

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2019

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, New York

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:

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

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 Exchange Act). Yes No

There were 66,771,479 shares of the registrant's common stock outstanding on August 15, 2019.

Verint Systems Inc. and Subsidiaries
Index to Form 10-Q
As of and For the Period Ended July 31, 2019

		Page
Cautionary Note on Forward-Looking Statements		ii
Part I.	Financial Information	1
Item 1.	Financial Statements (Unaudited)	1
	Condensed Consolidated Balance Sheets	2
	Condensed Consolidated Statements of Operations	3
	Condensed Consolidated Statements of Comprehensive (Loss) Income	4
	Condensed Consolidated Statements of Stockholders' Equity	5
	Condensed Consolidated Statements of Cash Flows	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	39
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	56
Item 4.	Controls and Procedures	57
Part II.	Other Information	58
Item 1.	Legal Proceedings	58
Item 1A.	Risk Factors	58
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	58
Item 3.	Defaults Upon Senior Securities	58
Item 4.	Mine Safety Disclosures	58
Item 5.	Other Information	58
Item 6.	Exhibits	59
Signature		60

Cautionary Note on Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, the provisions of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements include financial projections, statements of plans and objectives for future operations, statements of future economic performance, and statements of assumptions relating thereto. Forward-looking statements may appear throughout this report, including without limitation, Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and are often identified by future or conditional words such as “will”, “plans”, “expects”, “intends”, “believes”, “seeks”, “estimates”, or “anticipates”, or by variations of such words or by similar expressions. There can be no 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 general economic conditions in the United States and abroad, particularly in information technology spending and government budgets, on our business;
- risks associated with our ability to keep pace with technological 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;

[Table of Contents](#)

- 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, our ability to accurately forecast when a sales opportunity will convert to an order, or to forecast revenue and expenses, and increased volatility of our operating results from period to period;
- risks that our intellectual property rights may not be adequate to protect our business or assets or that others may make claims on our intellectual property, 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; and
- 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.

These risks, uncertainties, assumptions, and challenges, as well as other factors, are discussed in greater detail in “Risk Factors” under Item 1A of our Annual Report on Form 10-K for the year ended January 31, 2019 and under Item 1A of our Quarterly Report on Form 10-Q for the quarter ended April 30, 2019. You are cautioned not to place undue reliance on forward-looking statements, which reflect our management’s view only as of the date of this report. We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances after the date any such statement is made, except as otherwise required under the federal securities laws. If we were in any particular instance to update or correct a forward-looking statement, investors and others should not conclude that we would make additional updates or corrections thereafter except as otherwise required under the federal securities laws.

Part I

Item 1. Financial Statements

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

	Page
Condensed Consolidated Balance Sheets as of July 31, 2019 and January 31, 2019	2
Condensed Consolidated Statements of Operations for the Three and Six Months Ended July 31, 2019 and 2018	3
Condensed Consolidated Statements of Comprehensive (Loss) Income for the Three and Six Months Ended July 31, 2019 and 2018	4
Condensed Consolidated Statements of Stockholders' Equity for the Three and Six Months ended July 31, 2019 and 2018	5
Condensed Consolidated Statements of Cash Flows for the Six Months Ended July 31, 2019 and 2018	6
Notes to Condensed Consolidated Financial Statements	7

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

(in thousands, except share and per share data)	July 31, 2019	January 31, 2019
Assets		
Current Assets:		
Cash and cash equivalents	\$ 388,546	\$ 369,975
Restricted cash and cash equivalents, and restricted bank time deposits	24,239	42,262
Short-term investments	25,590	32,329
Accounts receivable, net of allowance for doubtful accounts of \$5.5 million and \$3.8 million, respectively	349,161	375,663
Contract assets	55,239	63,389
Inventories	28,459	24,952
Prepaid expenses and other current assets	89,556	97,776
Total current assets	960,790	1,006,346
Property and equipment, net	106,393	100,134
Operating lease right-of-use assets	100,924	—
Goodwill	1,430,082	1,417,481
Intangible assets, net	215,332	225,183
Other assets	118,185	117,883
Total assets	\$ 2,931,706	\$ 2,867,027
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 73,021	\$ 71,621
Accrued expenses and other current liabilities	218,533	212,824
Contract liabilities	347,226	377,376
Total current liabilities	638,780	661,821
Long-term debt	782,589	777,785
Long-term contract liabilities	34,967	30,094
Operating lease liabilities	93,137	—
Other liabilities	94,255	136,523
Total liabilities	1,643,728	1,606,223
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock - \$0.001 par value; authorized 2,207,000 shares at July 31, 2019 and January 31, 2019, respectively; none issued.	—	—
Common stock - \$0.001 par value; authorized 120,000,000 shares. Issued 68,444,000 and 66,998,000 shares; outstanding 66,771,000 and 65,333,000 shares at July 31, 2019 and January 31, 2019, respectively.	68	67
Additional paid-in capital	1,628,665	1,586,266
Treasury stock, at cost - 1,673,000 and 1,665,000 shares at July 31, 2019 and January 31, 2019, respectively.	(58,072)	(57,598)
Accumulated deficit	(122,140)	(134,274)
Accumulated other comprehensive loss	(175,197)	(145,225)
Total Verint Systems Inc. stockholders' equity	1,273,324	1,249,236
Noncontrolling interests	14,654	11,568
Total stockholders' equity	1,287,978	1,260,804
Total liabilities and stockholders' equity	\$ 2,931,706	\$ 2,867,027

See notes to condensed consolidated financial statements.

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

(in thousands, except per share data)	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Revenue:				
Product	\$ 109,983	\$ 110,042	\$ 214,207	\$ 215,906
Service and support	214,322	196,285	425,357	379,628
Total revenue	324,305	306,327	639,564	595,534
Cost of revenue:				
Product	29,424	32,984	57,544	67,793
Service and support	81,430	74,803	160,791	146,660
Amortization of acquired technology	5,587	5,520	12,294	12,946
Total cost of revenue	116,441	113,307	230,629	227,399
Gross profit	207,864	193,020	408,935	368,135
Operating expenses:				
Research and development, net	58,685	52,254	115,854	104,406
Selling, general and administrative	126,265	104,083	247,986	211,580
Amortization of other acquired intangible assets	7,639	7,452	15,352	15,136
Total operating expenses	192,589	163,789	379,192	331,122
Operating income	15,275	29,231	29,743	37,013
Other income (expense), net:				
Interest income	1,687	1,134	3,113	1,927
Interest expense	(10,107)	(9,922)	(20,041)	(18,984)
Other income (expense), net	909	(1,241)	119	(1,705)
Total other expense, net	(7,511)	(10,029)	(16,809)	(18,762)
Income before benefit from income taxes	7,764	19,202	12,934	18,251
Benefit from income taxes	(4,507)	(3,722)	(3,098)	(3,448)
Net income	12,271	22,924	16,032	21,699
Net income attributable to noncontrolling interests	1,713	944	3,898	1,934
Net income attributable to Verint Systems Inc.	\$ 10,558	\$ 21,980	\$ 12,134	\$ 19,765
Net income per common share attributable to Verint Systems Inc.:				
Basic	\$ 0.16	\$ 0.34	\$ 0.18	\$ 0.31
Diluted	\$ 0.16	\$ 0.33	\$ 0.18	\$ 0.30
Weighted-average common shares outstanding:				
Basic	66,272	64,694	65,870	64,314
Diluted	67,519	65,840	67,338	65,509

See notes to condensed consolidated financial statements.

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

(in thousands)	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Net income	\$ 12,271	\$ 22,924	\$ 16,032	\$ 21,699
Other comprehensive loss, net of reclassification adjustments:				
Foreign currency translation adjustments	(23,611)	(20,101)	(27,573)	(33,729)
Net increase (decrease) from foreign exchange contracts designated as hedges	1,637	(1,354)	2,918	(7,937)
Net (decrease) increase from interest rate swap designated as a hedge	(4,541)	392	(6,558)	612
Benefit from income taxes on net increase (decrease) from foreign exchange contracts and interest rate swap designated as hedges	790	718	1,084	796
Other comprehensive loss	(25,725)	(20,345)	(30,129)	(40,258)
Comprehensive (loss) income	(13,454)	2,579	(14,097)	(18,559)
Comprehensive income attributable to noncontrolling interests	1,662	726	3,741	1,764
Comprehensive (loss) income attributable to Verint Systems Inc.	\$ (15,116)	\$ 1,853	\$ (17,838)	\$ (20,323)

See notes to condensed consolidated financial statements.

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

Verint Systems Inc. Stockholders' Equity									
(in thousands)	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							
Balances as of January 31, 2018	63,836	\$ 65	\$1,519,724	\$(57,425)	\$ (238,312)	\$ (103,460)	\$ 1,120,592	\$ 11,744	\$ 1,132,336
Net (loss) income	—	—	—	—	(2,215)	—	(2,215)	990	(1,225)
Other comprehensive (loss) income	—	—	—	—	—	(19,961)	(19,961)	48	(19,913)
Stock-based compensation - equity-classified awards	—	—	14,898	—	—	—	14,898	—	14,898
Common stock issued for stock awards and stock bonuses	180	1	—	—	—	—	1	—	1
Treasury stock acquired	(4)	—	—	(173)	—	—	(173)	—	(173)
Capital contributions by noncontrolling interest	—	—	—	—	—	—	—	60	60
Dividends to noncontrolling interest	—	—	—	—	—	—	—	(760)	(760)
Cumulative effect of adoption of ASU No. 2014-09	—	—	—	—	38,047	—	38,047	—	38,047
Balances as of April 30, 2018	64,012	66	1,534,622	\$(57,598)	(202,480)	(123,421)	1,151,189	12,082	1,163,271
Net income	—	—	—	—	21,980	—	21,980	944	22,924
Other comprehensive loss	—	—	—	—	—	(20,127)	(20,127)	(218)	(20,345)
Stock-based compensation - equity-classified awards	—	—	15,113	—	—	—	15,113	—	15,113
Common stock issued for stock awards and stock bonuses	893	1	8,879	—	—	—	8,880	—	8,880
Balances as of July 31, 2018	64,905	\$ 67	\$1,558,614	\$(57,598)	\$ (180,500)	\$ (143,548)	\$ 1,177,035	\$ 12,808	\$ 1,189,843
Balances as of January 31, 2019	65,333	\$ 67	\$1,586,266	\$(57,598)	\$ (134,274)	\$ (145,225)	\$ 1,249,236	\$ 11,568	\$ 1,260,804
Net income	—	—	—	—	1,576	—	1,576	2,185	3,761
Other comprehensive loss	—	—	—	—	—	(4,298)	(4,298)	(106)	(4,404)
Stock-based compensation - equity-classified awards	—	—	14,890	—	—	—	14,890	—	14,890
Common stock issued for stock awards and stock bonuses	448	—	—	—	—	—	—	—	—
Treasury stock acquired	(8)	—	—	(474)	—	—	(474)	—	(474)
Balances as of April 30, 2019	65,773	67	1,601,156	\$(58,072)	(132,698)	(149,523)	1,260,930	13,647	1,274,577
Net income	—	—	—	—	10,558	—	10,558	1,713	12,271
Other comprehensive loss	—	—	—	—	—	(25,674)	(25,674)	(51)	(25,725)
Stock-based compensation - equity-classified awards	—	—	17,966	—	—	—	17,966	—	17,966
Common stock issued for stock awards and stock bonuses	998	1	9,543	—	—	—	9,544	—	9,544
Distribution to noncontrolling interest	—	—	—	—	—	—	—	(655)	(655)
Balances as of July 31, 2019	66,771	\$ 68	\$1,628,665	\$(58,072)	\$ (122,140)	\$ (175,197)	\$ 1,273,324	\$ 14,654	\$ 1,287,978

See notes to condensed consolidated financial statements.

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

(in thousands)	Six Months Ended July 31,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 16,032	\$ 21,699
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	44,766	44,935
Stock-based compensation, excluding cash-settled awards	37,605	33,871
Amortization of discount on convertible notes	6,163	5,848
Non-cash gains on derivative financial instruments, net	(728)	(2,709)
Other non-cash items, net	3,305	(2,606)
Changes in operating assets and liabilities, net of effects of business combinations:		
Accounts receivable	23,439	45,515
Contract assets	7,884	(12,217)
Inventories	(4,436)	175
Prepaid expenses and other assets	8,169	(2,984)
Accounts payable and accrued expenses	(8,291)	(14,736)
Contract liabilities	(24,460)	(5,695)
Other, net	(11,169)	(6,943)
Net cash provided by operating activities	98,279	104,153
Cash flows from investing activities:		
Cash paid for business combinations, including adjustments, net of cash acquired	(49,258)	(27,442)
Purchases of property and equipment	(17,718)	(17,897)
Purchases of investments	(20,101)	(9,261)
Maturities and sales of investments	23,836	7,152
Cash paid for capitalized software development costs	(6,581)	(2,902)
Change in restricted bank time deposits, and other investing activities, net	3,807	(22,079)
Net cash used in investing activities	(66,015)	(72,429)
Cash flows from financing activities:		
Repayments of borrowings and other financing obligations	(3,194)	(2,728)
Payments of debt-related costs	(212)	(206)
Purchases of treasury stock	(474)	(173)
Dividends or distributions paid to noncontrolling interests	(655)	(760)
Payments of deferred purchase price and contingent consideration for business combinations (financing portion)	(22,601)	(9,351)
Other financing activities, net	—	(433)
Net cash used in financing activities	(27,136)	(13,651)
Foreign currency effects on cash, cash equivalents, restricted cash, and restricted cash equivalents	(1,890)	(3,578)
Net increase in cash, cash equivalents, restricted cash, and restricted cash equivalents	3,238	14,495
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	412,699	398,210
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	\$ 415,937	\$ 412,705
Reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period to the condensed consolidated balance sheets:		
Cash and cash equivalents	\$ 388,546	\$ 375,077
Restricted cash and cash equivalents included in restricted cash and cash equivalents, and restricted bank time deposits	23,702	35,476
Restricted cash and cash equivalents included in other assets	3,689	2,152
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	\$ 415,937	\$ 412,705

See notes to condensed consolidated financial statements.

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

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

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

Verint is a global leader in Actionable Intelligence solutions. 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. Our research and development (“R&D”) team is focused on actionable intelligence and is comprised of approximately 1,900 professionals. Our innovative solutions are backed-up by a strong IP portfolio with approximately 1,000 patents and patent applications worldwide across data capture, artificial intelligence, 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.

Preparation of Condensed Consolidated Financial Statements

The condensed consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and on the same basis as the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended January 31, 2019 filed with the U.S. Securities and Exchange Commission (“SEC”), except for the recently adopted accounting pronouncements described below. The condensed consolidated statements of operations, comprehensive (loss) income, stockholders’ equity, and cash flows for the periods ended July 31, 2019 and 2018, and the condensed consolidated balance sheet as of July 31, 2019, are not audited but reflect all adjustments that are of a normal recurring nature and that are considered necessary for a fair presentation of the results for the periods shown. The condensed consolidated balance sheet as of January 31, 2019 is derived from the audited consolidated financial statements presented in our Annual Report on Form 10-K for the year ended January 31, 2019. Certain information and disclosures normally included in annual consolidated financial statements have been omitted pursuant to the rules and regulations of the SEC. Because the condensed consolidated interim financial statements do not include all of the information and disclosures required by GAAP for a complete set of financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended January 31, 2019 filed with the SEC. The results for interim periods are not necessarily indicative of a full year’s results.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Verint Systems Inc., our wholly owned 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 condensed 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 GAAP requires our management to make estimates and assumptions, which may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant Accounting Policies

Except for the accounting policy for leases appearing below, implemented as a result of adopting Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)*, there have been no material changes in our significant accounting policies during the six months ended July 31, 2019, as compared to the significant accounting policies described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended January 31, 2019.

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 condensed consolidated balance sheet. 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 condensed consolidated balance sheet.

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.

Recently Adopted Accounting Pronouncements

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 12 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 14, *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 condensed 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 condensed consolidated financial statements.

New Accounting Pronouncements Not Yet Effective

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 clarifies the accounting for implementation costs in cloud computing arrangements. 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. We are currently reviewing this standard to assess the impact on our condensed 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. We are currently reviewing this standard to assess the impact on our condensed 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. We are currently reviewing this standard to assess the impact on our condensed consolidated financial statements.

2. REVENUE RECOGNITION

We derive our revenue primarily from the licensing of our software products and related services and support based on when control of the software passes to our customers or the services are provided, in an amount that reflects the consideration we expect to be entitled to in exchange for such goods or services. Revenue is reported net of applicable sales and use tax, value-added tax and other transaction taxes imposed on the related transaction, including mandatory government charges that are passed through to our customers.

We determine revenue recognition through the following five steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price

- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, performance obligations are satisfied.

We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

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 post-contract customer support (“PCS”).
 - Cloud revenue consists primarily of software as a service (“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 PCS, 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.

To conform with the presentation described above, the classification of Customer Engagement unbundled SaaS revenue for the three and six months ended July 31, 2018 in the tables below has been updated to reflect \$4.8 million and \$7.0 million, respectively, of recurring revenue which had previously been presented within nonrecurring revenue.

(in thousands)	Three Months Ended July 31, 2019			Three Months Ended July 31, 2018		
	Customer Engagement	Cyber Intelligence	Total	Customer Engagement	Cyber Intelligence	Total
Revenue:						
Product	\$ 54,468	\$ 55,515	\$ 109,983	\$ 55,528	\$ 54,514	\$ 110,042
Service and support	156,968	57,354	214,322	145,279	51,006	196,285
Total revenue	\$ 211,436	\$ 112,869	\$ 324,305	\$ 200,807	\$ 105,520	\$ 306,327
Revenue by recurrence:						
Recurring revenue	\$ 129,332	\$ 46,171	\$ 175,503	\$ 117,759	\$ 42,739	\$ 160,498
Nonrecurring revenue	82,104	66,698	148,802	83,048	62,781	145,829
Total revenue	\$ 211,436	\$ 112,869	\$ 324,305	\$ 200,807	\$ 105,520	\$ 306,327

(in thousands)	Six Months Ended July 31, 2019			Six Months Ended July 31, 2018		
	Customer Engagement	Cyber Intelligence	Total	Customer Engagement	Cyber Intelligence	Total
Revenue:						
Product	\$ 108,470	\$ 105,737	\$ 214,207	\$ 103,892	\$ 112,014	\$ 215,906
Service and support	310,061	115,296	425,357	283,371	96,257	379,628
Total revenue	\$ 418,531	\$ 221,033	\$ 639,564	\$ 387,263	\$ 208,271	\$ 595,534
Revenue by recurrence:						
Recurring revenue	\$ 252,690	\$ 92,988	\$ 345,678	\$ 225,589	\$ 78,889	\$ 304,478
Nonrecurring revenue	165,841	128,045	293,886	161,674	129,382	291,056
Total revenue	\$ 418,531	\$ 221,033	\$ 639,564	\$ 387,263	\$ 208,271	\$ 595,534

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

(in thousands)	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Customer Engagement revenue:				
Recurring revenue				
Cloud	\$ 47,813	\$ 36,658	\$ 94,898	\$ 69,463
PCS	81,519	81,101	157,792	156,126
Total recurring revenue	129,332	117,759	252,690	225,589
Nonrecurring revenue	82,104	83,048	165,841	161,674
Total Customer Engagement revenue	\$ 211,436	\$ 200,807	\$ 418,531	\$ 387,263

Contract Balances

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

(in thousands)	July 31, 2019	January 31, 2019
Accounts receivable, net	\$ 349,161	\$ 375,663
Contract assets	55,239	63,389
Long-term contract assets (included in Other assets)	1,005	1,375
Contract liabilities	347,226	377,376
Long-term contract liabilities	34,967	30,094

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 our significantly customized solutions as the right to consideration is subject to the contractually agreed upon billing schedule. There are two customers in our Cyber Intelligence segment that combined accounted for \$74.0 million and \$84.3 million of our aggregated accounts receivable and contract assets at July 31, 2019 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.

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 six months ended July 31, 2019 and 2018 from amounts included in contract liabilities at the beginning of each period was \$231.4 million and \$207.8 million, respectively.

Remaining Performance Obligations

The majority of our arrangements are for periods of up to three years, with a significant portion being one year or less. We had \$1.0 billion of remaining performance obligations as of July 31, 2019. 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. We currently expect to recognize approximately two-thirds of our remaining revenue backlog over the next twelve months and the remainder thereafter. The timing and amount of revenue recognition for our remaining performance obligations is influenced by several factors, including seasonality, the timing of PCS 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.

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

The following table summarizes the calculation of basic and diluted net income per common share attributable to Verint Systems Inc. for the three and six months ended July 31, 2019 and 2018:

(in thousands, except per share amounts)	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Net income	\$ 12,271	\$ 22,924	\$ 16,032	\$ 21,699
Net income attributable to noncontrolling interests	1,713	944	3,898	1,934
Net income attributable to Verint Systems Inc.	\$ 10,558	\$ 21,980	\$ 12,134	\$ 19,765
Weighted-average shares outstanding:				
Basic	66,272	64,694	65,870	64,314
Dilutive effect of employee equity award plans	1,247	1,146	1,468	1,195
Dilutive effect of 1.50% convertible senior notes	—	—	—	—
Dilutive effect of warrants	—	—	—	—
Diluted	67,519	65,840	67,338	65,509
Net income per common share attributable to Verint Systems Inc.:				
Basic	\$ 0.16	\$ 0.34	\$ 0.18	\$ 0.31
Diluted	\$ 0.16	\$ 0.33	\$ 0.18	\$ 0.30

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

(in thousands)	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Common shares excluded from calculation:				
Stock options and restricted stock-based awards	1,817	401	1,221	325
1.50% convertible senior notes	6,205	6,205	6,205	6,205
Warrants	6,205	6,205	6,205	6,205

Our 1.50% convertible senior notes (“Notes”) will not impact the calculation of diluted net income per share unless the average price of our common stock, as calculated in accordance with the terms of the indenture governing the Notes, exceeds the conversion price of \$64.46 per share. Likewise, diluted net income per share will not include any effect from the Warrants (as defined in Note 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 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 be issued upon exercise of the Warrants. Further details regarding the Notes, Note Hedges, and the Warrants appear in Note 7, “Long-Term Debt”.

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

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

(in thousands)	July 31, 2019			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash and bank time deposits	\$ 383,109	\$ —	\$ —	\$ 383,109
Money market funds	5,437	—	—	5,437
Total cash and cash equivalents	\$ 388,546	\$ —	\$ —	\$ 388,546
Short-term investments:				
Bank time deposits	\$ 25,590	\$ —	\$ —	\$ 25,590
Total short-term investments	\$ 25,590	\$ —	\$ —	\$ 25,590
(in thousands)	January 31, 2019			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash and bank time deposits	\$ 359,266	\$ —	\$ —	\$ 359,266
Money market funds	10,709	—	—	10,709
Total cash and cash equivalents	\$ 369,975	\$ —	\$ —	\$ 369,975
Short-term investments:				
Bank time deposits	\$ 32,329	\$ —	\$ —	\$ 32,329
Total short-term investments	\$ 32,329	\$ —	\$ —	\$ 32,329

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 six months ended July 31, 2019 and 2018, proceeds from maturities and sales of short-term investments were \$23.8 million and \$7.2 million, respectively.

5. BUSINESS COMBINATIONS

Six Months Ended July 31, 2019

During the six months ended July 31, 2019, we completed two 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 is being 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.

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

The combined consideration for these business combinations was approximately \$58.4 million, including \$53.2 million of combined cash paid at the closings, partially offset by \$4.2 million of cash acquired. For one of the business combinations, we also agreed to make potential additional cash payments to the respective former shareholders aggregating up to approximately

\$9.1 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 \$5.2 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. All of the \$34.4 million of goodwill associated with these business combinations was assigned to our Customer Engagement segment, \$15.7 million of which is deductible for income tax purposes.

Revenue and net income (loss) attributable to these acquisitions for the six months ended July 31, 2019 were not material.

Transaction and related costs, consisting primarily of professional fees and integration expenses, directly related to these acquisitions, totaled \$2.1 million and \$3.1 million for the three and six months ended July 31, 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 six months ended July 31, 2019 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. Given one of the transaction's proximity to the end of the current reporting period, we recorded a provisional fair value estimate of assets acquired and liabilities assumed based on observation of industry trends and preliminary data, and expect to finalize the valuation and useful life determination for the acquired customer relationships, developed technology, and trade names during the third quarter. When all relevant information is obtained, resulting changes, if any, to our provisional purchase price allocation will be adjusted to reflect new information obtained about the facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date.

The following table sets forth the components and the allocations of the combined purchase prices for the business combinations completed during the six months ended July 31, 2019:

(in thousands)	Amount
Components of Purchase Price:	
Cash	\$ 53,209
Fair value of contingent consideration	5,200
Total purchase price	\$ 58,409
Allocation of Purchase Price:	
Net tangible assets (liabilities):	
Accounts receivable	\$ 1,288
Other current assets, including cash acquired	6,021
Other assets	3,283
Current and other liabilities	(4,956)
Contract liabilities - current and long-term	(2,960)
Deferred income taxes	(1,239)
Net tangible assets	1,437
Identifiable intangible assets:	
Customer relationships	10,000
Developed technology	11,000
Trademarks and trade names	1,600
Total identifiable intangible assets	22,600
Goodwill	34,372
Total purchase price allocations	\$ 58,409

For these acquisitions, customer relationships, developed technology, and trademarks and trade names were assigned estimated useful lives of from seven years to nine years, five years, and five years, respectively, the weighted average of which is approximately 6.4 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 purchase price is subject to customary purchase price adjustments related to the final determination of ForeSee’s cash, net working capital, transaction expenses, and taxes as of December 19, 2018. The acquired business is being 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 \$36.0 million of goodwill has been assigned to our Customer Engagement segment. For income tax purposes, \$1.1 million of this goodwill is deductible and \$34.9 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 \$0.7 million and \$2.0 million for the three and six months ended July 31, 2019, respectively, and were expensed as incurred and are included in selling, general and administrative expenses.

The following table sets forth the components and the allocation of the purchase price for our acquisition of ForeSee:

(in thousands)	Amount
Components of Purchase Price:	
Cash	\$ 58,901
Deferred purchase price consideration	6,000
Other purchase price adjustments	262
Total purchase price	\$ 65,163
Allocation of Purchase Price:	
Net tangible assets (liabilities):	
Accounts receivable	\$ 7,245
Other current assets, including cash acquired	8,059
Other assets	6,075
Current and other liabilities	(12,868)
Contract liabilities - current and long-term	(9,821)
Deferred income taxes	(12,207)
Net tangible liabilities	(13,517)
Identifiable intangible assets:	
Customer relationships	19,400
Developed technology	20,000
Trademarks and trade names	3,300
Total identifiable intangible assets	42,700
Goodwill	35,980
Total purchase price allocations	\$ 65,163

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 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 shareholders 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.

Transaction and related costs, consisting primarily of professional fees and integration expenses, directly related to these acquisitions, totaled \$0.2 million and \$0.4 million for the three and six months ended July 31, 2019. 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 subsequent to July 31, 2018 have been prepared on a preliminary basis and changes to those allocations may occur as additional information becomes available during the respective measurement periods (up to one year from the respective acquisition dates). Fair values still under review include values assigned to identifiable intangible assets, deferred income taxes, and reserves for uncertain income tax positions.

The following table sets forth the components and the allocations of the combined purchase prices for the business combinations, other than ForeSee, completed during the year ended January 31, 2019:

(in thousands)	Amount
Components of Purchase Prices:	
Cash	\$ 33,138
Fair value of contingent consideration	15,875
Fair value of previously held equity interest	2,239
Total purchase prices	\$ 51,252
Allocation of Purchase Prices:	
Net tangible assets (liabilities):	
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)
Net tangible assets	7,394
Identifiable intangible assets:	
Customer relationships	7,521
Developed technology	10,692
Trademarks and trade names	500
Total identifiable intangible assets	18,713
Goodwill	25,145
Total purchase price allocations	\$ 51,252

For these acquisitions, customer relationships, developed technology, and trademarks and trade names were assigned estimated useful lives of from seven years to 10 years, 3 years to 5 years, and 4 years, respectively, the weighted average of which is approximately 6.6 years.

Other Business Combination Information

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 condensed consolidated statements of operations. Changes in the fair value of the contingent consideration obligations result from changes in discount periods and rates, and changes in probability assumptions with respect to the likelihood of achieving the performance targets.

For the three months ended July 31, 2019 and 2018, we recorded benefits of \$0.8 million and \$3.9 million, respectively, and for the six months ended July 31, 2019 and 2018, we recorded a charge of \$0.4 million and a benefit of \$4.7 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 values of the remaining contingent consideration obligations associated with business combinations was \$43.0 million at July 31, 2019, of which \$27.2 million was recorded within accrued expenses and other current liabilities, and \$15.8 million was recorded within other liabilities.

Payments of contingent consideration earned under these agreements were \$17.4 million and \$9.0 million for the three months ended July 31, 2019 and 2018, respectively, and \$23.7 million and \$12.0 million for the six months ended July 31, 2019 and 2018, respectively.

6. INTANGIBLE ASSETS AND GOODWILL

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

(in thousands)	July 31, 2019		
	Cost	Accumulated Amortization	Net
Intangible assets with finite lives:			
Customer relationships	\$ 453,565	\$ (307,408)	\$ 146,157
Acquired technology	291,273	(229,962)	61,311
Trade names	14,246	(6,382)	7,864
Distribution network	4,440	(4,440)	—
Total intangible assets	\$ 763,524	\$ (548,192)	\$ 215,332

(in thousands)	January 31, 2019		
	Cost	Accumulated Amortization	Net
Intangible assets with finite lives:			
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)	—
Total intangible assets	\$ 755,447	\$ (530,264)	\$ 225,183

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

(in thousands)	July 31, 2019	January 31, 2019
Customer Engagement	\$ 210,838	\$ 218,738
Cyber Intelligence	4,494	6,445
Total	\$ 215,332	\$ 225,183

Total amortization expense recorded for acquisition-related intangible assets was \$13.2 million and \$13.0 million for the three months ended July 31, 2019 and 2018, respectively, and \$27.6 million and \$28.1 million for the six months ended July 31, 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)	Amount
Years Ending January 31,	
2020 (remainder of year)	\$ 27,320
2021	47,880
2022	44,489
2023	36,613
2024	26,732
2025 and thereafter	32,298
Total	\$ 215,332

Goodwill activity for the six months ended July 31, 2019, in total and by reportable segment, was as follows:

(in thousands)	Total	Reportable Segment	
		Customer Engagement	Cyber Intelligence
Six Months Ended July 31, 2019:			
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	36,652	36,652	—
Foreign currency translation and other	(24,051)	(23,820)	(231)
Goodwill, net, at July 31, 2019	\$ 1,430,082	\$ 1,283,159	\$ 146,923
Balance at July 31, 2019:			
Goodwill, gross, at July 31, 2019	\$ 1,496,947	\$ 1,339,202	\$ 157,745
Accumulated impairment losses through July 31, 2019	(66,865)	(56,043)	(10,822)
Goodwill, net, at July 31, 2019	\$ 1,430,082	\$ 1,283,159	\$ 146,923

No events or circumstances indicating the potential for goodwill impairment were identified during the six months ended July 31, 2019.

7. LONG-TERM DEBT

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

(in thousands)	July 31, 2019	January 31, 2019
1.50% Convertible Senior Notes	\$ 400,000	\$ 400,000
2017 Term Loan	416,500	418,625
Other debt	13	92
Less: Unamortized debt discounts and issuance costs	(29,661)	(36,589)
Total debt	786,852	782,128
Less: current maturities	4,263	4,343
Long-term debt	\$ 782,589	\$ 777,785

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

1.50% Convertible Senior Notes

On June 18, 2014, we issued \$400.0 million in aggregate principal amount of 1.50% convertible senior notes 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 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. 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 July 31, 2019, 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 July 31, 2019.

As of July 31, 2019, the carrying value of the debt component was \$373.7 million, which is net of unamortized debt discount and issuance costs of \$24.0 million and \$2.3 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% at July 31, 2019.

Based on the closing market price of our common stock on July 31, 2019, 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 July 31, 2019, 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 July 31, 2019, 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 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 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.

For loans 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 July 31, 2019, the interest rate on the 2017 Term Loan was 4.40%. 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 4.58% at July 31, 2019. As of January 31, 2019 the interest rate on 2017 Term Loan was 4.52%.

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 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.

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.

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 Loan

As of July 31, 2019, future scheduled principal payments on the 2017 Term Loan were as follows:

(in thousands)	
Years Ending January 31,	Amount
2020 (remainder of year)	\$ 2,125
2021	4,250
2022	4,250
2023	4,250
2024	4,250
2025 and thereafter	397,375
Total	\$ 416,500

Interest Expense

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

(in thousands)	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
1.50% Convertible Senior Notes:				
Interest expense at 1.50% coupon rate	\$ 1,500	\$ 1,500	\$ 3,000	\$ 3,000
Amortization of debt discount	3,102	2,943	6,163	5,847
Amortization of deferred debt issuance costs	292	278	581	552
Total Interest Expense - 1.50% Convertible Senior Notes	\$ 4,894	\$ 4,721	\$ 9,744	\$ 9,399
Borrowings under Credit Agreements:				
Interest expense at contractual rates	\$ 4,730	\$ 4,733	\$ 9,375	\$ 8,599
Amortization of debt discounts	17	17	33	33
Amortization of deferred debt issuance costs	401	392	775	770
Total Interest Expense - Borrowings under Credit Agreements	\$ 5,148	\$ 5,142	\$ 10,183	\$ 9,402

8. SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENT INFORMATION

Condensed Consolidated Balance Sheets

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

(in thousands)	July 31, 2019	January 31, 2019
Raw materials	\$ 11,768	\$ 10,875
Work-in-process	6,893	5,567
Finished goods	9,798	8,510
Total inventories	\$ 28,459	\$ 24,952

Condensed Consolidated Statements of Operations

Other income (expense), net consisted of the following for the three and six months ended July 31, 2019 and 2018:

(in thousands)	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Foreign currency gains (losses), net	\$ 774	\$ (2,079)	\$ (412)	\$ (3,914)
Gains on derivative financial instruments, net	179	1,221	728	2,709
Other, net	(44)	(383)	(197)	(500)
Total other income (expense), net	\$ 909	\$ (1,241)	\$ 119	\$ (1,705)

Condensed Consolidated Statements of Cash Flows

The following table provides supplemental information regarding our condensed consolidated cash flows for the six months ended July 31, 2019 and 2018:

(in thousands)	Six Months Ended July 31,	
	2019	2018
Cash paid for interest	\$ 12,410	\$ 10,233
Cash payments of income taxes, net	\$ 16,419	\$ 16,846
Non-cash investing and financing transactions:		
Accrued but unpaid purchases of property and equipment	\$ 4,505	\$ 3,261
Inventory transfers to property and equipment	\$ 463	\$ 944
Liabilities for contingent consideration in business combinations, including measurement period adjustments	\$ 5,200	\$ 10,569
Finance leases of property and equipment	\$ 377	\$ 62

9. STOCKHOLDERS' EQUITY

Dividends on Common Stock

We did not declare or pay any dividends on our common stock during the six months ended July 31, 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.

Treasury Stock

Repurchased shares of common stock are recorded as treasury stock, at cost, but may from time to time be retired. We periodically purchase treasury stock from directors, officers, and other employees to facilitate income tax withholding by us or the payment of required income taxes by such holders in connection with the vesting of equity awards.

During the six months ended July 31, 2019, we repurchased approximately 8,000 shares of treasury stock for a cost of \$0.5 million to facilitate income tax withholding and payment requirements upon vesting of equity awards. During the six months ended July 31, 2018, we acquired approximately 4,000 shares of stock in a nonmonetary transaction valued at \$0.2 million.

At July 31, 2019, we held approximately 1,673,000 shares of treasury stock with a cost of \$58.1 million. At January 31, 2019, we held approximately 1,665,000 shares of treasury stock with a cost of \$57.6 million.

Accumulated Other Comprehensive Income (Loss)

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

The following table summarizes changes in the components of our accumulated other comprehensive income (loss) by component for the six months ended July 31, 2019:

(in thousands)	Unrealized Gains (Losses) on Foreign Exchange Contracts Designated as Hedges	Unrealized Loss on Interest Rate Swap Designated as Hedge	Foreign Currency Translation Adjustments	Total
Accumulated other comprehensive loss at January 31, 2019	\$ (981)	\$ (3,043)	\$ (141,201)	\$ (145,225)
Other comprehensive income (loss) before reclassifications	1,780	(5,181)	(27,416)	(30,817)
Amounts reclassified out of accumulated other comprehensive income (loss)	(845)	—	—	(845)
Net other comprehensive income (loss)	2,625	(5,181)	(27,416)	(29,972)
Accumulated other comprehensive income (loss) at July 31, 2019	\$ 1,644	\$ (8,224)	\$ (168,617)	\$ (175,197)

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

The amounts reclassified out of accumulated other comprehensive income (loss) into the condensed consolidated statement of operations, with presentation location, for the three and six months ended July 31, 2019 and 2018 were as follows:

(in thousands)	Three Months Ended July 31,		Six Months Ended July 31,		Location
	2019	2018	2019	2018	
Unrealized losses on derivative financial instruments:					
Foreign currency forward contracts	\$ —	\$ (125)	\$ (72)	\$ (88)	Cost of product revenue
	—	(134)	(84)	(94)	Cost of service and support revenue
	—	(712)	(472)	(492)	Research and development, net
	—	(442)	(311)	(306)	Selling, general and administrative
	—	(1,413)	(939)	(980)	Total, before income taxes
	—	141	94	98	Benefit for income taxes
	\$ —	\$ (1,272)	\$ (845)	\$ (882)	Total, net of income taxes

10. INCOME TAXES

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

For the three months ended July 31, 2019, we recorded an income tax benefit of \$4.5 million on pre-tax income of \$7.8 million, which represented a negative effective income tax rate of 58.0%. The effective tax rate differs from the U.S. federal statutory rate of 21% primarily due to 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 and the impact of U.S. taxation of certain foreign activities, offset by lower statutory rates in several foreign jurisdictions. Excluding the income tax benefit attributable to the audit settlement, the result was an income tax provision of \$2.2 million on pre-tax income of \$7.8 million, resulting in an effective tax rate of 27.8%.

For the three months ended July 31, 2018, we recorded an income tax benefit of \$3.7 million on pre-tax income of \$19.2 million, which represented a negative effective income tax rate of 19.4%. We maintained valuation allowances on our net U.S. deferred income tax assets related to federal and certain state jurisdictions. In connection with an acquisition in our Customer Engagement segment during the second quarter, we recorded deferred income tax liabilities primarily attributable to acquired

intangible assets to the extent the amortization would 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 expected 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 of \$7.7 million and not as a component of the acquisition accounting. The income tax provision does not include income tax benefits on losses incurred by certain domestic and foreign operations where we maintain valuation allowances. Our pre-tax losses in domestic and foreign jurisdictions where we maintain valuation allowances and do not record tax benefits were significantly less than the pre-tax income in jurisdictions where we record tax provisions. Excluding the income tax benefit attributable to the valuation allowance release, the result was an income tax provision of \$4.0 million on pre-tax income of \$19.2 million, resulting in an effective tax rate of 20.9%.

For the six months ended July 31, 2019, we recorded an income tax benefit of \$3.1 million on pre-tax income of \$12.9 million, which represented a negative effective income tax rate of 24.0%. The effective tax rate differs from the U.S. federal statutory rate of 21% primarily due to 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 and the impact of U.S. taxation of certain foreign activities, offset by lower statutory rates in several foreign jurisdictions. Excluding the income tax benefit attributable to the audit settlement, the result was an income tax provision of \$3.6 million on pre-tax income of \$12.9 million, resulting in an effective tax rate of 27.6%.

For the six months ended July 31, 2018, we recorded an income tax benefit of \$3.4 million on pre-tax income of \$18.3 million, which represented a negative effective income tax rate of 18.9%. In connection with an acquisition in our Customer Engagement segment, discussed in more detail above, we reduced the valuation allowance on our U.S. federal and certain state deferred income tax assets resulting in a discrete income tax benefit of \$7.7 million. The income tax provision does not include income tax benefits on losses incurred by certain domestic and foreign operations where we maintained valuation allowances. Our pre-tax losses in domestic and foreign jurisdictions where we maintained valuation allowances and did not record tax benefits were significantly less than the pre-tax income in jurisdictions where we recorded tax provisions. Excluding the income tax benefit attributable to the valuation allowance release, the result was an income tax provision of \$4.3 million on pre-tax income of \$18.3 million, resulting in an effective tax rate of 23.5%.

As required by the authoritative guidance on accounting for income taxes, we evaluate the realizability of deferred income tax assets on a jurisdictional basis at each reporting date. Accounting guidance for income taxes requires that a valuation allowance be established when it is more-likely-than-not that all or a portion of the deferred income tax assets will not be realized. In circumstances where there is sufficient negative evidence indicating that the deferred income tax assets are not more-likely-than-not realizable, we establish a valuation allowance. We determined that there is sufficient negative evidence to maintain the valuation allowances against certain state and foreign deferred income tax assets as a result of historical losses in the most recent three-year period in certain state and foreign jurisdictions. As of January 31, 2019, we had a net federal deferred tax liability position in the U.S. and therefore no valuation allowance was recorded in relation to U.S. federal deferred tax items. We intend to maintain valuation allowances until sufficient positive evidence exists to support a reversal.

We had unrecognized income tax benefits of \$95.0 million and \$109.1 million (excluding interest and penalties) as of July 31, 2019 and January 31, 2019, respectively. The accrued liability for interest and penalties was \$3.1 million and \$4.6 million at July 31, 2019 and January 31, 2019, respectively. Interest and penalties are recorded as a component of the provision for income taxes in our condensed consolidated statements of operations. As of July 31, 2019 and January 31, 2019, the total amount of unrecognized income tax benefits that, if recognized, would impact our effective income tax rate were approximately \$90.9 million and \$100.9 million, respectively. We regularly assess the adequacy of our provisions for income tax contingencies in accordance with the applicable authoritative guidance on accounting for income taxes. As a result, we may adjust the reserves for unrecognized income tax benefits for the impact of new facts and developments, such as changes to interpretations of relevant tax law, assessments from taxing authorities, settlements with taxing authorities, and lapses of statutes of limitation. Further, we believe that it is reasonably possible that the total amount of unrecognized income tax benefits at July 31, 2019 could decrease by approximately \$2.8 million in the next twelve months as a result of settlement of certain tax audits or lapses of statutes of limitation. Such decreases may involve the payment of additional income taxes, the adjustment of deferred income taxes including the need for additional valuation allowances, and the recognition of income tax benefits. Our income tax returns are subject to ongoing tax examinations in several jurisdictions in which we operate. We also believe that it is reasonably possible that new issues may be raised by tax authorities or developments in tax audits may occur, which would require increases or decreases to the balance of reserves for unrecognized income tax benefits; however, an estimate of such changes cannot reasonably be made.

11. 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 July 31, 2019 and January 31, 2019:

(in thousands)	July 31, 2019		
	Fair Value Hierarchy Category		
	Level 1	Level 2	Level 3
Assets:			
Money market funds	\$ 5,437	\$ —	\$ —
Foreign currency forward contracts	—	2,071	—
Interest rate swap agreements	—	773	—
Total assets	\$ 5,437	\$ 2,844	\$ —
Liabilities:			
Foreign currency forward contracts	\$ —	\$ 27	\$ —
Interest rate swap agreements	—	10,586	—
Contingent consideration - business combinations	—	—	42,980
Option to acquire noncontrolling interests of consolidated subsidiaries	—	—	2,950
Total liabilities	\$ —	\$ 10,613	\$ 45,930

(in thousands)	January 31, 2019		
	Fair Value Hierarchy Category		
	Level 1	Level 2	Level 3
Assets:			
Money market funds	\$ 10,709	\$ —	\$ —
Foreign currency forward contracts	—	1,401	—
Interest rate swap agreements	—	2,072	—
Total assets	\$ 10,709	\$ 3,473	\$ —
Liabilities:			
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
Total liabilities	\$ —	\$ 6,114	\$ 64,340

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 six months ended July 31, 2019 and 2018:

(in thousands)	Six Months Ended July 31,	
	2019	2018
Fair value measurement at beginning of period	\$ 61,340	\$ 62,829
Contingent consideration liabilities recorded for business combinations, including measurement period adjustments	5,200	10,569
Changes in fair values, recorded in operating expenses	370	(4,706)
Payments of contingent consideration	(23,712)	(12,044)
Foreign currency translation and other	(218)	(283)
Fair value measurement at end of period	\$ 42,980	\$ 56,365

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

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 six months ended July 31, 2019 and 2018:

(in thousands)	Six Months Ended July 31,	
	2019	2018
Fair value measurement at beginning of period	\$ 3,000	\$ 2,950
Change in fair value, recorded in operating expenses	(50)	(50)
Fair value measurement at end of period	\$ 2,950	\$ 2,900

There were no transfers between levels of the fair value measurement hierarchy during the six months ended July 31, 2019 and 2018.

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 value 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 - Business Combinations - The fair value of the contingent consideration related to business combinations is estimated using a probability-adjusted discounted cash flow model. These fair value measurements are based on significant inputs not observable in the market. The key internally developed assumptions used in these models are discount rates and the probabilities assigned to the milestones to be achieved. We remeasure the fair value of the contingent consideration at each reporting period, and any changes in fair value resulting from either the passage of time or events occurring after the acquisition date, such as changes in discount rates, or in the expectations of achieving the performance targets, are recorded within selling, general, and administrative expenses. Increases or decreases in discount rates would have inverse impacts on the related fair value measurements, while favorable or unfavorable changes in expectations of achieving performance targets would result in corresponding increases or decreases in the related fair value measurements. We utilized discount rates ranging from 3.1% to 5.6% in our calculations of the estimated fair values of our contingent consideration liabilities as of July 31, 2019. 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.

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 11.5% and 12.5% in our calculation of the estimated fair value of the option as of July 31, 2019 and January 31, 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 borrowings were \$419 million and \$412 million at July 31, 2019 and 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 July 31, 2019 and January 31, 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. We had no revolving credit borrowings at July 31, 2019 and January 31, 2019.

The estimated fair values of our Notes were approximately \$444 million and \$400 million at July 31, 2019 and January 31, 2019, respectively. The estimated fair values of the Notes are determined based on quoted bid and ask prices in the over-the-counter market in which the Notes trade. We consider these inputs to be within Level 2 of the fair value hierarchy.

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

In addition to assets and liabilities that are measured at fair value on a recurring basis, we also measure certain assets and liabilities at fair value on a nonrecurring basis. Our non-financial assets, including goodwill, intangible assets and property, plant and equipment, are measured at fair value when there is an indication of impairment and the carrying amount exceeds the asset's projected undiscounted cash flows. These assets are recorded at fair value only when an impairment charge is recognized.

As of July 31, 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 six months ended July 31, 2019.

12. 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 \$89.3 million and \$123.0 million as of July 31, 2019 and January 31, 2019, respectively.

Interest Rate Swap Agreements

To partially mitigate risks associated with the variable interest rates on the term loan borrowings under a 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 pay interest at a fixed rate of 4.143% and receive 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 remains in effect, and serves 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 occur quarterly, and the 2016 Swap will terminate on September 6, 2019.

Prior to June 29, 2017, the 2016 Swap was designated as a cash flow hedge for accounting purposes. 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 agreement 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 condensed consolidated statement of operations as income within other income (expense), net. Ongoing changes in the fair value of the 2016 Swap agreement are now recognized within other income (expense), net in the condensed 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 will 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 is 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 condensed consolidated balance sheet and are reclassified into the condensed 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 condensed consolidated balance sheets as of July 31, 2019 and January 31, 2019 were as follows:

(in thousands)	Balance Sheet Classification	Fair Value at	
		July 31, 2019	January 31, 2019
Derivative assets:			
Foreign currency forward contracts:			
Designated as cash flow hedges	Prepaid expenses and other current assets	\$ 1,827	\$ 738
Not designated as hedging instruments	Prepaid expenses and other current assets	244	663
Interest rate swap agreements:			
Not designated as hedging instrument	Prepaid expenses and other current assets	773	2,072
Total derivative assets		\$ 2,844	\$ 3,473
Derivative liabilities:			
Foreign currency forward contracts:			
Designated as cash flow hedges	Accrued expenses and other current liabilities	\$ —	\$ 1,830
Not designated as hedging instruments	Accrued expenses and other current liabilities	27	256
Interest rate swap agreements:			
Designated as a cash flow hedge	Accrued expenses and other current liabilities	1,065	122
Designated as a cash flow hedge	Other liabilities	9,521	3,906
Total derivative liabilities		\$ 10,613	\$ 6,114

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 condensed consolidated statements of operations for the three and six months ended July 31, 2019 and 2018 were as follows:

(in thousands)	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Net (losses) gains recognized in AOCL:				
Foreign currency forward contracts	\$ 1,637	\$ (2,767)	\$ 1,979	\$ (8,916)
Interest rate swap agreement	(4,541)	392	(6,558)	612
	<u>\$ (2,904)</u>	<u>\$ (2,375)</u>	<u>\$ (4,579)</u>	<u>\$ (8,304)</u>
Net losses reclassified from AOCL to the condensed consolidated statements of operations:				
Foreign currency forward contracts	\$ —	\$ (1,413)	\$ (939)	\$ (980)

For information regarding the line item locations of the net gains reclassified out of AOCL into the condensed consolidated statements of operations, see Note 9, “Stockholders’ Equity”.

All of the foreign currency forward contracts underlying the \$1.6 million of net unrealized gains recorded in our accumulated other comprehensive loss at July 31, 2019 mature within twelve months, and therefore we expect all such gains to be reclassified into earnings within the next twelve months. Approximately \$0.8 million of the \$8.2 million of net unrealized losses related to our interest rate swap agreement recorded in our accumulated other comprehensive loss at July 31, 2019 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 condensed consolidated statements of operations for the three and six months ended ended July 31, 2019 and 2018 were as follows:

(in thousands)	Classification in Condensed Consolidated Statements of Operations	Three Months Ended July 31,		Six Months Ended July 31,	
		2019	2018	2019	2018
Foreign currency forward contracts	Other income (expense), net	\$ 212	\$ 1,137	\$ 776	\$ 1,898
Interest rate swap agreement	Other income (expense), net	(33)	84	(48)	811
		<u>\$ 179</u>	<u>\$ 1,221</u>	<u>\$ 728</u>	<u>\$ 2,709</u>

13. STOCK-BASED COMPENSATION

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 on June 20, 2019, 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.

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 (“RSUs”), 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 denominated in shares that is granted under the 2019 Plan 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 condensed consolidated statements of operations for the three and six months ended July 31, 2019 and 2018:

(in thousands)	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Cost of revenue - product	\$ 488	\$ 388	\$ 822	\$ 505
Cost of revenue - service and support	1,546	1,557	2,616	2,286
Research and development, net	3,347	3,039	5,937	4,548
Selling, general and administrative	15,170	12,471	28,279	26,575
Total stock-based compensation expense	\$ 20,551	\$ 17,455	\$ 37,654	\$ 33,914

The following table summarizes stock-based compensation expense by type of award for the three and six months ended July 31, 2019 and 2018:

(in thousands)	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Restricted stock units and restricted stock awards	\$ 17,966	\$ 15,098	\$ 32,856	\$ 29,992
Stock bonus program and bonus share program	2,574	2,330	4,749	3,879
Total equity-settled awards	20,540	17,428	37,605	33,871
Phantom stock units (cash-settled awards)	11	27	49	43
Total stock-based compensation expense	\$ 20,551	\$ 17,455	\$ 37,654	\$ 33,914

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, which for awards under our stock bonus program is determined using a discounted average price of our common stock.

Restricted Stock Units

We periodically award RSUs to our directors, officers, and other employees. These awards contain various vesting conditions and are subject to certain restrictions and forfeiture provisions prior to vesting. Some of these awards to executive officers and certain employees vest upon the achievement of specified performance goals or market conditions (performance stock units or “PSUs”).

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 six months ended July 31, 2019 and 2018:

(in thousands, except per share data)	Six Months Ended July 31,			
	2019		2018	
	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
Granted	1,554	\$ 60.75	1,527	\$ 42.32
Released	(1,349)	\$ 40.36	(1,074)	\$ 43.90
Forfeited	(139)	\$ 42.56	(184)	\$ 41.13
Ending balance	2,843	\$ 52.22	3,077	\$ 40.84

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 July 31, 2019, 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 six months ended July 31, 2019 and 2018 (these amounts are already included in the Award Activity Table above for 2019 and 2018):

(in thousands)	Six Months Ended July 31,	
	2019	2018
Beginning balance	512	506
Granted	286	174
Released	(233)	(72)
Forfeited	(30)	(83)
Ending balance	535	525

Excluding PSUs, we granted 1,268,000 RSUs during the six months ended July 31, 2019.

As of July 31, 2019, there was approximately \$114.1 million of total unrecognized compensation expense, net of estimated forfeitures, related to unvested restricted stock units, which is expected to be recognized over a weighted-average period of 2.0 years.

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 5-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.

Awards under the stock bonus program for the performance period ended January 31, 2019 consisted of shares earned in respect of employee and officer incentive plans with a 15% discount and were issued during the three months ended July 31, 2019.

The following table summarizes activity under the stock bonus program during the six months ended July 31, 2019 and 2018 in isolation. There was no activity under the stock bonus program during the three months ended April 30, 2019. 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)	Six Months Ended July 31,	
	2019	2018
Shares in lieu of cash bonus - granted and released (not included in Award Activity Table above)	97	—
Shares in respect of discount (included in Award Activity Table above):		
Granted	16	—
Released	13	—

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 ending 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 ending January 31, 2020.

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. As noted above, shares issued under this program are included in the Award Activity Table above.

During the three months ended July 31, 2019, approximately 59,000 shares were awarded in respect of the bonus share program for the performance period ended January 31, 2019.

For bonuses in respect of the year ending January 31, 2020, our board of directors has approved the use of up to 300,000 shares of common stock under the bonus share program, reduced by any shares issued under the stock bonus program in respect of the same performance period. Assuming all 200,000 shares currently authorized for issuance under the stock bonus program for the performance period ending January 31, 2020 are issued, no more than 100,000 shares will be issued under the bonus share program for such performance period.

The combined accrued liabilities for the stock bonus program and the bonus share program were \$4.5 million and \$9.3 million at July 31, 2019 and January 31, 2019, respectively.

14. 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 10 years, some of which may include options to extend the leases for up to 6 years, and some of which may include options to terminate the leases within 1 year. As of July 31, 2019, assets recorded under finance leases were \$7.2 million and accumulated depreciation associated with finance leases was \$0.4 million.

The components of lease expenses for the three and six months ended July 31, 2019 were as follows:

(in thousands)	Three Months Ended	Six Months Ended
	July 31, 2019	
Operating lease expenses	\$ 7,471	\$ 14,908
Finance lease expenses:		
Amortization of right-of-use assets	160	253
Interest on lease liabilities	45	75
Total finance lease expenses	205	328
Variable lease expenses	1,952	3,918
Short-term lease expenses	184	439
Sublease income	(223)	(446)
Total lease expenses	\$ 9,589	\$ 19,147

Other information related to leases was as follows:

	Six Months Ended July 31, 2019
(dollars in thousands)	
Supplemental cash flow information	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 13,688
Operating cash flows from finance leases	75
Financing cash flows from finance leases	1,121
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	\$ 12,906
Finance leases	377
Weighted average remaining lease terms	
Operating leases	6 years
Finance leases	3 years
Weighted average discount rates	
Operating leases	5.3%
Finance leases	5.5%

Maturities of lease liabilities as of July 31, 2019 were as follows:

(in thousands)	July 31, 2019	
	Operating Leases	Finance Leases
Year Ending January 31,		
2020 (remainder of year)	\$ 13,728	\$ 779
2021	25,865	1,812
2022	20,967	1,616
2023	18,514	1,075
2024	16,941	106
Thereafter	39,408	—
Total future minimum lease payments	135,423	5,388
Less imputed interest	(21,331)	(379)
Total	\$ 114,092	\$ 5,009
Reported as of July 31, 2019:		
Accrued expenses and other current liabilities	\$ 20,955	\$ 1,563
Operating lease liabilities	93,137	—
Other liabilities	—	3,446
Total	\$ 114,092	\$ 5,009

As of July 31, 2019, we had no material leases that have not yet commenced.

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):

(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	—
Total	\$ 129,379	4,597
Less: amount representing interest and other charges		(315)
Present value of minimum lease payments		\$ 4,282

15. COMMITMENTS AND CONTINGENCIES

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-subsiary, 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. At a

hearing on April 16, 2019, the District Court suggested that the parties consider another round of mediation, which is currently in process.

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.

16. SEGMENT INFORMATION

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

We report our results in two operating segments—Customer Engagement Solutions ("Customer Engagement") and Cyber Intelligence Solutions ("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 three and six months ended July 31, 2019 and 2018 were as follows:

(in thousands)	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Revenue:				
Customer Engagement				
Segment revenue	\$ 218,424	\$ 202,933	\$ 434,291	\$ 392,108
Revenue adjustments	(6,988)	(2,126)	(15,760)	\$ (4,845)
	<u>211,436</u>	<u>200,807</u>	<u>418,531</u>	<u>387,263</u>
Cyber Intelligence				
Segment revenue	112,893	105,545	221,184	208,340
Revenue adjustments	(24)	(25)	(151)	(69)
	<u>112,869</u>	<u>105,520</u>	<u>221,033</u>	<u>208,271</u>
Total revenue	<u>\$ 324,305</u>	<u>\$ 306,327</u>	<u>\$ 639,564</u>	<u>\$ 595,534</u>
Segment contribution:				
Customer Engagement	\$ 78,788	\$ 78,759	\$ 157,606	\$ 145,561
Cyber Intelligence	31,571	24,549	58,861	45,771
Total segment contribution	<u>110,359</u>	<u>103,308</u>	<u>216,467</u>	<u>191,332</u>
Reconciliation of segment contribution to operating income:				
Revenue adjustments	7,012	2,151	15,911	4,914
Shared support expenses	44,416	39,896	88,270	81,805
Amortization of acquired intangible assets	13,226	12,972	27,646	28,082
Stock-based compensation	20,551	17,455	37,654	33,914
Acquisition, integration, restructuring, and other unallocated expenses	9,879	1,603	17,243	5,604
Total reconciling items, net	<u>95,084</u>	<u>74,077</u>	<u>186,724</u>	<u>154,319</u>
Operating income	<u>\$ 15,275</u>	<u>\$ 29,231</u>	<u>\$ 29,743</u>	<u>\$ 37,013</u>

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. The allocations of goodwill and acquired intangible assets by operating segment appear in Note 6, "Intangible Assets and Goodwill".

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

The following management’s discussion and analysis is provided to assist readers in understanding our financial condition, results of operations, and cash flows. This discussion should be read in conjunction with our audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended January 31, 2019 and our unaudited condensed consolidated financial statements and notes thereto contained in this report. This discussion contains a number of forward-looking statements, all of which are based on our current expectations and all of which could be affected by uncertainties and risks. Our actual results may differ materially from the results contemplated in these forward-looking statements as a result of many factors including, but not limited to, those described under “Cautionary Note on Forward-Looking Statements”.

Overview

Our Business

Verint is a global leader in Actionable Intelligence solutions. 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 1,900 professionals. Our innovative solutions are backed-up by a strong IP portfolio with approximately 1,000 patents and patent applications worldwide across data capture, artificial intelligence, 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 Solutions and Cyber Intelligence Solutions. 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 trends and factors which may impact our performance:

Customer Engagement

- **Reducing Complexity and Enhancing Agility.** Many organizations have complex environments that were assembled over many years, with multiple legacy systems from many different vendors deployed in silos across the enterprise. To reduce complexity and simplify operations, these organizations are looking for new solutions that are open and flexible and make it easier to address evolving requirements, while protecting their legacy investments. Organizations are also seeking open platforms that address their customer engagement needs across many enterprise functions, including the contact center, back-office and branch operations, self-service, e-commerce, customer experience, marketing, IT, and compliance.
- **Modernizing Customer Engagement IT Architectures.** 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 with minimal disruption to their operations.

- **Automating Customer Engagement Operations.** Many organizations are seeking solutions that incorporate machine learning 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 can help them capture and analyze data from multiple sources to effectively and efficiently address the challenge of increased sophistication and complexity.
- **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 intelligence 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 and intelligence production. These organizations are also increasingly seeking artificial intelligence and other advanced data analysis tools to gain intelligence faster with fewer analysts and data scientists.
- **Need for Predictive Intelligence as a Force Multiplier.** Predictive intelligence is generated by correlating massive amounts of data from a wide range of disparate sources to uncover previously unknown connections, identify suspicious behaviors using advanced analytics, and predict future events. Predictive intelligence is a force multiplier, enabling security organizations to allocate resources more effectively to prioritize various operational tasks based on actionable intelligence. Security organizations are seeking advanced data mining solutions that can generate accurate and actionable predictive intelligence to shorten investigation times and empower their teams with greater insights.

Critical Accounting Policies and Estimates

Note 1, “Summary of Significant Accounting Policies” to the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended January 31, 2019 describes the significant accounting policies and methods used in the preparation of the condensed consolidated financial statements appearing in this report. The accounting policies that reflect our more significant estimates, judgments and assumptions in the preparation of our condensed consolidated financial statements are described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of our Annual Report on Form 10-K for the year ended January 31, 2019, and include the following:

- Revenue recognition;
- Accounting for business combinations;
- Impairment of goodwill and other intangible assets;
- Income taxes;
- Contingencies; and
- Accounting for stock-based compensation.

There were no significant changes to our critical accounting policies and estimates during the six months ended July 31, 2019.

Results of Operations

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, by a significant margin. In addition, we generally receive a higher volume of orders in the last month of a quarter, with orders concentrated in the later part of that month. We believe that

these seasonal and cyclical factors primarily reflect customer spending patterns and budget cycles, as well as the impact of incentive compensation plans for our sales personnel. While seasonal and cyclical factors such as these are common in the software and technology industry, this pattern should not be considered a reliable indicator of our future revenue or financial performance. Many other factors, including general economic conditions, may also have an impact on our business and financial results.

Overview of Operating Results

The following table sets forth a summary of certain key financial information for the three and six months ended July 31, 2019 and 2018:

(in thousands, except per share data)	Three Months Ended July 31,		Six Months Ended July 31,	
	2019	2018	2019	2018
Revenue	\$ 324,305	\$ 306,327	\$ 639,564	\$ 595,534
Operating income	\$ 15,275	\$ 29,231	\$ 29,743	\$ 37,013
Net income attributable to Verint Systems Inc.	\$ 10,558	\$ 21,980	\$ 12,134	\$ 19,765
Net income per common share attributable to Verint Systems Inc.:				
Basic	\$ 0.16	\$ 0.34	\$ 0.18	\$ 0.31
Diluted	\$ 0.16	\$ 0.33	\$ 0.18	\$ 0.30

Three Months Ended July 31, 2019 compared to Three Months Ended July 31, 2018. Our revenue increased approximately \$18.0 million, or 6%, to \$324.3 million in the three months ended July 31, 2019 from \$306.3 million in the three months ended July 31, 2018. The increase is due to an \$18.0 million increase in service and support revenue. In our Customer Engagement segment, revenue increased \$10.6 million, or approximately 5%, from \$200.8 million in the three months ended July 31, 2018 to \$211.4 million in the three months ended July 31, 2019. The increase consisted of an \$11.6 million increase in service and support revenue and a \$1.0 million decrease in product revenue. In our Cyber Intelligence segment, revenue increased approximately \$7.4 million, or 7%, from \$105.5 million in the three months ended July 31, 2018 to \$112.9 million in the three months ended July 31, 2019. The increase consisted of a \$6.4 million increase in service and support revenue and a \$1.0 million increase in product revenue. For additional details on our revenue by segment, see “—Revenue by Operating Segment”. Revenue in the Americas, in Europe, the Middle East and Africa (“EMEA”), and in the Asia-Pacific (“APAC”) regions represented approximately 52%, 29%, and 19% of our total revenue, respectively, in the three months ended July 31, 2019, compared to approximately 54%, 25%, and 21%, respectively, in the three months ended July 31, 2018. Further details of changes in revenue are provided below.

We reported operating income of \$15.3 million in the three months ended July 31, 2019 compared to operating income of \$29.2 million in the three months ended July 31, 2018. The decrease in operating income was primarily due to a \$28.8 million increase in operating expenses, from \$163.8 million to \$192.6 million, partially offset by a \$14.9 million increase in gross profit, from \$193.0 million to \$207.9 million. The increase in operating expenses consisted of a \$22.2 million increase in selling, general and administrative expenses, a \$6.4 million increase in net research and development expenses, and a \$0.2 million increase in amortization of other acquired intangible assets. Further details of changes in operating income are provided below.

Net income attributable to Verint Systems Inc. was \$10.6 million, and diluted net income per common share was \$0.16, in the three months ended July 31, 2019 compared to net income attributable to Verint Systems Inc. of \$22.0 million, and diluted net income per common share of \$0.33, in the three months ended July 31, 2018. The decrease in net income and diluted net income per common share in the three months ended July 31, 2019 was primarily due to a \$13.9 million decrease in operating income described above and a \$0.8 million increase in net income attributable to our noncontrolling interests, partially offset by a \$2.5 million decrease in total other expense, net and a \$0.8 million increase in benefit from income taxes. 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 three months ended July 31, 2019 to average exchange rates for the three months ended July 31, 2018, the U.S. dollar strengthened relative to the euro, British pound sterling, Australian dollar, and our hedged Israeli shekel rate, resulting in an overall decrease in our revenue, cost of revenue, and operating expenses on a U.S. dollar-denominated basis. For the three months ended July 31, 2019, had foreign currency exchange rates remained unchanged from rates in effect for the three months ended July 31, 2018, our revenue would have been approximately \$3.3 million higher and our cost of revenue and operating

expenses on a combined basis would have been approximately \$3.9 million higher, which would have resulted in a \$0.6 million decrease in our operating income.

Six Months Ended July 31, 2019 compared to Six Months Ended July 31, 2018. Our revenue increased approximately \$44.1 million, or 7%, to \$639.6 million in the six months ended July 31, 2019 from \$595.5 million in the six months ended July 31, 2018. The increase consisted of a \$45.8 million increase in service and support revenue, partially offset by a \$1.7 million decrease in product revenue. In our Customer Engagement segment, revenue increased \$31.3 million, or approximately 8%, from \$387.3 million in the six months ended July 31, 2018 to \$418.6 million in the six months ended July 31, 2019. The increase consisted of a \$26.7 million increase in service and support revenue and a \$4.6 million increase in product revenue. In our Cyber Intelligence segment, revenue increased approximately \$12.8 million, or 6%, from \$208.3 million in the six months ended July 31, 2018 to \$221.1 million in the six months ended July 31, 2019. The increase consisted of a \$19.1 million increase in service and support revenue, partially offset by a \$6.3 million decrease in product revenue. For additional details on our revenue by segment, see “—Revenue by Operating Segment”. Revenue in the Americas, EMEA, and in APAC regions represented approximately 53%, 28%, and 19% of our total revenue, respectively, in the six months ended July 31, 2019, compared to approximately 53%, 26%, and 21%, respectively, in the six months ended July 31, 2018. Further details of changes in revenue are provided below.

We reported operating income of \$29.7 million in the six months ended July 31, 2019, compared to operating income of \$37.0 million in the six months ended July 31, 2018. The decrease in operating income was primarily due to a \$48.1 million increase in operating expenses, from \$331.1 million to \$379.2 million, partially offset by \$40.8 million increase in gross profit, from \$368.1 million to \$408.9 million. The increase in operating expenses consisted of a \$36.4 million increase in selling, general and administrative expenses, an \$11.5 million increase in net research and development expenses, and a \$0.2 million increase in amortization of other acquired intangible assets. Further details of changes in operating income are provided below.

Net income attributable to Verint Systems Inc. was \$12.1 million, and diluted net income per common share was 0.18, in the six months ended July 31, 2019 compared to net income attributable to Verint Systems Inc. of \$19.8 million, and a net income per common share of 0.30, in the six months ended July 31, 2018. The decrease in net income and diluted net income per common share in the six months ended July 31, 2019 was primarily due to a \$7.3 million decrease in operating income described above, a \$2.0 million increase in net income attributable to our noncontrolling interests, and a \$0.4 million decrease in benefit for income taxes, partially offset by a \$2.0 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 six months ended July 31, 2019 to average exchange rates for the six months ended July 31, 2018, the U.S. dollar strengthened relative to the euro, British pound sterling, Australian dollar, 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 six months ended July 31, 2019, had foreign currency exchange rates remained unchanged from rates in effect for the six months ended July 31, 2018, our revenue would have been approximately \$9.0 million higher and our cost of revenue and operating expenses on a combined basis would have been approximately \$8.6 million higher, which would have resulted in a \$0.4 million increase in our operating income.

As of July 31, 2019, we employed approximately 6,400 professionals, including part-time employees and certain contractors, as compared to approximately 5,700 at July 31, 2018.

Revenue by Operating Segment

The following table sets forth revenue for each of our two operating segments for the three and six months ended July 31, 2019 and 2018:

(in thousands)	Three Months Ended July 31,			Six Months Ended July 31,		
	2019	2018	% Change 2019-2018	2019	2018	% Change 2019-2018
Customer Engagement	\$ 211,436	\$ 200,807	5%	\$ 418,531	\$ 387,263	8%
Cyber Intelligence	112,869	105,520	7%	221,033	208,271	6%
Total revenue	\$ 324,305	\$ 306,327	6%	\$ 639,564	\$ 595,534	7%

Customer Engagement Segment

Three Months Ended July 31, 2019 compared to Three Months Ended July 31, 2018. Customer Engagement revenue increased approximately \$10.6 million, or 5%, from \$200.8 million in the three months ended July 31, 2018 to \$211.4 million in the three months ended July 31, 2019. The increase consisted of an \$11.6 million increase in service and support revenue, partially offset by a \$1.0 million decrease 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 growth in services and support revenue associated with recent business combinations. The decrease in product revenue reflects a lower aggregate value of executed nonrecurring software license arrangements. We expect our revenue mix to continue to shift to recurring sources. This shift is consistent with our cloud-first strategy and a general market shift from on premises to cloud solutions.

Six Months Ended July 31, 2019 compared to Six Months Ended July 31, 2018. Customer Engagement revenue increased approximately \$31.3 million, or 8%, from \$387.3 million in the six months ended July 31, 2018 to \$418.6 million in the six months ended July 31, 2019. The increase consisted of a \$26.7 million increase in service and support revenue and a \$4.6 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 growth in services and support revenue associated with recent business combinations. The increase in product revenue was primarily due to the recognition of a large license arrangement executed during the six months ended July 31, 2019 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. This shift is consistent with our cloud-first strategy and a general market shift from on premises to cloud solutions.

Cyber Intelligence Segment

Three Months Ended July 31, 2019 compared to Three Months Ended July 31, 2018. Cyber Intelligence revenue increased approximately \$7.4 million, or 7%, from \$105.5 million in the three months ended July 31, 2018 to \$112.9 million in the three months ended July 31, 2019. The increase consisted of a \$6.4 million increase in service and support revenue and a \$1.0 million increase in product revenue. The increase in service and support revenue was primarily attributable to an increase in support revenue from existing customers and an increase in progress realized during the current year on long-term projects for which revenue is recognized over time using the percentage of completion (“POC”) method. The increase in product revenue was primarily due to an increase in progress realized during the current period on long-term projects for which revenue is recognized over time using the POC method, partially offset by a decrease in product deliveries.

Six Months Ended July 31, 2019 compared to Six Months Ended July 31, 2018. Cyber Intelligence revenue increased approximately \$12.8 million, or 6%, from \$208.3 million in the six months ended July 31, 2018 to \$221.1 million in the six months ended July 31, 2019. The increase consisted of a \$19.1 million increase in service and support revenue, partially offset by \$6.3 million decrease in product revenue. The increase in service and support revenue was primarily attributable to an increase in support revenue from existing customers and an increase in progress realized during the current year on long-term projects for which revenue is recognized over time using the POC method. The decrease in product revenue was primarily due to a decrease in product deliveries and the recognition of a long-term customization project that was recognized upon customer acceptance in the six months ended July 31, 2018, 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 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 and sale of hardware products (which include software that works together with the hardware to deliver the product’s essential functionality), and (b) service and support revenue, including revenue from installation services, post-contract customer support, project management, hosting services, cloud deployments, SaaS, 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 three and six months ended July 31, 2019 and 2018:

(in thousands)	Three Months Ended July 31,			Six Months Ended July 31,		
	2019	2018	% Change 2019-2018	2019	2018	% Change 2019-2018
Product revenue	\$ 109,983	\$ 110,042	—%	\$ 214,207	\$ 215,906	(1)%
Service and support revenue	214,322	196,285	9%	425,357	379,628	12%
Total revenue	\$ 324,305	\$ 306,327	6%	\$ 639,564	\$ 595,534	7%

Product Revenue

Three Months Ended July 31, 2019 compared to Three Months Ended July 31, 2018. Product revenue was approximately \$110.0 million for each of the three month periods ended July 31, 2019 and 2018, as the \$1.0 million increase in our Cyber Intelligence segment was offset by a \$1.0 million decrease in our Customer Engagement segment.

Six Months Ended July 31, 2019 compared to Six Months Ended July 31, 2018. Product revenue decreased approximately \$1.7 million, or 1%, from \$215.9 million for the six months ended July 31, 2018 to \$214.2 million for the six months ended July 31, 2019, resulting from a \$6.3 million decrease in our Cyber Intelligence segment, partially offset by a \$4.6 million increase in our Customer Engagement segment.

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

Service and Support Revenue

Three Months Ended July 31, 2019 compared to Three Months Ended July 31, 2018. Service and support revenue increased approximately \$18.0 million, or 9%, from \$196.3 million for the three months ended July 31, 2018 to \$214.3 million for the three months ended July 31, 2019. This increase was the result of an \$11.6 million increase in our Customer Engagement segment and a \$6.4 million increase in our Cyber Intelligence segment.

Six Months Ended July 31, 2019 compared to Six Months Ended July 31, 2018. Service and support revenue increased approximately \$45.8 million, or 12%, from \$379.6 million for the six months ended July 31, 2018 to \$425.4 million for the six months ended July 31, 2019. This increase was the result of a \$26.7 million increase in our Customer Engagement segment and a \$19.1 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 three and six months ended July 31, 2019 and 2018:

(in thousands)	Three Months Ended July 31,			Six Months Ended July 31,		
	2019	2018	% Change 2019-2018	2019	2018	% Change 2019-2018
Cost of product revenue	\$ 29,424	\$ 32,984	(11)%	\$ 57,544	\$ 67,793	(15)%
Cost of service and support revenue	81,430	74,803	9%	160,791	146,660	10%
Amortization of acquired technology	5,587	5,520	1%	12,294	12,946	(5)%
Total cost of revenue	\$ 116,441	\$ 113,307	3%	\$ 230,629	\$ 227,399	1%

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.

Three Months Ended July 31, 2019 compared to Three Months Ended July 31, 2018. Cost of product revenue decreased approximately \$3.6 million, or 11%, from \$33.0 million in the three months ended July 31, 2018 to \$29.4 million in the three months ended July 31, 2019, primarily due to a decreased cost of product revenue in our Cyber Intelligence segment, due to a reduction in the amount of pass-through hardware reselling, and to a lesser extent the timing of hardware deliveries as described further below. Our overall product gross margins increased to 73% in the three months ended July 31, 2019 from 70% in the three months ended July 31, 2018. Product gross margins in our Cyber Intelligence segment increased from 57% in the three months ended July 31, 2018 to 66% in the three months ended July 31, 2019, primarily due to a change in product mix, a reduction in the amount of pass-through hardware reselling, and the timing of hardware deliveries related to certain long-term projects, for which fulfillment costs are recognized upon delivery but the associated revenue is recognized over time using the POC method. Cyber Intelligence product margins are subject to considerable fluctuation from period to period, based on the product mix sold and the timing of hardware deliveries related to POC revenue. Product gross margins in our Customer Engagement segment decreased from 85% in the three months ended July 31, 2018 to 84% in the three months ended July 31, 2019, primarily due to a change in product mix.

Six Months Ended July 31, 2019 compared to Six Months Ended July 31, 2018. Cost of product revenue decreased approximately \$10.3 million, or 15%, from \$67.8 million in the six months ended July 31, 2018 to \$57.5 million in the six months ended July 31, 2019 primarily due to decreased cost of product revenue in our Cyber Intelligence segment, driven primarily by a corresponding decrease in Cyber Intelligence product revenue as discussed above, a reduction in the amount of pass-through hardware reselling, and the timing of hardware deliveries as described further below. Our overall product gross margins increased to 73% in the six months ended July 31, 2019 from 69% in the six months ended July 31, 2018. Product gross margins in our Cyber Intelligence segment increased from 57% in the six months ended July 31, 2018 to 65% in the six months ended July 31, 2019, primarily due to a change in product mix, a reduction in the amount of pass-through hardware reselling, and the timing of hardware deliveries related to certain long-term projects, for which fulfillment costs are recognized upon delivery but the associated revenue is recognized over time using the POC method. Cyber Intelligence product margins are subject to considerable fluctuation from period to period, based on the product mix sold and the timing of hardware deliveries related to POC revenue. Product gross margins in our Customer Engagement segment increased from 83% in the six months ended July 31, 2018 to 84% in the six months ended July 31, 2019, primarily due to a change in product mix.

Cost of Service and Support Revenue

Cost of service and support revenue primarily consists of employee compensation and related expenses, contractor costs, 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.

Three Months Ended July 31, 2019 compared to Three Months Ended July 31, 2018. Cost of service and support revenue increased approximately \$6.6 million, or 9%, from \$74.8 million in the three months ended July 31, 2018 to \$81.4 million in the three months ended July 31, 2019. 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 62% in each of the three months ended July 31, 2019 and 2018.

Six Months Ended July 31, 2019 compared to Six Months Ended July 31, 2018. Cost of service and support revenue increased approximately \$14.1 million, or 10%, from \$146.7 million in the six months ended July 31, 2018 to \$160.8 million in the six months ended July 31, 2019. 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 increased from 61% in the six months ended July 31, 2018 to 62% in the six months ended July 31, 2019.

Amortization of Acquired Technology

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

Three Months Ended July 31, 2019 compared to Three Months Ended July 31, 2018. Amortization of acquired technology increased approximately \$0.1 million, or 1%, from \$5.5 million in the three months ended July 31, 2018 to \$5.6 million in the three months ended July 31, 2019. The increase was attributable to amortization expense associated with recent business combinations, partially offset by acquired technology intangible assets from historical business combinations becoming fully amortized.

Six Months Ended July 31, 2019 compared to Six Months Ended July 31, 2018. Amortization of acquired technology decreased approximately \$0.6 million, or 5%, from \$12.9 million in the six months ended July 31, 2018 to \$12.3 million six months ended July 31, 2019. The decrease was attributable to acquired technology intangible assets from historical business combinations becoming fully amortized, partially offset by amortization expense of acquired technology-based intangible assets associated with recent business combinations.

Further discussion regarding our business combinations appears in Note 5, “Business Combinations” to our condensed consolidated financial statements included under Part I, Item 1 of this report.

Research and Development, Net

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

The following table sets forth research and development, net for the three and six months ended July 31, 2019 and 2018:

(in thousands)	Three Months Ended July 31,			% Change 2019-2018	Six Months Ended July 31,			% Change 2019-2018
	2019	2018			2019	2018		
Research and development, net	\$ 58,685	\$ 52,254		12%	\$ 115,854	\$ 104,406		11%

Three Months Ended July 31, 2019 compared to Three Months Ended July 31, 2018. Research and development, net increased approximately \$6.4 million, or 12%, from \$52.3 million in the three months ended July 31, 2018 to \$58.7 million in the three months ended July 31, 2019. The increase was primarily due to a \$6.2 million increase in employee compensation and related expenses as a result of increased investment in R&D headcount, a \$0.5 million increase in software subscription expenses related to internal-use software, a \$0.5 million increase in R&D contractor expenses primarily related to our Cyber Intelligence segment, and a \$0.3 million increase in stock-based compensation expenses, partially offset by a \$1.7 million increase in capitalized software development costs in the three months ended July 31, 2019 compared to the three months ended July 31, 2018.

Six Months Ended July 31, 2019 compared to Six Months Ended July 31, 2018. Research and development, net increased approximately \$11.5 million, or 11%, from \$104.4 million in the six months ended July 31, 2018 to \$115.9 million in the six months ended July 31, 2019. The increase was primarily due to a \$11.0 million increase in employee compensation and related expenses as a result of increased investment in R&D headcount, a \$1.4 million increase in stock-based compensation expenses as a result of a change in R&D employee bonus payment structure, a \$1.3 million increase in software subscription expenses related to internal-use software, and a \$0.9 million increase in R&D contractor expenses primarily related to our Cyber Intelligence segment, partially offset by a \$3.2 million increase in capitalized software development costs in the six months ended July 31, 2019 compared to the six months ended July 31, 2018.

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 three and six months ended July 31, 2019 and 2018:

(in thousands)	Three Months Ended July 31,			Six Months Ended July 31,		
	2019	2018	% Change 2019-2018	2019	2018	% Change 2019-2018
Selling, general and administrative	\$ 126,265	\$ 104,083	21%	\$ 247,986	\$ 211,580	17%

Three Months Ended July 31, 2019 compared to Three Months Ended July 31, 2018. Selling, general and administrative expenses increased approximately \$22.2 million, or 21%, from \$104.1 million in the three months ended July 31, 2018 to \$126.3 million in the three months ended July 31, 2019. This increase was primarily attributable to a \$7.6 million increase in employee compensation expense due to increased headcount, including due to recent acquisitions, a \$5.6 million increase in professional fees related to a shareholder proxy contest that was settled during three months ended July 31, 2019, a \$2.7 million increase in stock-based compensation expenses due to a year-over-year increase in our stock price and an increase in number of participants due to recent acquisitions, and a \$2.4 million increase in marketing expenses. Selling, general, and administrative expense was also impacted by a \$3.1 million increase due to the change in fair value of our obligations under contingent consideration arrangements, from a net benefit of \$3.9 million in the three months ended July 31, 2018 to a net benefit of \$0.8 million during the three months ended July 31, 2019, as a result of revised outlooks for achieving the performance targets set forth in several unrelated contingent consideration arrangements.

Six Months Ended July 31, 2019 compared to Six Months Ended July 31, 2018. Selling, general and administrative expenses increased approximately \$36.4 million, or 17%, from \$211.6 million in the six months ended July 31, 2018 to \$248.0 million in the six months ended July 31, 2019. This increase was primarily attributable to a \$17.0 million increase in employee compensation expenses due to increased headcount as a result of recent acquisitions, a \$7.5 million increase in professional fees related to a shareholder proxy contest that was settled during three months ended July 31, 2019, a \$2.6 million increase in marketing expenses, a \$2.3 million increase in software subscription expenses related to internal-use software, and a \$1.7 million increase in stock-based compensation expenses due to a year-over-year increase in our stock price and an increase in number of participants due to recent acquisitions. Selling, general, and administrative expense was also impacted by a \$5.1 million increase due to the change in the fair value of our obligations under contingent consideration arrangements, from a net benefit of \$4.7 million in the six months ended July 31, 2018 to a net expense of \$0.4 million during the six months ended July 31, 2019, as a result of revised outlooks for achieving the performance targets set forth in several unrelated contingent consideration arrangements.

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 three and six months ended July 31, 2019 and 2018:

(in thousands)	Three Months Ended July 31,			Six Months Ended July 31,		
	2019	2018	% Change 2019-2018	2019	2018	% Change 2019-2018
Amortization of other acquired intangible assets	\$ 7,639	\$ 7,452	3%	\$ 15,352	\$ 15,136	1%

Three Months Ended July 31, 2019 compared to Three Months Ended July 31, 2018. Amortization of other acquired intangible assets increased approximately \$0.1 million, or 3%, from \$7.5 million in the three months ended July 31, 2018 to \$7.6 million in the three months ended July 31, 2019. The increase was attributable to amortization expense associated with acquired intangible assets from recent business combinations, partially offset by acquired customer-related intangible assets from historical business combinations becoming fully amortized.

Six Months Ended July 31, 2019 compared to Six Months Ended July 31, 2018. Amortization of other acquired intangible assets increased approximately \$0.3 million, or 1%, from \$15.1 million in the six months ended July 31, 2018 to \$15.4 million in the six months ended July 31, 2019. The increase was attributable to amortization expense associated with acquired intangible assets from recent business combinations, partially offset by acquired customer-related intangible assets from historical business combinations becoming fully amortized.

Further discussion regarding our business combinations appears in Note 5, “Business Combinations” to our condensed consolidated financial statements included under Part I, Item 1 of this report.

Other Expense, Net

The following table sets forth total other expense, net for the three and six months ended July 31, 2019 and 2018:

(in thousands)	Three Months Ended July 31,		% Change 2019-2018	Six Months Ended July 31,		% Change 2019-2018
	2019	2018		2019	2018	
Interest income	\$ 1,687	\$ 1,134	49%	\$ 3,113	\$ 1,927	62%
Interest expense	(10,107)	(9,922)	2%	(20,041)	(18,984)	6%
Other income (expense):						
Foreign currency gains (losses), net	774	(2,079)	(137)%	(412)	(3,914)	(89)%
Gains on derivatives	179	1,221	(85)%	728	2,709	(73)%
Other, net	(44)	(383)	(89)%	(197)	(500)	(61)%
Total other income (expense), net	909	(1,241)	(173)%	119	(1,705)	(107)%
Total other expense, net	\$ (7,511)	\$ (10,029)	(25)%	\$ (16,809)	\$ (18,762)	(10)%

Three Months Ended July 31, 2019 compared to Three Months Ended July 31, 2018. Total other expense, net, decreased by \$2.5 million from \$10.0 million in the three months ended July 31, 2018 to \$7.5 million in the three months ended July 31, 2019.

Interest expense increased from \$9.9 million in the three months ended July 31, 2018 to \$10.1 million in the three months ended July 31, 2019 primarily due to higher interest rates on outstanding borrowings.

We recorded \$0.8 million of net foreign currency gains in the three months ended July 31, 2019 compared to \$2.1 million of net foreign currency losses in the three months ended July 31, 2018. Foreign currency gains in the three months ended July 31, 2019 resulted primarily from the weakening of the U.S. dollar against the Brazilian real from April 30, 2019 to July 31, 2019, resulting in foreign currency gains on U.S. dollar-denominated net liabilities in certain entities which use the Brazilian real functional currency and the weakening of the U.S. dollar against the Israeli shekel, resulting in foreign currency gains on Israeli shekel denominated net assets in certain entities that use a U.S. dollar functional currency.

In the three months ended July 31, 2019, there were net gains on derivative financial instruments of \$0.2 million, compared to net gains of \$1.2 million on such instruments for the three months ended July 31, 2018. 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.

Six Months Ended July 31, 2019 compared to Six Months Ended July 31, 2018. Total other expense, net, decreased by \$2.0 million from \$18.8 million in the six months ended July 31, 2018 to \$16.8 million in the six months ended July 31, 2019.

Interest expense increased from \$19.0 million in the six months ended July 31, 2018 to \$20.0 million in the six months ended July 31, 2019 primarily due to higher interest rates on outstanding borrowings.

We recorded \$0.4 million of net foreign currency losses in the six months ended July 31, 2019 compared to \$3.9 million of net foreign currency losses in the six months ended July 31, 2018. Foreign currency losses in the six months ended July 31, 2019

resulted primarily from the strengthening of the U.S. dollar against the euro from January 31, 2019 to July 31, 2019, resulting in foreign currency losses on euro denominated net assets in certain entities which use a U.S. dollar functional currency and foreign currency losses on U.S. dollar-denominated net payables in certain entities which use a euro functional currency.

In the six months ended July 31, 2019, there were net gains on derivative financial instruments of \$0.7 million, compared to net gains of \$2.7 million on such instruments for the six months ended July 31, 2018. 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.

Benefit from Income Taxes

The following table sets forth our benefit from income taxes for the three and six months ended July 31, 2019 and 2018:

(in thousands)	Three Months Ended July 31,		% Change 2019-2018	Six Months Ended July 31,		% Change 2019-2018
	2019	2018		2019	2018	
Benefit from income taxes	\$ (4,507)	\$ (3,722)	21%	\$ (3,098)	\$ (3,448)	(10)%

Three Months Ended July 31, 2019 compared to Three Months Ended July 31, 2018. Our negative effective income tax rate was 58.0% for the three months ended July 31, 2019, compared to a negative effective income tax rate of 19.4% for the three months ended July 31, 2018.

For the three months ended July 31, 2019, the income tax rate no longer reflects a limitation of the tax benefit for U.S. losses due to a valuation allowance. The effective tax rate differs from the U.S. federal statutory rate of 21% primarily due to 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 and the impact of U.S. taxation of certain foreign activities, offset by lower statutory rates in several foreign jurisdictions. The result was an income tax benefit of \$4.5 million on pre-tax income of \$7.8 million, which represented a negative effective income tax rate of 58.0%. Excluding the income tax benefit attributable to the audit settlement, the result was an income tax provision of \$2.2 million and an effective tax rate of 27.8%.

For the three months ended July 31, 2018, the pre-tax losses in domestic and foreign jurisdictions where we maintained valuation allowances and did not record tax benefits were significantly lower than the pre-tax income in jurisdictions where we recorded tax provisions. In connection with an acquisition in our Customer Engagement segment, we reduced the valuation allowance on our U.S. federal and certain state deferred income tax assets resulting in a discrete income tax benefit of \$7.7 million. The result was an income tax benefit of \$3.7 million on a pre-tax income of \$19.2 million, which represented a negative effective income tax rate of 19.4%. Excluding the income tax benefit attributable to the valuation allowance release, the result was an income tax provision of \$4.0 million and an effective tax rate of 20.9%.

Six Months Ended July 31, 2019 compared to Six Months Ended July 31, 2018. Our negative effective income tax rate was 24.0% for the six months ended July 31, 2019, compared to a negative effective income tax rate of 18.9% for the six months ended July 31, 2018. For the six months ended July 31, 2019, the income tax rate no longer reflects a limitation of the tax benefit for U.S. losses due to a valuation allowance. The effective tax rate differs from the U.S. federal statutory rate of 21.0% primarily due to 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 and the impact of U.S. taxation of certain foreign activities, offset by lower statutory rates in several foreign jurisdictions. The result was an income tax benefit of \$3.1 million on pre-tax income of \$12.9 million, which represented a negative effective income tax rate of 24.0%. Excluding the income tax benefit attributable to the audit settlement, the result was an income tax provision of \$3.6 million and an effective tax rate of 27.6%.

For the six months ended July 31, 2018, the pre-tax losses in domestic and foreign jurisdictions where we maintained valuation allowances and did not record tax benefits were significantly lower than the pre-tax income in jurisdictions where we recorded tax provisions. In connection with an acquisition in our Customer Engagement segment, we reduced the valuation allowance on our U.S. federal and certain state deferred income tax assets resulting in a discrete income tax benefit of \$7.7 million. The result was an income tax benefit of \$3.4 million on pre-tax income of \$18.3 million, which represented a negative effective income tax rate of 18.9%. Excluding the income tax benefit attributable to the valuation allowance release, the result was an income tax provision of \$4.3 million and an effective tax rate of 23.5%.

Liquidity and Capital Resources

Overview

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

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

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 \$49 million and \$90 million of net cash expended for business acquisitions during the six months ended July 31, 2019 and year ended January 31, 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 \$415.5 million and \$399.4 million as of July 31, 2019 and January 31, 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 \$27.2 million and \$23.1 million, at July 31, 2019 and January 31, 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 July 31, 2019 and withholding taxes of \$15.0 million accrued as of July 31, 2019, 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 July 31, 2019 and January 31, 2019:

(in thousands)	July 31, 2019	January 31, 2019
Cash and cash equivalents	\$ 388,546	\$ 369,975
Restricted cash and cash equivalents, and restricted bank time deposits (excluding long term portions)	24,239	42,262
Short-term investments	25,590	32,329
Total cash, cash equivalents, restricted cash and cash equivalents, restricted bank time deposits, and short-term investments	\$ 438,375	\$ 444,566
Total debt, including current portions	\$ 786,852	\$ 782,128

Capital Allocation Framework

As noted above, after cash utilization required for working capital and capital expenditures, we expect that our primary usage of cash will be for business combinations. However, if we do not identify desirable business combinations, we will consider using our excess cash to repurchase shares (subject to the terms of our 2017 Credit Agreement) or to repay outstanding indebtedness.

Condensed Consolidated Cash Flow Activity

The following table summarizes selected items from our condensed consolidated statements of cash flows for the six months ended July 31, 2019 and 2018:

(in thousands)	Six Months Ended July 31,	
	2019	2018
Net cash provided by operating activities	\$ 98,279	\$ 104,153
Net cash used in investing activities	(66,015)	(72,429)
Net cash used in financing activities	(27,136)	(13,651)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(1,890)	(3,578)
Net increase in cash, cash equivalents, restricted cash, and restricted cash equivalents	\$ 3,238	\$ 14,495

Our operating activities generated \$98.3 million of cash during the six months ended July 31, 2019, which was partially offset by \$93.2 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 \$98.3 million of net cash during the six months ended July 31, 2019, compared to \$104.2 million generated during the six months ended July 31, 2018. The decrease in operating cash flow in the current period was primarily due to a \$4.9 million increase for the non-financing portion of payments under contingent consideration arrangements related to prior business combinations and lower operating income.

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 six months ended July 31, 2019, our investing activities used \$66.0 million of net cash, including \$49.3 million of net cash utilized for a business acquisition, \$24.3 million of payments for property, equipment and capitalized software development costs, and \$3.7 million of net purchases of short-term investments, partially offset by \$3.8 million of net cash provided by other investing activities, consisting primarily of a net decrease in restricted bank time deposits during the period and settlements of derivative instruments. 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.

During the six months ended July 31, 2018, our investing activities used \$72.4 million of net cash, including \$27.4 million of net cash utilized for a business acquisition, \$20.8 million of payments for property, equipment, and capitalized software development costs, \$22.1 million of net cash used in other investing activities, consisting primarily of a net increase in restricted bank time deposits during the period, and \$2.1 million of net purchases of short-term investments. 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.

We had no significant commitments for capital expenditures at July 31, 2019.

Net Cash Used in Financing Activities

For the six months ended July 31, 2019, our financing activities used \$27.1 million of net cash, the most significant portions of which were payments of \$6.0 million related to deferred purchase price of a prior period business combination, \$16.6 million for the financing portion of payments under contingent consideration arrangements related to prior business combinations, \$3.2 million repayments of borrowings and other financing obligations, a \$0.7 million dividend payment to a noncontrolling shareholder of one of our subsidiaries, and \$0.5 million of payments to repurchase treasury stock.

For the six months ended July 31, 2018, our financing activities used \$13.7 million of net cash, the most significant portions of which were payments of \$9.4 million for the financing portion of payments under contingent consideration arrangements related to prior business combinations, \$2.7 million repayments of borrowings and other financing obligations, and a \$0.8 million dividend payment to a noncontrolling shareholder of one of our subsidiaries.

Liquidity and Capital Resources Requirements

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

Financing Arrangements

1.50% Convertible Senior Notes

On June 18, 2014, we issued \$400.0 million in aggregate principal amount of 1.50% convertible senior notes due June 1, 2021, unless earlier converted by the holders pursuant to their terms. 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 July 31, 2019, 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 July 31, 2019, 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 July 31, 2019, 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 terms 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.

As of July 31, 2019, the interest rate on the 2017 Term Loan was 4.40%. 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 4.58% at July 31, 2019. 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 pay interest at a fixed rate of 4.143% and receive 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 remains in effect, and serves 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. The 2016 Swap is no longer formally designated as a cash flow hedge for accounting purposes, and therefore settlements are reported within other income (expense), net on the condensed consolidated statement of operations, not within interest expense.

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 will 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 is 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 condensed consolidated balance sheet and are reclassified into the condensed 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 July 31, 2019, 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

Our Annual Report on Form 10-K for the year ended January 31, 2019 includes a table summarizing our contractual obligations of approximately \$1.2 billion as of January 31, 2019, including approximately \$940 million for long-term debt obligations, including projected future interest. That table appears under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the report.

We believe that our contractual obligations and commercial commitments did not materially change during the six months ended July 31, 2019.

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 six months ended July 31, 2019, we made \$23.7 million of payments under contingent consideration arrangements. As of July 31, 2019, potential future cash payments and earned consideration expected to be paid subsequent to July 31, 2019 under contingent consideration arrangements total \$133.9 million, the estimated fair value of which was \$43.0 million, including \$27.2 million reported in accrued expenses and other current liabilities, and \$15.8 million reported in other liabilities. The performance periods associated with these potential payments extend through January 2022.

Off-Balance Sheet Arrangements

As of July 31, 2019, we did not have any off-balance sheet arrangements that we believe have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact our financial condition due to adverse changes in financial market prices and rates. We are exposed to market risk related to changes in interest rates and foreign currency exchange rate fluctuations. To manage the volatility relating to interest rate and foreign currency risks, we periodically enter into derivative instruments including foreign currency forward exchange contracts and interest rate swap agreements. It is our policy to 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

The 2017 Credit Agreement bears interest at variable rates based on LIBOR plus 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 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. 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.

The Financial Conduct Authority of the United Kingdom plans to phase out LIBOR by the end of 2021, and we have approached the administrative agent under this facility to discuss the impact of the planned phase out. However, it is currently uncertain what, if any, alternative reference interest rates 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 section entitled “Quantitative and Qualitative Disclosures About Market Risk” under Part II, Item 7A of our Annual Report on Form 10-K for the year ended January 31, 2019 provides detailed quantitative and qualitative discussions of the market risks affecting our operations. Other than as described above under “Interest Rate Risk on Our Debt”, we believe that our market risk profile did not materially change during the six months ended July 31, 2019.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management conducted an evaluation under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of July 31, 2019. 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 July 31, 2019.

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 July 31, 2019, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

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

Part II

Item 1. Legal Proceedings

See Note 15, “Commitments and Contingencies” of the Notes to the condensed consolidated financial statements under Part I, Item 1 for information regarding our legal proceedings.

Item 1A. Risk Factors

There have been no material changes to the Risk Factors described in Part I “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended January 31, 2019 and the Risk Factor described in Part II “Item 1A. Risk Factors” in our Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2019 (the “First Quarter Form 10-Q”). In addition to the other information set forth in this Quarterly Report, you should carefully consider the risks discussed in our Annual Report on Form 10-K and the First Quarter Form 10-Q, which could materially affect our business, financial condition, or operating results. The risks described in our Annual Report on Form 10-K and the First Quarter Form 10-Q are not the only risks facing us, however. Additional risks and uncertainties not currently known to us or that we currently deem to be insignificant also may materially and adversely affect our business, financial condition, or operating results in the future.

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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 a Company-imposed trading blackout or lockup periods. There was no such activity during the three months ended July 31, 2019.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

The following exhibit list includes agreements that we entered into or that became effective during the three months ended July 31, 2019:

Number	Description	Filed Herewith / Incorporated by Reference from
10.1	Verint Systems Inc. 2019 Long-Term Stock Incentive Plan*	Form 8-K filed on June 24, 2019
10.2	Agreement, dated June 6, 2019, between Verint Systems Inc., Neuberger Berman Investment Advisers LLC, and the entities and natural persons signatories thereto	Form 8-K filed on June 6, 2019
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350 (1)	Filed herewith
32.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350 (1)	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith

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

* Denotes a management contract or compensatory plan or arrangement required to be filed as an exhibit to this form pursuant to Item 6 of this report.

Signature

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

Verint Systems Inc.

September 4, 2019

/s/ Douglas E. Robinson

Douglas E. Robinson

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

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

I, Dan Bodner, certify that:

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

Dated: September 4, 2019

By: /s/ Dan Bodner

Dan Bodner
President and Chief Executive Officer
Principal Executive Officer

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

I, Douglas E. Robinson, certify that:

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

Dated: September 4, 2019

By: /s/ Douglas E. Robinson

Douglas E. Robinson
Chief Financial Officer
Principal Financial Officer

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

In connection with the Quarterly Report of Verint Systems Inc. (the "Company") on Form 10-Q for the period ended July 31, 2019 (the "Report"), I, Dan Bodner, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Dated: September 4, 2019

/s/ Dan Bodner

Dan Bodner

President and Chief Executive Officer

Principal Executive Officer

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

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

In connection with the Quarterly Report of Verint Systems Inc. (the “Company”) on Form 10-Q for the period ended July 31, 2019 (the “Report”), I, Douglas E. Robinson, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: September 4, 2019

/s/ Douglas E. Robinson

Douglas E. Robinson

Chief Financial Officer

Principal Financial Officer

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