limited (Case Number 3444/09). In these actions, the plaintiffs generally sought to certify class action suits against the defendants on behalf of current and former employees of VSL and Comverse Limited who had been granted stock options in Verint and/or CTI and who were allegedly damaged as a result of a suspension on option exercises during an extended filing delay period that is discussed in our and CTI’s historical public filings. On June 7, 2012, the Tel Aviv District Court, where the cases had been filed or transferred, allowed the plaintiffs to consolidate and amend their complaints against the three defendants: VSL, CTI, and Comverse Limited.

On October 31, 2012, CTI distributed all of the outstanding shares of common stock of Comverse, Inc., its principal operating subsidiary and parent company of Comverse Limited, to CTI’s shareholders (the “Comverse Share Distribution”). In the period leading up to the Comverse Share Distribution, CTI either sold or transferred substantially all of its business operations and assets (other than its equity ownership interests in Verint and in its then-subsubsidiary, Comverse, Inc.) to Comverse, Inc. or to unaffiliated third parties. As the result of these transactions, Comverse, Inc. became an independent company and ceased to be affiliated with CTI, and CTI ceased to have any material assets other than its equity interests in Verint. Prior to the completion of the Comverse Share Distribution, the plaintiffs sought to compel CTI to set aside up to \$150.0 million in assets to secure any future judgment, but the District Court did not rule on this motion. In February 2017, Mavenir Inc. became successor-in-interest to Comverse, Inc.

On February 4, 2013, Verint acquired the remaining CTI shell company in a merger transaction (the “CTI Merger”). As a result of the CTI Merger, Verint assumed certain rights and liabilities of CTI, including any liability of CTI arising out of the foregoing legal actions. However, under the terms of a Distribution Agreement entered into in connection with the Comverse Share Distribution, we, as successor to CTI, are entitled to indemnification from Comverse, Inc. (now Mavenir) for any losses we may suffer in our capacity as successor to CTI related to the foregoing legal actions.

Following an unsuccessful mediation process, on August 28, 2016, the District Court (i) denied the plaintiffs’ motion to certify the suit as a class action with respect to all claims relating to Verint stock options and (ii) approved the plaintiffs’ motion to certify the suit as a class action with respect to claims of current or former employees of Comverse Limited (now part of Mavenir) or of VSL who held unexercised CTI stock options at the time CTI suspended option exercises. The court also ruled that the merits of the case would be evaluated under New York law.

As a result of this ruling (which excluded claims related to Verint stock options from the case), one of the original plaintiffs in the case, Ms. Deutsch, was replaced by a new representative plaintiff, Mr. David Vaaknin. CTI appealed portions of the District Court's ruling to the Israeli Supreme Court. On August 8, 2017, the Israeli Supreme Court partially allowed CTI's appeal and ordered the case to be returned to the District Court to determine whether a cause of action exists under New York law based on the parties' expert opinions.

Following a second unsuccessful round of mediation in mid to late 2018, the proceedings resumed. The plaintiffs have filed a motion to amend the class certification motion and CTI has filed a corresponding motion to dismiss and a response. These motions are now before the court following a third unsuccessful round of mediation in mid-2019.

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

## **17. SEGMENT, GEOGRAPHIC, AND SIGNIFICANT CUSTOMER INFORMATION**

### ***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 CODM, or decision making group, in deciding how to allocate resources and in assessing performance. Our Chief Executive Officer is our CODM.

We report our results in two operating segments—Customer Engagement and Cyber Intelligence. Our Customer Engagement solutions help customer-centric organizations optimize customer engagement, increase customer loyalty, and maximize revenue opportunities, while generating operational efficiencies, reducing cost, and mitigating risk. Our Cyber Intelligence solutions are used for a wide range of applications, including predictive intelligence, advanced and complex investigations, security threat analysis, and electronic data and physical assets protection, as well as for generating legal evidence and preventing criminal activity and terrorism.

We measure the performance of our operating segments primarily based on segment revenue and segment contribution.

Segment revenue includes adjustments associated with revenue of acquired companies which are 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. Segment revenue adjustments can also result from aligning an acquired company's historical revenue recognition policies to our policies.

Segment contribution includes segment revenue and expenses incurred directly by the segment, including material costs, service costs, research and development, selling, marketing, and certain administrative expenses. When determining segment contribution, we do not allocate certain operating expenses which are provided by shared resources or are otherwise generally not controlled by segment management. These expenses are reported as "Shared support expenses" in our table of segment operating results, the majority of which are expenses for administrative support functions, such as information technology, human resources, finance, legal, and other general corporate support, and for occupancy expenses. These unallocated expenses also include procurement, manufacturing support, and logistics expenses. We share resources across our segments for efficiency and to avoid duplicative costs.

In addition, segment contribution does not include amortization of acquired intangible assets, stock-based compensation, and other expenses that either can vary significantly in amount and frequency, are based upon subjective assumptions, or in certain cases are unplanned for or difficult to forecast, such as restructuring expenses and business combination transaction and integration expenses, all of which are not considered when evaluating segment performance.

Revenue from transactions between our operating segments is not material.

Operating results by segment for the years ended January 31, 2020, 2019, and 2018 were as follows:

(in thousands)	Year Ended January 31,		
	2020	2019	2018
<b>Revenue:</b>			
Customer Engagement:			
Segment revenue	\$ 873,200	\$ 811,346	\$ 755,038
Revenue adjustments	(26,675)	(15,059)	(14,971)
	<u>846,525</u>	<u>796,287</u>	<u>740,067</u>
Cyber Intelligence:			
Segment revenue	462,817	433,753	395,420
Revenue adjustments	(5,708)	(293)	(258)
	<u>457,109</u>	<u>433,460</u>	<u>395,162</u>
<b>Total revenue</b>	<b>\$ 1,303,634</b>	<b>\$ 1,229,747</b>	<b>\$ 1,135,229</b>
<b>Segment contribution:</b>			
Customer Engagement	\$ 338,098	\$ 316,776	\$ 286,236
Cyber Intelligence	130,519	114,012	94,585
<b>Total segment contribution</b>	<b>468,617</b>	<b>430,788</b>	<b>380,821</b>
<b>Reconciliation of segment contribution to operating income:</b>			
Revenue adjustments	32,383	15,352	15,229
Shared support expenses	177,308	163,893	154,673
Amortization of acquired intangible assets	55,442	56,413	72,425
Stock-based compensation	82,698	66,657	69,366
Acquisition, integration, restructuring, and other unallocated expenses	32,930	14,238	20,498
<b>Total reconciling items, net</b>	<b>380,761</b>	<b>316,553</b>	<b>332,191</b>
<b>Operating income</b>	<b>\$ 87,856</b>	<b>\$ 114,235</b>	<b>\$ 48,630</b>

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 allocations of goodwill and acquired intangible assets by operating segment during the years ended January 31, 2020, 2019, and 2018. Further details regarding the allocations of goodwill and acquired intangible assets by operating segment appear in Note 6, "Intangible Assets and Goodwill".

### Geographic Information

Revenue by major geographic region is based upon the geographic location of the customers who purchase our products and services. The geographic locations of distributors, resellers, and systems integrators who purchase and resell our products may be different from the geographic locations of end customers.

Revenue in the Americas includes the United States, Canada, Mexico, Brazil, and other countries in the Americas. Revenue in Europe, the Middle East and Africa ("EMEA") includes the United Kingdom, Germany, Israel, and other countries in EMEA. Revenue in the Asia-Pacific ("APAC") region includes Australia, India, Singapore, and other Asia-Pacific countries.

The information below summarizes revenue from unaffiliated customers by geographic area for the years ended January 31, 2020, 2019, and 2018:

(in thousands)	Year Ended January 31,		
	2020	2019	2018
Americas:			
United States	\$ 590,602	\$ 555,365	\$ 445,406
Other	93,302	103,158	150,993
Total Americas	683,904	658,523	596,399
EMEA	374,721	321,723	354,495
APAC	245,009	249,501	184,335
<b>Total revenue</b>	<b>\$ 1,303,634</b>	<b>\$ 1,229,747</b>	<b>\$ 1,135,229</b>

Our long-lived assets primarily consist of net property and equipment, operating lease right-of-use assets, goodwill and other intangible assets, and deferred income taxes. We believe that our tangible long-lived assets, which consist of our net property and equipment, are exposed to greater geographic area risks and uncertainties than intangible assets and long-term cost deferrals, because these tangible assets are difficult to move and are relatively illiquid.

Property and equipment, net by geographic area consisted of the following as of January 31, 2020 and 2019:

(in thousands)	January 31,	
	2020	2019
United States	\$ 61,096	\$ 51,006
Israel	33,316	30,310
Other countries	21,699	18,818
<b>Total property and equipment, net</b>	<b>\$ 116,111</b>	<b>\$ 100,134</b>

### Significant Customers

No single customer accounted for more than 10% of our revenue during the years ended January 31, 2020, 2019, and 2018.

## 18. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized condensed quarterly financial information for the years ended January 31, 2020 and 2019 appears in the following tables:

(in thousands, except per share data)	Three Months Ended			
	April 30, 2019	July 31, 2019	October 31, 2019	January 31, 2020
Revenue	\$ 315,259	\$ 324,305	\$ 324,867	\$ 339,203
Gross profit	\$ 201,071	\$ 207,864	\$ 211,595	\$ 219,338
Income before provision for income taxes	\$ 5,170	\$ 7,764	\$ 22,201	\$ 18,168
Net income	\$ 3,761	\$ 12,271	\$ 12,983	\$ 6,668
Net income attributable to Verint Systems Inc.	\$ 1,576	\$ 10,558	\$ 11,681	\$ 4,869
Net income per common share attributable to Verint Systems Inc.				
Basic	\$ 0.02	\$ 0.16	\$ 0.17	\$ 0.07
Diluted	\$ 0.02	\$ 0.16	\$ 0.17	\$ 0.07

(in thousands, except per share data)	Three Months Ended			
	April 30, 2018	July 31, 2018	October 31, 2018	January 31, 2019
Revenue	\$ 289,207	\$ 306,327	\$ 303,983	\$ 330,230
Gross profit	\$ 175,115	\$ 193,020	\$ 192,744	\$ 219,655
(Loss) income before provision (benefit) for income taxes	\$ (951)	\$ 19,202	\$ 25,814	\$ 33,697
Net (loss) income	\$ (1,225)	\$ 22,924	\$ 20,213	\$ 28,308
Net (loss) income attributable to Verint Systems Inc.	\$ (2,215)	\$ 21,980	\$ 18,920	\$ 27,306
Net (loss) income per common share attributable to Verint Systems Inc.				
Basic	\$ (0.03)	\$ 0.34	\$ 0.29	\$ 0.42
Diluted	\$ (0.03)	\$ 0.33	\$ 0.29	\$ 0.41

Net income (loss) per common share attributable to Verint Systems Inc. is computed independently for each quarterly period and for the year. Therefore, the sum of quarterly net income (loss) per common share amounts may not equal the amounts reported for the years.

The quarterly operating results for the years ended January 31, 2020 and 2019 did not include any material unusual or infrequently occurring items.

As is typical for many software and technology companies, our business is subject to seasonal and cyclical factors. In most years, 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, in some years, potentially by a significant margin. In addition, we generally receive a higher volume of orders in the last month of a quarter, with orders concentrated in the later part of that month. We believe that these seasonal and cyclical factors primarily reflects customer spending patterns and budget cycles, as well as the impact of compensation incentive 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, also have an impact on our business and financial results. See “Risk Factors” under Item 1A of this report for a more detailed discussion of factors which may affect our business and financial results.

## 19. SUBSEQUENT EVENTS

During the fourth quarter ended January 31, 2020, concerns related to the spread of COVID-19 began to create global business disruptions as well as disruptions in our operations and to create potential negative impacts on our revenues and other financial results. COVID-19 was declared a pandemic by the World Health Organization on March 11, 2020. The extent to which COVID-19 will impact our financial condition or results of operations is currently uncertain and depends on factors including the impact on our customers, partners, and vendors and on the operation of the global markets in general. Because an increasing portion of our business is based on a subscription model, the effect of COVID-19 on our results of operations may also not be fully reflected for some time.

We are currently conducting business with substantial modifications to employee travel, employee work locations, virtualization or cancellation of customer and employee events, and remote sales, implementation, and support activities, among other modifications. These decisions may delay or reduce sales and harm productivity and collaboration. We have observed other companies and governments making similar alteration to their normal business operations, including restrictions imposed by our customers on our ability to access their sites for implementations and support, and in general, the markets are experiencing a significant level of uncertainty at the current time. The pandemic could have an adverse impact on demand for our customers’ products and services, which in turn, could negatively impact the willingness of our customers to enter into or

renew contracts with us. The pandemic has impacted our ability to complete certain implementations, negatively impacting our ability to recognize revenue, and could also negatively impact the payment of accounts receivable and collections. We may take further actions that alter our business operations as the situation evolves. As a result, the ultimate impact of the COVID-19 pandemic and the effects of the operational alterations we have made in response on our business, financial condition, liquidity, and financial results cannot be predicted at this time.

Subsequent to the year ended January 31, 2020, we increased the borrowings under our 2017 Revolving Credit Facility to \$200.0 million. See Note 7, “Long-Term Debt”, for additional information regarding our revolving credit facility.

## **Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

## **Item 9A. 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 January 31, 2020. 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 January 31, 2020.

### **Management’s Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of January 31, 2020 based on the 2013 framework established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our internal control over financial reporting includes policies and procedures that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP.

Based on the results of our evaluation, our management concluded that our internal control over financial reporting was effective as of January 31, 2020. We reviewed the results of management’s assessment with our Audit Committee.

Our independent registered accounting firm, Deloitte & Touche LLP, has audited the effectiveness of our internal control over financial reporting as stated in their report included herein.

### **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 January 31, 2020, 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.



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Verint Systems Inc.  
Melville, New York

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Verint Systems Inc. and subsidiaries (the “Company”) as of January 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended January 31, 2020, of the Company and our report dated March 31, 2020, expressed an unqualified opinion on those financial statements.

### Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

New York, New York

March 31, 2020

**Item 9B. Other Information**

Not applicable.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

Except as set forth below, the information required by Item 10 will be included under the captions “Proposal No. 1 - Election of Directors”, “Corporate Governance”, “Executive Officers” and “Delinquent Section 16(a) Reports” in our definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the year ended January 31, 2020 (the “2020 Proxy Statement”) and is incorporated herein by reference.

#### Corporate Governance Guidelines

All of our employees, including our executive officers, are required to comply with our Code of Conduct. The purpose of this corporate policy is to ensure to the greatest possible extent that our business is conducted in a consistently legal and ethical manner. The text of the Code of Conduct is available on our website ([www.verint.com](http://www.verint.com)). We intend to disclose on our website any amendment to, or waiver from, a provision of our policies as required by law.

### Item 11. Executive Compensation

The information required by Item 11 will be included under the captions “Executive Compensation” and “Compensation Committee Interlocks and Insider Participation” in the 2020 Proxy Statement and is incorporated herein by reference.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Except as set forth below, the information required by Item 12 will be included under the caption “Security Ownership of Certain Beneficial Owners and Management” in the 2020 Proxy Statement and is incorporated herein by reference.

#### Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth certain information regarding our equity compensation plans as of January 31, 2020.

Plan Category	(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in		
	(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants, and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (1)	
Equity compensation plans approved by security holders	2,742,666	(2) \$ 8.71	11,497,637 (3)
Equity compensation plans not approved by security holders	—		—
<b>Total</b>	<b>2,742,666</b>		<b>11,497,637</b>

(1) The weighted-average price relates to outstanding stock options only (as of the applicable date). Other outstanding awards carry no exercise price and are therefore excluded from the weighted-average price.

(2) Consists of 1,327 stock options and 2,741,339 restricted stock units.

(3) Consists of shares that may be issued pursuant to future awards under the Verint Systems Inc. 2019 Long-Term Stock Incentive Plan (the “2019 Plan”). The 2019 Plan uses a fungible ratio such that each option or stock-settled stock appreciation right granted under the 2019 Plan will reduce the plan capacity by one share and each other award denominated in shares that is granted under the 2019 Plan will reduce the available capacity by 2.38 shares.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by Item 13 will be included under the captions “Corporate Governance” and “Certain Relationships and Related Person Transactions” in the 2020 Proxy Statement and is incorporated herein by reference.

### **Item 14. Principal Accounting Fees and Services**

The information required by Item 14 will be included under the caption “Audit Matters” in the 2020 Proxy Statement and is incorporated herein by reference.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

#### (a) Documents filed as part of this report

##### (1) Financial Statements

The consolidated financial statements filed as part of this report are listed on the Index to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K.

##### (2) Financial Statement Schedules

All financial statement schedules have been omitted here because they are not applicable, not required, or the information is shown in the consolidated financial statements or notes thereto.

##### (3) Exhibits

See (b) below.

#### (b) Exhibits

Number	Description	Filed Herewith / Incorporated by Reference from
2.1	<a href="#">Agreement and Plan of Merger, dated August 12, 2012, by and among Comverse Technology, Inc., Verint Systems Inc. and Victory Acquisition LLC*</a>	<a href="#">Form 8-K filed on August 13, 2012</a>
2.2	<a href="#">Agreement and Plan of Merger, dated January 6, 2014, by and among Verint Systems Inc., Kiwi Acquisition Inc., Kay Technology Holdings, Inc. and Accel-KKR Capital Partners III LP*</a>	<a href="#">Form 8-K filed on January 6, 2014</a>
2.3	<a href="#">Distribution Agreement, dated as of October 31, 2012, by and between Comverse Technology, Inc. and Comverse, Inc.</a>	<a href="#">Comverse, Inc. Current Report on Form 8-K filed with the SEC on November 2, 2012</a>
2.4	<a href="#">Tax Disaffiliation Agreement, dated as of October 31, 2012, by and between Comverse Technology, Inc. and Comverse, Inc.</a>	<a href="#">Comverse, Inc. Current Report on Form 8-K filed with the SEC on November 2, 2012</a>
3.1	<a href="#">Amended and Restated Certificate of Incorporation of Verint Systems Inc.</a>	<a href="#">Form S-1 (Commission File No. 333-82300) effective on May 16, 2002</a>
3.2	<a href="#">Amended and Restated By-laws of Verint Systems Inc. (as amended as of March 19, 2015)</a>	<a href="#">Form 8-K filed on March 25, 2015</a>
3.3	<a href="#">Amended and Restated Certificate of Designation, Preferences and Rights of the Series A Convertible Perpetual Preferred Stock of Verint Systems Inc.</a>	<a href="#">Form 10-Q filed on September 6, 2012</a>
4.1	<a href="#">Specimen Common Stock certificate</a>	<a href="#">Form S-1 (Commission File No. 333-82300) effective on May 16, 2002</a>
4.2	<a href="#">Indenture, dated as of June 18, 2014, between Verint Systems Inc. and Wilmington Trust, National Association, as trustee.</a>	<a href="#">Form 8-K filed on June 18, 2014</a>
4.3	<a href="#">First Supplemental Indenture, dated as of June 18, 2014, between Verint Systems Inc. and Wilmington Trust, National Association, as trustee.</a>	<a href="#">Form 8-K filed on June 18, 2014</a>
4.4	<a href="#">Description of Verint Systems Inc. Capital Stock</a>	<a href="#">Filed herewith</a>
10.1	<a href="#">Form of Indemnification Agreement</a>	<a href="#">Form 10-Q filed on December 6, 2018</a>
10.2	<a href="#">Vovici Corporation Amended and Restated Stock Plan</a>	<a href="#">Form 10-K filed on April 2, 2012</a>
10.3	<a href="#">Verint Systems Inc. 2015 Long-Term Stock Incentive Plan</a>	<a href="#">Form 8-K filed on June 26, 2015</a>

10.4	<a href="#">Verint Systems Inc. Amended and Restated 2015 Long-Term Stock Incentive Plan</a>	Form 8-K filed on June 26, 2017
10.5	<a href="#">Verint Systems Inc. 2019 Long-Term Stock Incentive Plan</a>	Form 8-K filed on June 24, 2019
10.6	<a href="#">Verint Systems Inc. Stock Bonus Program**</a>	Filed herewith
10.7	<a href="#">Form of Time-Based Restricted Stock Unit Award Agreement for Grants Subsequent to March 2018**</a>	Form 10-K filed on March 29, 2018
10.8	<a href="#">Form of Performance-Based Restricted Stock Unit Award Agreement for Grants Subsequent to March 2017**</a>	Form 10-K filed on March 28, 2017
10.9	<a href="#">Form of Performance-Based Restricted Stock Unit Award Agreement for Grants Subsequent to March 2018**</a>	Form 10-K filed on March 29, 2018
10.10	<a href="#">Form of Performance-Based Restricted Stock Unit Award Agreement for Incentive Grants in Connection with the Planned Separation Transaction**</a>	Filed herewith
10.11	<a href="#">Credit Agreement, dated June 29, 2017, among Verint Systems Inc., as borrower, the lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as administrative agent and collateral agent</a>	Form 8-K filed on July 6, 2017
10.12	<a href="#">Amendment No. 1, dated January 31, 2018, to the Credit Agreement, dated June 29, 2017, among Verint Systems Inc., as borrower, the lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as administrative agent and collateral agent</a>	Form 8-K filed on February 1, 2018
10.13	<a href="#">Employment Agreement, dated February 23, 2010, between Verint Systems Inc. and Dan Bodner**</a>	Form 8-K filed on February 23, 2010
10.14	<a href="#">Amended and Restated Employment Agreement, dated July 13, 2011, between Verint Systems Inc. and Douglas Robinson**</a>	Form 8-K filed on July 14, 2011
10.15	<a href="#">Second Amended and Restated Employment Agreement, dated July 13, 2011, between Verint Systems Inc. and Elan Moriah**</a>	Form 8-K filed on July 14, 2011
10.16	<a href="#">Second Amended and Restated Employment Agreement, dated July 13, 2011, between Verint Systems Inc. and Peter Fante**</a>	Form 8-K filed on July 14, 2011
10.17	<a href="#">Summary of the Terms of Verint Systems Inc. Executive Officer Annual Bonus Plan for the Fiscal Year Ended January 31, 2019 and Subsequent**</a>	Form 10-K filed March 29, 2018
10.18	<a href="#">Federal Income Tax Sharing Agreement, dated as of January 31, 2002, between Comverse Technologies, Inc. an Verint Systems Inc.</a>	Form S-1 (Commission File No. 333-82300) effective on May 16, 2002
10.19	<a href="#">Agreement, dated June 6, 2019, between Verint Systems Inc., Neuberger Berman Investment Advisers LLC, and the entities and natural persons signatories thereto</a>	Form 8-K filed on June 6, 2019
10.20	<a href="#">Investment Agreement, dated December 4, 2019, by and between Verint Systems Inc. and Valor Parent LP</a>	Form 8-K/A filed on December 5, 2019
21.1	<a href="#">Subsidiaries of Verint Systems Inc.</a>	Filed herewith
23.1	<a href="#">Consent of Deloitte &amp; Touche LLP, Independent Registered Public Accounting Firm</a>	Filed herewith
31.1	<a href="#">Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>	Filed herewith
31.2	<a href="#">Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>	Filed herewith
32.1	<a href="#">Certification of the Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350 (1)</a>	Filed herewith
32.2	<a href="#">Certification of the Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350 (1)</a>	Filed herewith
101.INS	<a href="#">XBRL Instance Document</a>	Filed herewith
101.SCH	<a href="#">XBRL Taxonomy Extension Schema Document</a>	Filed herewith
101.CAL	<a href="#">XBRL Taxonomy Extension Calculation Linkbase Document</a>	Filed herewith
101.DEF	<a href="#">XBRL Taxonomy Extension Definition Linkbase Document</a>	Filed herewith
101.LAB	<a href="#">XBRL Taxonomy Extension Label Linkbase Document</a>	Filed herewith
101.PRE	<a href="#">XBRL Taxonomy Extension Presentation Linkbase Document</a>	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.

\* Certain exhibits and schedules have been omitted, and the Company agrees to furnish supplementally to the SEC a copy of any omitted exhibits or schedules upon request.

\*\* Denotes a management contract or compensatory plan or arrangement required to be filed as an exhibit to this form pursuant to Item 15(b) of this report.

(c) Financial Statement Schedules

None

**Item 16. Form 10-K Summary**

Not applicable.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

March 31, 2020

/s/ Dan Bodner

Dan Bodner  
Chief Executive Officer

March 31, 2020

/s/ Douglas E. Robinson

Douglas E. Robinson  
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<b>Name</b>	<b>Title</b>	<b>Date</b>
<u>/s/ Dan Bodner</u> Dan Bodner	Chief Executive Officer, and Chairman of the Board (Principal Executive Officer)	March 31, 2020
<u>/s/ Douglas E. Robinson</u> Douglas E. Robinson	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 31, 2020
<u>/s/ John R. Egan</u> John R. Egan	Director	March 31, 2020
<u>/s/ Stephen J. Gold</u> Stephen J. Gold	Director	March 31, 2020
<u>/s/ Penelope Herscher</u> Penelope Herscher	Director	March 31, 2020
<u>/s/ William H. Kurtz</u> William H. Kurtz	Director	March 31, 2020
<u>/s/ Andrew Miller</u> Andrew Miller	Director	March 31, 2020
<u>/s/ Richard Nottenburg</u> Richard Nottenburg	Director	March 31, 2020
<u>/s/ Howard Safir</u> Howard Safir	Director	March 31, 2020
<u>/s/ Earl Shanks</u> Earl Shanks	Director	March 31, 2020