# 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, 2020**

**OR**

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

**For the transition period from ______________ to _________________.**

**Commission File No. 001-34807**

VERINT

# Verint Systems Inc

(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| Delaware | 11-3200514 |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| 175 Broadhollow Road<br>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:**

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| **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 | ☑ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

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 65,400,173 shares of the registrant's common stock outstanding on August 17, 2020.

**Verint Systems Inc. and Subsidiaries**
**Index to Form 10-Q**
**As of and For the Period Ended July 31, 2020**

**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 changes in macroeconomic and/or global conditions, including as a result of slowdowns, recessions, economic instability, political unrest, armed conflicts, natural disasters, or outbreaks of disease, such as the COVID-19 pandemic, as well as the resulting impact on information technology spending and government budgets in both developed countries and developing countries, on our business;
- risks that our customers delay, cancel, or refrain from placing orders, refrain from renewing subscriptions or service contracts, or are unable to honor contractual commitments or payment obligations due to liquidity issues or other challenges in their budgets and business, due to the COVID-19 pandemic or otherwise;
- risks that continuing restrictions resulting from the COVID-19 pandemic or actions taken in response to the pandemic adversely impact our operations or our ability to fulfill orders, complete implementations, or recognize revenue;
- 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 revenue, margins, and sufficient levels of investment in our business and operations;
- risks created by the continued consolidation of our competitors or the introduction of large competitors in our markets with greater resources than we have;
- risks associated with our ability to successfully compete for, consummate, and implement mergers and acquisitions, including risks associated with valuations, reputational considerations, capital constraints, costs and expenses, maintaining profitability levels, expansion into new areas, management distraction, post-acquisition integration activities, and potential asset impairments;
- risks relating to our ability to properly manage investments in our business and operations, execute on growth initiatives, and enhance our existing operations and infrastructure, including the proper prioritization and allocation of limited financial and other resources;
- risks associated with our ability to retain, recruit, and train qualified personnel in regions in which we operate, including in new markets and growth areas we may enter;
- risks that we may be unable to establish and maintain relationships with key resellers, partners, and systems integrators and risks associated with our reliance on third-party suppliers, partners, or original equipment manufacturers (“OEMs”) for certain components, products, or services, including companies that may compete with us or work with our competitors;
- risks associated with the mishandling or perceived mishandling of sensitive or confidential information, including information that may belong to our customers or other third parties, and with security vulnerabilities or lapses, including cyber-attacks, information technology system breaches, failures, or disruptions;

- risks that our products or services, or those of third-party suppliers, partners, or OEMs which we use in or with our offerings or otherwise rely on, including third-party hosting platforms, may contain defects, develop operational problems, or be vulnerable to cyber-attacks;
- risks associated with our significant international operations, including, among others, in Israel, Europe, and Asia, exposure to regions subject to political or economic instability, fluctuations in foreign exchange rates, and challenges associated with a significant portion of our cash being held overseas;
- risks associated with political and reputational 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, the products and services we offer, and/or the use of our solutions by our customers;
- challenges associated with selling sophisticated solutions, including with respect to assisting customers in understanding and realizing the benefits of our solutions, and developing, offering, implementing, and maintaining a broad and sophisticated solution portfolio;
- challenges associated with pursuing larger sales opportunities, including with respect to longer sales cycles, transaction reductions, deferrals, or cancellations during the sales cycle; risk of customer concentration; challenges associated with our ability to accurately forecast when a sales opportunity will convert to an order, or to accurately forecast revenue and expenses;
- challenges associated with our Customer Engagement segment cloud transition and our Cyber Intelligence segment software model transition, and risk of increased volatility of our operating results from period to period;
- risks that our intellectual property rights may not be adequate to protect our business or assets or that others may make claims on our intellectual property, claim infringement on their intellectual property rights, or claim a violation of their license rights, including relative to free or open source components we may use;
- risks that we may experience liquidity or working capital issues and related risks that financing sources may be unavailable to us on reasonable terms or at all;
- risks associated with significant leverage resulting from our current debt position or our ability to incur additional debt, including with respect to liquidity considerations, covenant limitations and compliance, fluctuations in interest rates, dilution considerations (with respect to our convertible notes), and our ability to maintain our credit ratings;
- risks arising as a result of contingent or other obligations or liabilities assumed in our acquisition of our former parent company, Comverse Technology, Inc. (“CTI”), or associated with formerly being consolidated with, and part of a consolidated tax group with, CTI, or as a result of the successor to CTI’s business operations, Mavenir Inc. (“Mavenir”), being unwilling or unable to provide us with certain indemnities to which we are entitled;
- risks relating to the adequacy of our existing infrastructure, systems, processes, policies, procedures, internal controls, and personnel, and our ability to successfully implement and maintain enhancements to the foregoing, for our current and future operations and reporting needs, including related risks of financial statement omissions, misstatements, restatements, or filing delays;
- risks associated with changing accounting principles or standards, tax laws and regulations, tax rates, and the continuing availability of expected tax benefits;
- risks associated with market volatility in the prices of our common stock and convertible notes based on our performance, third-party publications or speculation, or other factors and risks associated with actions of activist stockholders;
- risks associated with the issuance of preferred stock to an affiliate of Apax Partners, including with respect to completion of the second tranche of the investment and Apax's significant ownership position and potential that its interests will not be aligned with those of our common stockholders; and
- risks associated with the planned spin-off of our Cyber Intelligence Solutions business, including the possibility that the spin-off transaction may not be completed in the expected timeframe or at all, that it does not achieve the benefits

anticipated, or that it negatively impacts our operations or stock price, including as a result of management distraction from our business.

These risks, uncertainties, assumptions, and challenges, as well as other factors, are discussed in greater detail in “Risk Factors” under Item 1A of our Annual Report on Form 10-K for the year ended January 31, 2020. 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)**

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

| (in thousands, except share and per share data) | July 31, 2020 | January 31, 2020 |
|---|---|---|
| **Assets** | | |
| **Current Assets:** | | |
| Cash and cash equivalents | $ 731,101 | $ 379,146 |
| Restricted cash and cash equivalents, and restricted bank time deposits | 31,662 | 43,860 |
| Short-term investments | 82,443 | 20,215 |
| Accounts receivable, net of allowance for doubtful accounts of $6.1 million and $5.3 million, respectively | 309,355 | 382,435 |
| Contract assets, net | 60,387 | 64,961 |
| Inventories | 20,898 | 20,495 |
| Prepaid expenses and other current assets | 76,831 | 87,946 |
| **Total current assets** | **1,312,677** | **999,058** |
| Property and equipment, net | 113,394 | 116,111 |
| Operating lease right-of-use assets | 94,068 | 102,149 |
| Goodwill | 1,468,197 | 1,469,211 |
| Intangible assets, net | 172,246 | 197,764 |
| Other assets | 142,125 | 131,765 |
| **Total assets** | **$ 3,302,707** | **$ 3,016,058** |
| | | |
| **Liabilities, Preferred Stock, and Stockholders' Equity** | | |
| **Current Liabilities:** | | |
| Accounts payable | $ 69,638 | $ 71,604 |
| Accrued expenses and other current liabilities | 249,199 | 229,698 |
| Current maturities of long-term debt | 380,229 | 4,250 |
| Contract liabilities | 340,868 | 397,350 |
| **Total current liabilities** | **1,039,934** | **702,902** |
| Long-term debt | 603,875 | 832,798 |
| Long-term contract liabilities | 37,768 | 40,565 |
| Operating lease liabilities | 83,547 | 90,372 |
| Other liabilities | 101,453 | 106,984 |
| **Total liabilities** | **1,866,577** | **1,773,621** |
| **Preferred Stock** - $0.001 par value; authorized 2,207,000 shares; Series A Preferred Stock; 200,000 shares issued and outstanding at July 31, 2020; no shares issued and outstanding at January 31, 2020; aggregate liquidation preference and current redemption value of $202,484 at July 31, 2020. | **200,628** | **—** |
| **Commitments and Contingencies** | | |
| **Stockholders' Equity:** | | |
| Common stock - $0.001 par value; authorized 120,000,000 shares. Issued 69,804,000 and 68,529,000 shares; outstanding 65,400,000 and 64,738,000 shares at July 31, 2020 and January 31, 2020, respectively. | 70 | 68 |
| Additional paid-in capital | 1,689,388 | 1,660,889 |
| Treasury stock, at cost - 4,404,000 and 3,791,000 shares at July 31, 2020 and January 31, 2020, respectively. | (208,124) | (174,134) |
| Accumulated deficit | (104,050) | (105,590) |
| Accumulated other comprehensive loss | (158,295) | (151,865) |
| **Total Verint Systems Inc. stockholders' equity** | **1,218,989** | **1,229,368** |
| Noncontrolling interests | 16,513 | 13,069 |
| **Total stockholders' equity** | **1,235,502** | **1,242,437** |
| **Total liabilities, preferred stock, and stockholders' equity** | **$ 3,302,707** | **$ 3,016,058** |

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, 2020 | Three Months Ended July 31, 2019 | Six Months Ended July 31, 2020 | Six Months Ended July 31, 2019 |
|---|---|---|---|---|
| **Revenue:** | | | | |
| Product | $ 96,076 | $ 109,983 | $ 173,360 | $ 214,207 |
| Service and support | 213,033 | 214,322 | 423,044 | 425,357 |
| **Total revenue** | **309,109** | **324,305** | **596,404** | **639,564** |
| **Cost of revenue:** | | | | |
| Product | 24,648 | 29,424 | 45,966 | 57,544 |
| Service and support | 69,023 | 81,430 | 145,422 | 160,791 |
| Amortization of acquired technology | 4,428 | 5,587 | 9,037 | 12,294 |
| **Total cost of revenue** | **98,099** | **116,441** | **200,425** | **230,629** |
| **Gross profit** | **211,010** | **207,864** | **395,979** | **408,935** |
| **Operating expenses:** | | | | |
| Research and development, net | 55,229 | 58,685 | 114,308 | 115,854 |
| Selling, general and administrative | 105,406 | 126,265 | 217,057 | 247,986 |
| Amortization of other acquired intangible assets | 8,058 | 7,639 | 16,123 | 15,352 |
| **Total operating expenses** | **168,693** | **192,589** | **347,488** | **379,192** |
| **Operating income** | **42,317** | **15,275** | **48,491** | **29,743** |
| **Other income (expense), net:** | | | | |
| Interest income | 839 | 1,687 | 1,856 | 3,113 |
| Interest expense | (10,263) | (10,107) | (20,961) | (20,041) |
| Other (expense) income, net | (12,211) | 909 | (14,441) | 119 |
| **Total other expense, net** | **(21,635)** | **(7,511)** | **(33,546)** | **(16,809)** |
| **Income before provision (benefit) for income taxes** | **20,682** | **7,764** | **14,945** | **12,934** |
| Provision (benefit) for income taxes | 10,095 | (4,507) | 8,333 | (3,098) |
| **Net income** | **10,587** | **12,271** | **6,612** | **16,032** |
| Net income attributable to noncontrolling interests | 2,093 | 1,713 | 4,132 | 3,898 |
| **Net income attributable to Verint Systems Inc.** | **8,494** | **10,558** | **2,480** | **12,134** |
| Dividends on preferred stock | (2,484) | — | (2,484) | — |
| **Net income (loss) attributable to Verint Systems Inc. common shares** | **$ 6,010** | **$ 10,558** | **$ (4)** | **$ 12,134** |
| | | | | |
| **Net income (loss) per common share attributable to Verint Systems Inc.:** | | | | |
| **Basic** | **$ 0.09** | **$ 0.16** | **$ —** | **$ 0.18** |
| **Diluted** | **$ 0.09** | **$ 0.16** | **$ —** | **$ 0.18** |
| | | | | |
| **Weighted-average common shares outstanding:** | | | | |
| **Basic** | **64,954** | **66,272** | **64,670** | **65,870** |
| **Diluted** | **65,849** | **67,519** | **64,670** | **67,338** |

See notes to condensed consolidated financial statements.

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

| (in thousands) | Three Months Ended July 31, 2020 | Three Months Ended July 31, 2019 | Six Months Ended July 31, 2020 | Six Months Ended July 31, 2019 |
|---|---|---|---|---|
| **Net income** | **$ 10,587** | **$ 12,271** | **$ 6,612** | **$ 16,032** |
| **Other comprehensive income (loss), net of reclassification adjustments:** | | | | |
| Foreign currency translation adjustments | 18,624 | (23,611) | (2,375) | (27,573) |
| Net increase from foreign exchange contracts designated as hedges | 1,480 | 1,637 | 607 | 2,918 |
| Net increase (decrease) from interest rate swap prior to dedesignation as a hedge | 1,120 | (4,541) | (5,824) | (6,558) |
| (Provision) benefit for income taxes on net increase (decrease) from foreign exchange contracts and interest rate swap designated as hedges | (425) | 790 | 1,123 | 1,084 |
| **Other comprehensive income (loss)** | **20,799** | **(25,725)** | **(6,469)** | **(30,129)** |
| **Comprehensive income (loss)** | **31,386** | **(13,454)** | **143** | **(14,097)** |
| Comprehensive income attributable to noncontrolling interests | 2,413 | 1,662 | 4,093 | 3,741 |
| **Comprehensive income (loss) attributable to Verint Systems Inc.** | **$ 28,973** | **$ (15,116)** | **$ (3,950)** | **$ (17,838)** |

See notes to condensed consolidated financial statements.

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

| (in thousands) | Verint Systems Inc. Stockholders' Equity: Common Stock: Shares | Common Stock: Par Value | Additional Paid-in Capital | Treasury Stock | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Verint Systems Inc. Stockholders' Equity | Non-controlling Interests | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balances as of January** | **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 | 448 | — | — | — | — | — | — | — | **—** |
| Treasury stock acquired | (8) | — | — | (474) | — | — | (474) | — | **(474)** |
| **Balances as of April 30,** | **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 | 998 | 1 | 9,543 | — | — | — | 9,544 | — | **9,544** |
| Distribution to noncontrolling interest | — | — | — | — | — | — | — | (655) | **(655)** |
| **Balances as of July 31,** | **66,771** | **$ 68** | **$1,628,665** | **$ (58,072)** | **$ (122,140)** | **$ (175,197)** | **$ 1,273,324** | **$ 14,654** | **$ 1,287,978** |
| | | | | | | | | | |
| **Balances as of January** | **64,738** | **$ 68** | **$1,660,889** | **$(174,134)** | **$ (105,590)** | **$ (151,865)** | **$ 1,229,368** | **$ 13,069** | **$ 1,242,437** |
| Net (loss) income | — | — | — | — | (6,014) | — | (6,014) | 2,039 | **(3,975)** |
| Other comprehensive loss | — | — | — | — | — | (26,909) | (26,909) | (359) | **(27,268)** |
| Stock-based compensation - equity-classified awards | — | — | 15,029 | — | — | — | 15,029 | — | **15,029** |
| Common stock issued, or to be issued, for stock awards and stock bonuses | 399 | 1 | 1,845 | — | — | — | 1,846 | — | **1,846** |
| Exercises of stock options | 2 | — | 12 | — | — | — | 12 | — | **12** |
| Treasury stock acquired | (613) | — | — | (33,990) | — | — | (33,990) | — | **(33,990)** |
| Distribution to noncontrolling interest | — | — | — | — | — | — | — | (245) | **(245)** |
| Cumulative effect of adoption of ASU No. 2016- | — | — | — | — | (940) | — | (940) | — | **(940)** |
| **Balances as of April 30,** | **64,526** | **69** | **1,677,775** | **(208,124)** | **(112,544)** | **(178,774)** | **1,178,402** | **14,504** | **1,192,906** |
| Net income | — | — | — | — | 8,494 | — | 8,494 | 2,093 | **10,587** |
| Other comprehensive | — | — | — | — | — | 20,479 | 20,479 | 320 | **20,799** |
| Stock-based-compensation-equity - classified awards | — | — | 13,420 | — | — | — | 13,420 | — | **13,420** |
| Common stock issued for stock awards and stock | 874 | 1 | — | — | — | — | 1 | — | **1** |
| Preferred stock dividends | — | — | (1,589) | — | — | — | (1,589) | — | **(1,589)** |
| Reacquisition of equity component from convertible notes | — | — | (218) | — | — | — | (218) | — | **(218)** |
| Distribution to noncontrolling interest | — | — | — | — | — | — | — | (404) | **(404)** |
| **Balances as of July 31,** | **65,400** | **$ 70** | **$1,689,388** | **$(208,124)** | **$ (104,050)** | **$ (158,295)** | **$ 1,218,989** | **$ 16,513** | **$ 1,235,502** |

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, 2020 | Six Months Ended July 31, 2019 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 6,612 | $ 16,032 |
| **Adjustments to reconcile net income to net cash provided by operating activities:** | | |
| Depreciation and amortization | 47,738 | 44,766 |
| Stock-based compensation, excluding cash-settled awards | 31,567 | 37,605 |
| Change in fair value of future tranche right | 13,610 | — |
| Amortization of discount on convertible notes | 6,400 | 6,163 |
| Non-cash gains on derivative financial instruments, net | (550) | (728) |
| Other, net | 250 | 3,305 |
| **Changes in operating assets and liabilities, net of effects of business combinations:** | | |
| Accounts receivable | 70,174 | 23,439 |
| Contract assets | 4,292 | 7,884 |
| Inventories | (1,572) | (4,436) |
| Prepaid expenses and other assets | (1,982) | 8,169 |
| Accounts payable and accrued expenses | 11,891 | (8,291) |
| Contract liabilities | (57,753) | (24,460) |
| Other, net | 6,054 | (11,169) |
| **Net cash provided by operating activities** | **136,731** | **98,279** |
| **Cash flows from investing activities:** | | |
| Cash paid for business combinations, including adjustments, net of cash acquired | — | (49,258) |
| Purchases of property and equipment | (16,040) | (17,718) |
| Purchases of investments | (92,865) | (20,101) |
| Maturities and sales of investments | 30,791 | 23,836 |
| Cash paid for capitalized software development costs | (6,224) | (6,581) |
| Change in restricted bank time deposits, and other investing activities, net | 15,850 | 3,807 |
| **Net cash used in investing activities** | **(68,488)** | **(66,015)** |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of preferred stock and future tranche right, net of issuance costs | 197,254 | — |
| Proceeds from borrowings | 155,000 | — |
| Repayments of borrowings and other financing obligations | (3,794) | (3,194) |
| Payments to repurchase convertible notes | (13,032) | — |
| Payments of debt-related costs | (2,207) | (212) |
| Purchases of treasury stock | (36,836) | (474) |
| Distributions paid to noncontrolling interest | (649) | (655) |
| Payments of deferred purchase price and contingent consideration for business combinations (financing portion) and other financing activities | (11,834) | (22,601) |
| **Net cash provided by (used in) financing activities** | **283,902** | **(27,136)** |
| Foreign currency effects on cash, cash equivalents, restricted cash, and restricted cash equivalents | (796) | (1,890) |
| **Net increase in cash, cash equivalents, restricted cash, and restricted cash equivalents** | **351,349** | **3,238** |
| **Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period** | **411,657** | **412,699** |
| **Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period** | **$ 763,006** | **$ 415,937** |
| **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 | $ 731,101 | $ 388,546 |
| Restricted cash and cash equivalents included in restricted cash and cash equivalents, and restricted bank time deposits | 22,890 | 23,702 |
| Restricted cash and cash equivalents included in other assets | 9,015 | 3,689 |
| **Total cash, cash equivalents, restricted cash, and restricted cash equivalents** | **$ 763,006** | **$ 415,937** |

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. We believe we have one of the industry's strongest research and development ("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 over 1,000 patents and patent applications worldwide across areas including data capture, artificial intelligence, machine learning, unstructured data analytics, predictive analytics and automation.

On December 4, 2019, we announced our intention to separate into two independent publicly traded companies: one which will consist of our Customer Engagement Solutions business, and one which will consist of our Cyber Intelligence Solutions business. We expect to implement the separation through a pro-rata distribution of common stock of a new entity that will hold the Cyber Intelligence Solutions business to our stockholders (the "Spin-Off") that is intended to be generally tax-free to our stockholders for U.S. federal income tax purposes. We currently expect to complete the Spin-Off shortly after the end of this fiscal year ending January 31, 2021, though this timeline may be impacted by the current business environment brought on by the COVID-19 pandemic. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Recent Developments" under Item 2 of this report for a more detailed discussion of the planned Spin-Off.

On December 4, 2019, we also announced that Valor Parent LP (the "Apax Investor"), an affiliate of Apax Partners ("Apax") would make an investment in us in an amount of up to $400.0 million. Under the terms of the Investment Agreement, dated as of December 4, 2019 (the "Investment Agreement"), the Apax Investor initially purchased $200.0 million of our Series A convertible preferred stock ("Series A Preferred Stock"), which closed on May 7, 2020. Shortly following the Spin-Off, the Apax Investor will purchase, subject to certain conditions, up to $200.0 million of Series B convertible preferred stock ("Series B Preferred Stock") in the Company, as the entity holding the Customer Engagement Solutions business. Following the closing of the Series A investment, Apax's ownership in us on an as-converted basis is approximately 5.5%. Following completion of the Spin-Off and assuming the issuance of the Series B Preferred Stock, Apax's ownership in us on an as-converted basis will be between 11.5% and 15%. Please refer to Note 9, "Convertible Preferred Stock" for a more detailed discussion of the Apax investment.

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

### *Impact of COVID-19 Pandemic*

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The outbreak has reached all of the regions in which we do business, and governmental authorities around the world have implemented numerous measures attempting to contain and mitigate the effects of the virus, including travel bans and restrictions, border closings, quarantines, shelter-in-place orders, shutdowns, limitations or closures of non-essential businesses, and social distancing requirements. Companies around the world, including us, our customers, partners, and vendors, have implemented actions in response, including among others, office closings, site restrictions, and employee travel restrictions. The global spread of COVID-19 and actions taken in response have negatively affected us, our customers, partners, and vendors and caused significant economic and business disruption the extent and duration of which is not currently known. In response to these challenges, we quickly adjusted our operations to work from home and we believe our business continuity plan is working well. We are monitoring and assessing the impact of the COVID-19 pandemic daily, including recommendations and orders issued by government and public health authorities. We continue to work to help our customers meet their business continuity needs and help keep the world safe during this difficult time and are managing our operations with a view to resuming normal business activity as soon as possible.

See Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview—Recent Developments” of this report for a more detailed discussion of the impact of COVID-19 on our business.

***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, 2020 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 income (loss), stockholders’ equity, and cash flows for the periods ended July 31, 2020 and 2019, and the condensed consolidated balance sheet as of July 31, 2020, 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, 2020 is derived from the audited consolidated financial statements presented in our Annual Report on Form 10-K for the year ended January 31, 2020. 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, 2020 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.

In light of the currently unknown extent and duration of the COVID-19 pandemic, we face a greater degree of uncertainty than normal in making the judgments and estimates needed to apply to certain of our significant accounting policies. We assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to us and the unknown future impacts COVID-19 as of July 31, 2020 and through the date of this report. These estimates may change, as new events occur and additional information is obtained. Actual results could differ materially from these estimates under different assumptions or conditions.

***Significant Accounting Policies***

There have been no material changes in our significant accounting policies during the six months ended July 31, 2020, 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, 2020.

***Recently Adopted Accounting Pronouncements***

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-13, *Financial Instruments - Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments.* This new standard requires entities to measure expected credit losses for certain financial assets held at the reporting date using a current expected credit loss model, which is based on historical experience, adjusted for current conditions and reasonable and supportable forecasts. The Company's financial instruments within the scope of this guidance primarily includes accounts receivable and contract assets. On February 1, 2020, we adopted the new standard under the modified retrospective approach, such that comparative information has not been restated and continues to be reported under accounting standards in effect for those periods. The adoption of ASU No. 2016-13 resulted in a $1.1 million increase in our allowance for expected credit losses related to accounts receivable and contract assets, a $0.2 million increase to deferred tax assets, and an impact of $0.9 million to our accumulated deficit. The new accounting standard did not have a material impact on our condensed consolidated financial statements, including accounting policies, given our limited historical write-off activity.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which requires customers in a hosting arrangement that is a service contract to follow existing internal-use software guidance to determine which implementation costs to capitalize and which costs to expense. Under the new standard, implementation costs are deferred and presented in the same financial statement caption on the condensed consolidated balance sheet as a prepayment of related arrangement fees. The deferred costs are recognized over the term of the arrangement in the same financial statement caption in the condensed consolidated income statement as the related fees of the arrangement. We adopted ASU No. 2018-15 prospectively to eligible costs incurred on or after February 1, 2020 and the implementation did not have a material 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. Since the standard affects only disclosure requirements, the adoption of the standard did not have an impact on our condensed consolidated financial statements.

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

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

In August 2020, the FASB issued ASU No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging— Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which simplifies the accounting for convertible instruments by eliminating the requirement to separate embedded conversion features from the host contract when the conversion features are not required to be accounted for as derivatives under Topic 815, Derivatives and Hedging, or that do not result in substantial premiums accounted for as paid-in capital. By removing the separation model, a convertible debt instrument will be reported as a single liability instrument with no separate accounting for embedded conversion features. This new standard also removes certain settlement conditions that are required for contracts to qualify for equity classification and simplifies the diluted earnings per share calculations by requiring that an entity use the if-converted method and that the effect of potential share settlement be included in diluted earnings per share calculations. This new standard will be effective for us in fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020. We are currently assessing the impact of adopting this standard on our 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, valueadded 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 support revenue.
    - 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 support, subscription software licenses, and SaaS in certain limited transactions.
- Nonrecurring revenue primarily consists of our perpetual licenses, long-term projects including software customizations that are recognized over time as control transfers to the customer using a percentage-of-completion (“POC”) method, consulting, implementation and installation services, training, and hardware.

| | **Three Months Ended July 31, 2020** | | | **Three Months Ended July 31, 2019** | | |
|---|---|---|---|---|---|---|
| (in thousands) | **Customer Engagement** | **Cyber Intelligence** | **Total** | **Customer Engagement** | **Cyber Intelligence** | **Total** |
| **Revenue:** | | | | | | |
| Product | $ 45,891 | $ 50,185 | $ 96,076 | $ 54,468 | $ 55,515 | $ 109,983 |
| Service and support | 158,189 | 54,844 | 213,033 | 156,968 | 57,354 | 214,322 |
| **Total revenue** | **$ 204,080** | **$ 105,029** | **$ 309,109** | **$ 211,436** | **$ 112,869** | **$ 324,305** |
| | | | | | | |
| **Revenue by recurrence:** | | | | | | |
| Recurring revenue | $ 139,267 | $ 51,651 | $ 190,918 | $ 129,332 | $ 46,171 | $ 175,503 |
| Nonrecurring revenue | 64,813 | 53,378 | 118,191 | 82,104 | 66,698 | 148,802 |
| **Total revenue** | **$ 204,080** | **$ 105,029** | **$ 309,109** | **$ 211,436** | **$ 112,869** | **$ 324,305** |

| (in thousands) | Six Months Ended July 31, 2020 Customer Engagement | Cyber Intelligence | Total | Six Months Ended July 31, 2019 Customer Engagement | Cyber Intelligence | Total |
|---|---|---|---|---|---|---|
| **Revenue:** | | | | | | |
| Product | $ 79,888 | $ 93,472 | $ 173,360 | $ 108,470 | $ 105,737 | $ 214,207 |
| Service and support | 310,057 | 112,987 | 423,044 | 310,061 | 115,296 | 425,357 |
| **Total revenue** | **$ 389,945** | **$ 206,459** | **$ 596,404** | **$ 418,531** | **$ 221,033** | **$ 639,564** |
| | | | | | | |
| **Recurring Revenue** | | | | | | |
| Recurring revenue | $ 268,337 | $ 107,689 | $ 376,026 | $ 252,690 | $ 92,988 | $ 345,678 |
| Nonrecurring revenue | 121,608 | 98,770 | 220,378 | 165,841 | 128,045 | 293,886 |
| **Total revenue** | **$ 389,945** | **$ 206,459** | **$ 596,404** | **$ 418,531** | **$ 221,033** | **$ 639,564** |

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

| (in thousands) | Three Months Ended July 31, 2020 | 2019 | Six Months Ended July 31, 2020 | 2019 |
|---|---|---|---|---|
| **Customer Engagement revenue** | | | | |
| **Recurring revenue** | | | | |
| Bundled SaaS revenue | $ 35,818 | $ 27,208 | $ 69,211 | $ 54,412 |
| Unbundled SaaS revenue | 10,062 | 6,441 | 15,534 | 12,693 |
| Optional managed services revenue | 14,328 | 14,164 | 28,460 | 27,793 |
| **Total cloud revenue** | **60,208** | **47,813** | **113,205** | **94,898** |
| Support revenue | 79,059 | 81,519 | 155,132 | 157,792 |
| **Total recurring revenue** | **139,267** | **129,332** | **268,337** | **252,690** |
| **Nonrecurring revenue** | | | | |
| Perpetual revenue | 35,829 | 48,028 | 64,354 | 95,630 |
| Professional services revenue | 28,984 | 34,076 | 57,254 | 70,211 |
| **Total nonrecurring revenue** | **64,813** | **82,104** | **121,608** | **165,841** |
| **Total Customer Engagement revenue** | **$ 204,080** | **$ 211,436** | **$ 389,945** | **$ 418,531** |

**Contract Balances**

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

| (in thousands) | July 31, 2020 | January 31, 2020 |
|---|---|---|
| Accounts receivable, net | $ 309,355 | $ 382,435 |
| Contract assets, net | $ 60,387 | $ 64,961 |
| Long-term contract assets (included in Other assets) | $ 13,606 | $ 1,358 |
| Contract liabilities | $ 340,868 | $ 397,350 |
| Long-term contract liabilities | $ 37,768 | $ 40,565 |

We receive payments from customers based upon contractual billing schedules, and accounts receivable are recorded when the right to consideration becomes unconditional. Contract assets are rights to consideration in exchange for goods or services that we have transferred to a customer when that right is conditional on something other than the passage of time. The majority of our contract assets represent unbilled amounts related to multi-year unbundled SaaS contracts and arrangements where our right to consideration is subject to the contractually agreed upon billing schedule. We expect billing and collection of a majority of our contract assets to occur within the next twelve months and asset impairment charges related to contract assets were immaterial in the six months ended July 31, 2020 and 2019. There are two customers in our Cyber Intelligence segment that accounted for a combined $65.3 million and $51.7 million of our aggregated accounts receivable and contract assets at July 31, 2020 and January 31, 2020, 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, 2020 and 2019 from amounts included in contract liabilities at the beginning of each period was $240.5 million and $231.4 million, respectively.

**Remaining Performance Obligations**

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

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

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

| | July 31, 2020 | | | January 31, 2020 | | |
|---|---|---|---|---|---|---|
| (in thousands) | Customer Engagement | Cyber Intelligence | Total | Customer Engagement | Cyber Intelligence | Total |
| **RPO:** | | | | | | |
| Expected to be recognized within 1 year | $ 362,764 | $ 383,983 | $ 746,747 | $ 374,982 | $ 356,677 | $ 731,659 |
| Expected to be recognized in more than 1 year | 123,779 | 170,626 | 294,405 | 117,497 | 225,056 | 342,553 |
| **Total RPO** | **$ 486,543** | **$ 554,609** | **$ 1,041,152** | **$ 492,479** | **$ 581,733** | **$ 1,074,212** |

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

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

| (in thousands, except per share amounts) | Three Months Ended July 31, 2020 | Three Months Ended July 31, 2019 | Six Months Ended July 31, 2020 | Six Months Ended July 31, 2019 |
|---|---|---|---|---|
| Net income | $ 10,587 | $ 12,271 | $ 6,612 | $ 16,032 |
| Net income attributable to noncontrolling interests | 2,093 | 1,713 | 4,132 | 3,898 |
| Net income attributable to Verint Systems Inc. | 8,494 | 10,558 | 2,480 | 12,134 |
| Dividends on preferred stock | (2,484) | — | (2,484) | — |
| **Net income (loss) attributable to Verint Systems Inc. for basic net income per common share** | **6,010** | **10,558** | **(4)** | **12,134** |
| Dilutive effect of dividends on preferred stock | — | — | — | — |
| **Net income (loss) attributable to Verint Systems Inc. for diluted net income per common share** | **$ 6,010** | **$ 10,558** | **$ (4)** | **$ 12,134** |
| **Weighted-average shares outstanding:** | | | | |
| **Basic** | **64,954** | **66,272** | **64,670** | **65,870** |
| Dilutive effect of employee equity award plans | 895 | 1,247 | — | 1,468 |
| Dilutive effect of 1.50% convertible senior notes | — | — | — | — |
| Dilutive effect of warrants | — | — | — | — |
| Dilutive effect of assumed conversion of preferred stock | — | — | — | — |
| **Diluted** | **65,849** | **67,519** | **64,670** | **67,338** |
| **Net income (loss) per common share attributable to Verint Systems Inc.:** | | | | |
| **Basic** | **$ 0.09** | **$ 0.16** | **$ —** | **$ 0.18** |
| **Diluted** | **$ 0.09** | **$ 0.16** | **$ —** | **$ 0.18** |

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

| (in thousands) | Three Months Ended July 31, 2020 | Three Months Ended July 31, 2019 | Six Months Ended July 31, 2020 | Six Months Ended July 31, 2019 |
|---|---|---|---|---|
| **Common shares excluded from calculation:** | | | | |
| Stock options and restricted stock-based awards | 392 | 1,817 | 1,329 | 1,221 |
| 1.50% convertible senior notes | 6,137 | 6,205 | 6,171 | 6,205 |
| Warrants | 6,205 | 6,205 | 6,205 | 6,205 |
| Series A Preferred Stock | 3,495 | — | 1,747 | — |

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

Our 1.50% convertible senior notes ("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 outstanding 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".

On December 4, 2019, we announced that Valor Parent LP, an affiliate of Apax Partners, would invest up to $400.0 million in us, in the form of convertible preferred stock. On May 7, 2020, the initial purchase of $200.0 million of our Series A Preferred Stock closed. The weighted-average common shares underlying the assumed conversion of the Series A Preferred Stock, on an as-converted basis, were excluded from the calculation of diluted net income per common share as their effect would have been anti-dilutive. Further details regarding the convertible preferred stock investment appear in Note 9, “Convertible Preferred Stock”.

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

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

| | July 31, 2020 | | | |
|---|---|---|---|---|
| (in thousands) | **Cost Basis** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Estimated Fair Value** |
| **Cash and cash equivalents:** | | | | |
| Cash and bank time deposits | $ 386,286 | $ — | $ — | $ 386,286 |
| Money market funds | 344,815 | — | — | 344,815 |
| **Total cash and cash equivalents** | **$ 731,101** | **$ —** | **$ —** | **$ 731,101** |
| | | | | |
| **Short-term investments:** | | | | |
| Bank time deposits | $ 82,443 | $ — | $ — | $ 82,443 |
| **Total short-term investments** | **$ 82,443** | **$ —** | **$ —** | **$ 82,443** |

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

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, 2020 and 2019, proceeds from maturities and sales of short-term investments were $30.8 million and $23.8 million, respectively.

## *5. BUSINESS COMBINATIONS*

### *Six Months Ended July 31, 2020*

We did not complete any business combinations during the six months ended July 31, 2020.

### *Year Ended January 31, 2020*

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

- On February 1, 2019, we completed the acquisition of a SaaS workforce optimization company focused on the small and medium-sized business (“SMB”) market as part of our strategy to expand our SMB portfolio. This company has been integrated into our Customer Engagement segment.

- On July 25, 2019, we completed the acquisition of a SaaS company focused on cloud-based knowledge management solutions as part of our strategy to add additional artificial intelligence and machine learning capabilities into our portfolio. This company has been integrated into our Customer Engagement segment.
- On December 18, 2019, we completed the acquisition of two software companies under common control focused on multi source intelligence and fusion analytics. These companies are being integrated into our Cyber Intelligence segment.
- On January 13, 2020, we completed the acquisition of a SaaS based company providing web and mobile session replay solutions. This company has been 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 $89.3 million consisted of (i) $76.2 million of combined cash paid at closings or shortly thereafter, partially offset by $2.4 million of cash acquired, resulting in net cash consideration at closing of $73.8 million; and (ii) the fair value of the contingent consideration arrangements described below of $15.3 million; offset by (iii) $2.1 million of other purchase price adjustments. For three of the business combinations, we agreed to make potential additional cash payments to the respective former shareholders aggregating up to approximately $23.5 million, contingent upon the achievement of certain performance targets over periods extending through January 2022, the fair value of which was estimated to be $15.3 million at the acquisition date. Cash paid for these business combinations was funded by cash on hand.

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

Included among the factors contributing to the recognition of goodwill in these transactions were synergies in products and technologies, and the addition of skilled, assembled workforces. Of the $50.4 million of goodwill associated with these business combinations, $39.1 million and $11.3 million was assigned to our Customer Engagement and Cyber Intelligence segments, respectively, and $15.7 million of which is deductible for income tax purposes.

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

Transaction and related costs, consisting primarily of professional fees and integration expenses, directly related to these acquisitions, totaled $0.3 million and $2.1 million for the three months ended July 31, 2020 and 2019, respectively, and $1.4 million and $3.1 million for the six months ended July 31, 2020 and 2019, respectively. All transaction and related costs were expensed as incurred and are included in selling, general and administrative expenses.

The purchase price allocations for the business combinations completed subsequent to 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.

The following table sets forth the components and the allocations of the combined purchase prices for the business combinations completed during the year ended January 31, 2020 including adjustments identified subsequent to the valuation date, none of which were material:

| (in thousands) | | Amount |
|---|---|---|
| **Components of Purchase Prices:** | | |
| Cash | $ | 76,198 |
| Fair value of contingent consideration | | 15,253 |
| Other purchase price adjustments | | (2,137) |
| **Total purchase prices** | **$** | **89,314** |
| | | |
| **Allocation of Purchase Prices:** | | |
| **Net tangible assets (liabilities):** | | |
| Accounts receivable | $ | 3,950 |
| Other current assets, including cash acquired | | 14,394 |
| Other assets | | 6,556 |
| Current and other liabilities | | (8,531) |
| Contract liabilities - current and long-term | | (3,794) |
| Deferred income taxes | | (4,061) |
| **Net tangible assets** | | **8,514** |
| **Identifiable intangible assets:** | | |
| Customer relationships | | 13,299 |
| Developed technology | | 14,443 |
| Trademarks and trade names | | 1,367 |
| Non-compete agreements | | 1,307 |
| **Total identifiable intangible assets** | | **30,416** |
| **Goodwill** | | **50,384** |
| **Total purchase prices allocation** | **$** | **89,314** |

For these acquisitions, customer relationships, developed technology, trademarks and trade names, and non-compete agreements were assigned estimated useful lives of from five years to nine years, four years to five years, and three years to five years, and three years, respectively, the weighted average of which is approximately 6.1 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, 2020 and 2019, we recorded a charge of $1.1 million and a benefit of $0.8 million, respectively, and for the six months ended July 31, 2020 and 2019, we recorded a benefit of $3.7 million and a charge of $0.4 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 $22.0 million at July 31, 2020, of which $14.0 million was recorded within accrued expenses and other current liabilities, and $8.0 million was recorded within other liabilities.

Payments of contingent consideration earned under these agreements were $14.3 million and $17.4 million for the three months ended July 31, 2020 and 2019, respectively, and $17.4 million and $23.7 million for the six months ended July 31, 2020 and 2019, respectively.

## *6. INTANGIBLE ASSETS AND GOODWILL*

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

| (in thousands) | July 31, 2020 Cost | July 31, 2020 Accumulated Amortization | July 31, 2020 Net |
|---|---|---|---|
| **Intangible assets with finite lives:** | | | |
| Customer relationships | $ 464,580 | $ (341,559) | $ 123,021 |
| Acquired technology | 294,682 | (251,201) | 43,481 |
| Trade names | 12,881 | (8,178) | 4,703 |
| Distribution network | 4,440 | (4,440) | — |
| Non-competition agreements | 1,307 | (266) | 1,041 |
| **Total intangible assets** | **$ 777,890** | **$ (605,644)** | **$ 172,246** |

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

We considered the current and expected future economic and market conditions surrounding the COVID-19 pandemic to assess whether a triggering event had occurred that would result in a potential impairment of our indefinite-lived intangible assets. Based on this assessment, we concluded that a triggering event has not occurred which would require further impairment testing to be performed.

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

| (in thousands) | July 31, 2020 | January 31, 2020 |
|---|---|---|
| Customer Engagement | $ 165,522 | $ 189,896 |
| Cyber Intelligence | 6,724 | 7,868 |
| **Total** | **$ 172,246** | **$ 197,764** |

Total amortization expense recorded for acquisition-related intangible assets was $12.5 million and $13.2 million for the three months ended July 31, 2020 and 2019, respectively, and $25.2 million and $27.6 million for the six months ended July 31, 2020 and 2019, respectively. The reported amount of net acquisition-related intangible assets can fluctuate from the impact of changes in foreign currency exchange rates on intangible assets not denominated in U.S. dollars.

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

(in thousands)

| **Years Ending January 31,** | **Amount** |
|---|---|
| 2021 (remainder of year) | $ 24,721 |
| 2022 | 46,503 |
| 2023 | 38,480 |
| 2024 | 28,235 |
| 2025 | 11,864 |
| 2026 and thereafter | 22,443 |
| **Total** | **$ 172,246** |

Goodwill activity for the six months ended July 31, 2020, in total and by reportable segment, was as follows:

| (in thousands) | Total | Reportable Segment: Customer Engagement | Reportable Segment: Cyber Intelligence |
|---|---|---|---|
| **Six Months Ended July 31, 2020:** | | | |
| Goodwill, gross, at January 31, 2020 | $ 1,536,076 | $ 1,367,111 | $ 168,965 |
| Accumulated impairment losses through January 31, 2020 | (66,865) | (56,043) | (10,822) |
| Goodwill, net, at January 31, 2020 | 1,469,211 | 1,311,068 | 158,143 |
| Foreign currency translation and other | (657) | (386) | (271) |
| Business combinations, including adjustments to prior period acquisitions | (357) | — | (357) |
| **Goodwill, net, at July 31, 2020** | **$ 1,468,197** | **$ 1,310,682** | **$ 157,515** |
| | | | |
| **Balance at July 31, 2020:** | | | |
| Goodwill, gross, at July 31, 2020 | $ 1,535,062 | $ 1,366,725 | $ 168,337 |
| Accumulated impairment losses through July 31, 2020 | (66,865) | (56,043) | (10,822) |
| **Goodwill, net, at July 31, 2020** | **$ 1,468,197** | **$ 1,310,682** | **$ 157,515** |

We evaluated whether there has been a change in circumstances as of July 31, 2020 and as of the date of this filing in response to the economic impacts seen globally from COVID-19. The valuation methodology to determine the fair value of the reporting units is sensitive to management's forecasts of future revenue, profitability and market conditions. At this time, the impact of COVID-19 on our forecasts is uncertain and increases the subjectivity that will be involved in evaluating goodwill for potential impairment. We do expect declines in our reporting unit fair values as a result of delayed or reduced demand for our products and services, driving lower revenue and operating income across our businesses. However, given the significant difference between the reporting unit fair values and their carrying values in the most recent quantitative analyses completed as of November 1, 2019, as well as expected long-term recovery within all reporting units, management does not believe that these events were severe enough to result in an impairment trigger. We will continue to monitor the environment to determine whether the impacts to our reporting units represent an event or change in circumstances that may trigger a need to assess for impairment.

## *7. LONG-TERM DEBT*

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

| (in thousands) | July 31, 2020 | January 31, 2020 |
|---|---|---|
| 1.50% Convertible Senior Notes | $ 386,887 | $ 400,000 |
| June 2017 Term Loan | 412,250 | 414,375 |
| Borrowings under 2017 Revolving Credit Facility | 200,000 | 45,000 |
| Less: Unamortized debt discounts and issuance costs | (15,033) | (22,327) |
| **Total debt** | **984,104** | **837,048** |
| Less: current maturities | 380,229 | 4,250 |
| **Long-term debt** | **$ 603,875** | **$ 832,798** |

### *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. 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, 2020, the Notes were not convertible.

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

We allocated transaction costs related to the issuance of the Notes, including underwriting discounts, of $7.6 million and $1.9 million to the debt and equity components, respectively. Issuance costs attributable to the debt component of the Notes are presented as a reduction of long-term debt and are being amortized as interest expense over the term of the Notes, and issuance costs attributable to the equity component were netted with the equity component in additional paid-in capital, a component of stockholder’s equity.

During the three months ended July 31, 2020, we repurchased $13.1 million principal amount of our Notes (the “Repurchased Notes”) in open market transactions for an aggregate of $13.0 million in cash. As a result, we recorded a debt extinguishment loss of $0.1 million, representing the difference between the fair value of the liability component and carrying value of the Repurchased Notes at the repurchase dates. The remaining cash payments were allocated to the reacquisition of the equity component of the Repurchased Notes and were recorded as a charge to additional paid-in capital. The carrying amount of the equity component, net of issuance costs, was $78.0 million at July 31, 2020, inclusive of a $0.2 million reduction resulting from the repurchases during this period.

As of July 31, 2020, the carrying value of the debt component was $375.0 million, which is net of unamortized debt discount and issuance costs of $10.9 million and $1.0 million, respectively. Including the impact of the debt discount and related deferred debt issuance costs, the effective interest rate on the Notes was approximately 5.31% at July 31, 2020. If all Notes outstanding at July 31, 2020 were converted, it would result in the issuance of approximately 6,002,000 shares of common stock.

Based on the closing market price of our common stock on July 31, 2020, the if-converted value of the Notes was less than the aggregate principal amount of the Notes.

As the Notes are due June 1, 2021, they are classified as current maturities of long-term debt on our condensed consolidated balance sheet as of July 31, 2020.

***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, 2020, we had not purchased any shares of our common stock under the Note Hedges.

The Note repurchases executed during the three months ended July 31, 2020 described above did not change the number of common shares subject to the Note Hedges. However, since a Note conversion is a prerequisite to exercising the call right under the Note Hedges, the number of common shares subject to call under the Note Hedges was effectively reduced since the repurchased Notes can no longer be converted.

**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, 2020, no Warrants had been exercised and all Warrants remained outstanding.

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

***Credit Agreements***

**2017 Credit Agreement**

On June 29, 2017, we entered into a 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, unless such outstanding Notes are cash collateralized pursuant to the 2020 Amendment to the 2017 Credit Agreement, as further described below.

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.

On June 8, 2020, we entered into a second amendment to the 2017 Credit Agreement (the “2020 Amendment”). Pursuant to the 2020 Amendment, we are permitted to effect the previously announced Spin-Off of our Cyber Intelligence business within the parameters set forth in the 2017 Credit Agreement, as amended, and our Notes will not be deemed to be outstanding if such Notes are cash collateralized in accordance with the 2017 Credit Agreement, as amended, for purposes of the determination of the maturity dates of the 2017 Term Loan and the 2017 Revolving Credit Facility discussed above. We currently intend to cash collateralize, or otherwise refinance or repurchase, the Notes prior to their maturity.

As of July 31, 2020, the interest rate on the 2017 Term Loan was 2.17%. 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 2.37% at July 31, 2020. As of January 31, 2020, the interest rate on 2017 Term Loan was 3.85%.

Borrowings under the 2017 Revolving Credit Facility were $200.0 million at July 31, 2020, which is included in long-term debt on our condensed consolidated balance sheet. For borrowings under the 2017 Revolving Credit Facility, the margin is determined by reference to our Consolidated Total Debt to Consolidated EBITDA (each as defined in the 2017 Credit Agreement) leverage ratio (the "Leverage Ratio"). As of July 31, 2020, the weighted average interest rate on our revolving credit facility borrowings was 2.17%. In addition, we are required to pay a commitment fee with respect to unused availability under the 2017 Revolving Credit Facility at rates per annum determined by reference to our Leverage Ratio. The proceeds of borrowings under the 2017 Revolving Credit Facility were used to fund a portion of our stock repurchase program or will be used for general corporate purposes. Please refer to Note 9, "Stockholders' Equity", for more information regarding the stock repurchase program.

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

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

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

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

**2017 Credit Agreement Issuance and Amendment 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. We incurred $2.1 million of debt modification costs related to the 2020 Amendment, $1.2 million of which were expensed, and $0.9 million of which were deferred (comprised of $0.5 million associated with the 2017 Term Loan, and $0.4 million associated with the 2017 Revolving Credit Facility), and are being amortized along with the existing unamortized debt issuance costs. 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, 2020, future scheduled principal payments on the 2017 Term Loan were as follows:

(in thousands)

| **Years Ending January 31,** | **Amount** |
|---|---|
| 2021 (remainder of year) | $ 2,125 |
| 2022 | 4,250 |
| 2023 | 4,250 |
| 2024 | 4,250 |
| 2025 | 397,375 |
| **Total** | **$ 412,250** |

***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 and six months ended July 31, 2020 and 2019:

| (in thousands) | Three Months Ended July 31, 2020 | Three Months Ended July 31, 2019 | Six Months Ended July 31, 2020 | Six Months Ended July 31, 2019 |
|---|---|---|---|---|
| **1.50% Convertible Senior Notes:** | | | | |
| Interest expense at 1.50% coupon rate | $ 1,486 | $ 1,500 | $ 2,986 | $ 3,000 |
| Amortization of debt discount | 3,174 | 3,102 | 6,400 | 6,163 |
| Amortization of deferred debt issuance costs | 300 | 292 | 604 | 581 |
| **Total Interest Expense - 1.50% Convertible Senior Notes** | **$ 4,960** | **$ 4,894** | **$ 9,990** | **$ 9,744** |
| **Borrowings under Credit Agreements:** | | | | |
| Interest expense at contractual rates | $ 3,463 | $ 4,730 | $ 7,976 | $ 9,375 |
| Impact of interest rate swap | 1,121 | — | 1,712 | — |
| Amortization of debt discounts | 19 | 17 | 37 | 33 |
| Amortization of deferred debt issuance costs | 439 | 401 | 830 | 775 |
| **Total Interest Expense - Borrowings under Credit Agreements** | **$ 5,042** | **$ 5,148** | **$ 10,555** | **$ 10,183** |

## *8. SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENT INFORMATION*

***Condensed Consolidated Balance Sheets***

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

| (in thousands) | July 31, 2020 | January 31, 2020 |
|---|---|---|
| Raw materials | $ 10,461 | $ 9,628 |
| Work-in-process | 5,525 | 4,749 |
| Finished goods | 4,912 | 6,118 |
| **Total inventories** | **$ 20,898** | **$ 20,495** |

***Condensed Consolidated Statements of Operations***

Other (expense) income, net consisted of the following for the three and six months ended July 31, 2020 and 2019:

| (in thousands) | Three Months Ended July 31, 2020 | Three Months Ended July 31, 2019 | Six Months Ended July 31, 2020 | Six Months Ended July 31, 2019 |
|---|---|---|---|---|
| Foreign currency gains (losses), net | $ 3,032 | $ 774 | $ (222) | $ (412) |
| (Losses) gains on derivative financial instruments, net | (463) | 179 | 551 | 728 |
| Change in fair value of future tranche right | (13,610) | — | (13,610) | — |
| Other, net | (1,170) | (44) | (1,160) | (197) |
| **Total other (expense) income, net** | **$ (12,211)** | **$ 909** | **$ (14,441)** | **$ 119** |

Please refer to Note 9, “Convertible Preferred Stock” and Note 12, “Fair Value Measurements” for additional information regarding the future tranche right.

***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, 2020 and 2019:

| | Six Months Ended July 31, | | | |
|---|---|---|---|---|
| (in thousands) | 2020 | | 2019 | |
| Cash paid for interest | $ | 14,022 | $ | 12,410 |
| Cash payments of income taxes, net | $ | 9,684 | $ | 16,419 |
| Cash payments for operating leases | $ | 14,234 | $ | 13,688 |
| **Non-cash investing and financing transactions:** | | | | |
| Liabilities for contingent consideration in business combinations, including measurement period adjustments | $ | — | $ | 5,200 |
| Series A Preferred Stock dividends declared | $ | 1,589 | $ | — |
| Finance leases of property and equipment | $ | 841 | $ | 377 |
| Accrued but unpaid purchases of property and equipment | $ | 2,020 | $ | 4,505 |
| Inventory transfers to property and equipment | $ | 575 | $ | 463 |

## *9. CONVERTIBLE PREFERRED STOCK*

On December 4, 2019, we entered into an Investment Agreement with the Apax Investor, whereby, subject to certain closing conditions, the Apax Investor has agreed to make an investment in us in an amount up to $400.0 million as follows:

- On May 7, 2020, (the “Series A Closing Date”) we issued a total of 200,000 shares of our Series A Convertible Perpetual Preferred Stock, par value $0.001 per share (the “Series A Preferred Stock”), pursuant to a certificate of designation of preferences, rights, and limitations (the “Series A Certificate of Designation”) filed with the Delaware Secretary of State, for an aggregate purchase price of $200.0 million, or $1,000 per share (the “Series A Private Placement”) to the Apax Investor. In connection therewith, we incurred direct and incremental costs of $2.7 million, including financial advisory fees, closing costs, legal fees and other offering-related costs. These direct and incremental costs reduced the carrying amount of the Series A Preferred Stock.

- Upon completion of the Spin-Off and certain customary closing conditions, we will issue up to 200,000 shares of Series B Convertible Perpetual Preferred Stock, par value $0.001 per share (the “Series B Preferred Stock” and, together with the Series A Preferred Stock, the “Preferred Stock”) at a purchase price of $1,000 per share (the “Series B Private Placement”) to the Apax Investor, subject to certain conditions. The closing of the Series B Private Placement (the “Series B Closing Date”) is contingent on, among other conditions, completion of the Spin-Off and the respective enterprise values of our Customer Engagement Solutions business and Cyber Intelligence Solutions business at the time of the Spin-Off being above a specified floor, as well as satisfaction or waiver of certain customary closing conditions. The closing of the Series B Private Placement is expected to occur shortly after the consummation of the Spin-Off and determination of the relative enterprise values of the two businesses.

***Voting Rights***

Holders of the Series A Preferred Stock have the right to vote on matters submitted to a vote of the holders of our common stock, par value $0.001 per share (the “Common Stock”), on an as-converted basis; however, in no event will the holders of Preferred Stock have the right to vote shares of the Preferred Stock on an as-converted basis in excess of 19.9% of the voting power of the Common Stock outstanding immediately prior to December 4, 2019.

***Dividends and Liquidation Rights***

The Series A Preferred Stock ranks senior to the shares of our Common Stock, with respect to dividend rights and rights on the distribution of assets on any voluntary or involuntary liquidation, dissolution or winding up of our affairs. Shares of Series A Preferred Stock have a liquidation preference of the greater of $1,000 per share or the amount that would be received if the shares are converted at the then applicable conversion price at the time of such liquidation.

Holders of the Series A Preferred Stock are entitled to a cumulative dividend at a rate of 5.2% per annum until the 48-month anniversary of the Series A Closing Date and thereafter at a rate of 4.0% per annum. Dividends on the Series A Preferred Stock are cumulative and payable semi-annually in arrears in cash. All dividends that are not paid in cash will remain accumulated dividends with respect to each share of Series A Preferred Stock. The applicable dividend rate is subject to increase (i) to 6.0% per annum in the event the number of shares of Common Stock into which the Preferred Stock could be converted exceeds 19.9% of the voting power of outstanding Common Stock on the Series A Closing Date (unless we obtain shareholder approval of the issuance of Common Stock upon conversion of the Preferred Stock) and (ii) by 1.0% each year, up to a maximum dividend rate of 10.0% per annum, in the event we fail to satisfy our obligations to redeem the Series A Preferred Stock in specified circumstances.

As of July 31, 2020, we had declared and accrued dividends of $1.6 million associated with the Series A Preferred Stock.

***Conversion***

The Series A Preferred Stock is convertible into Common stock at the election of the holder, subject to certain conditions including conditions associated with the Spin-Off, at an initial conversion price of $53.50 per share. Assuming completion of the Spin-Off, the Series A Preferred Stock will not participate in the Spin-Off distribution of the shares of the company holding our Cyber Intelligence Solutions business, and instead, the conversion price of the Series A Preferred Stock will be adjusted based on the ratio of the trading prices of the two post-Spin-Off companies over a short period following the Spin-Off, subject to a collar. As of July 31, 2020, the maximum number of shares of Common Stock that could be required to be issued upon conversion of the outstanding shares of Series A Preferred Stock was 3.7 million shares.

At any time after 36 months following the Series A Closing Date, we will have the option to require that all of the then-outstanding shares of Series A Preferred Stock convert into Common Stock if the volume-weighted average price per share of the Common Stock for at least 30 trading days in any 45 consecutive trading day period exceeds 175% of the then-applicable conversion price of the Series A Preferred Stock (a “Mandatory Conversion”).

We may redeem any or all of the Series A Preferred Stock for cash at any time after the 72-month anniversary of the Series A Closing Date at a redemption price equal to 100% of the liquidation preference of the shares of the Series A Preferred Stock, plus any accrued and unpaid dividends to, but excluding, the redemption date, plus a make-whole amount designed to allow the Apax Investor to earn a total 8.0% internal rate of return on such shares.

The Apax Investor has agreed to restrictions on its ability to dispose of shares of the Series A Preferred Stock until the earlier of (1) the 36-month anniversary of the Series A Closing Date or (2) the 24-month anniversary of the consummation of the Spin-Off (the “Preferred Stock Restricted Period”). Following the Preferred Stock Restricted Period, the Series A Preferred Stock may not be sold or transferred without the prior written consent of the Company. The Apax Investor has also agreed to restrictions on its ability to dispose of the Common Stock issued upon conversion of the Series A Preferred Stock. The Common Stock may not be disposed of until the earlier of (1) the 12-month anniversary of consummation of the Spin-Off or (2) the 24-month anniversary of the Series A Closing Date. These restrictions do not apply to certain transfers to one or more permitted co-investors or transfers or pledges of the Series A Preferred Stock or Common Stock pursuant to the terms of specified margin loans to be entered into by the Apax Investor as well as transfers effected pursuant to a merger, consolidation, or similar transaction consummated by us and transfers that are approved by our board of directors.

At any time after the 102-month anniversary of the Series A Closing Date or upon the occurrence of a change of control triggering event (as set forth in the Series A Certificate of Designation), the holders of the Series A Preferred Stock will have the right to cause us to redeem all of the outstanding shares of Series A Preferred Stock for cash at a redemption price equal to 100% of the liquidation preference of the shares of Series A Preferred Stock, plus any accrued and unpaid dividends to, but excluding, the redemption date. Therefore, the Series A Preferred Stock has been classified as mezzanine equity on our condensed consolidated balance sheet as of July 31, 2020, separate from permanent equity, as the potential required repurchase of the Series A Preferred Stock, however remote in likelihood, is not solely under our control.

As of July 31, 2020, the Series A Preferred Stock is not redeemable, and we have concluded that it is currently not probable of becoming redeemable, including from the occurrence of a change in control triggering event. The holders’ redemption rights which occur at the 102-month anniversary of the Series A Closing Date are not considered probable because there is a more than remote likelihood that the Mandatory Conversion may occur prior to such redemption rights. We therefore did not adjust the carrying amount of the Series A Preferred Stock to its current redemption amount, which was its liquidation preference, at July 31, 2020 plus accrued and unpaid dividends. As of July 31, 2020, the stated value of the Series A Preferred Stock liquidation preference was $200.0 million and cumulative, unpaid dividends on the Series A Preferred Stock were $2.5 million.

***Future Tranche Right***

We have determined that our obligation to issue and the Apax Investor's obligation to purchase up to 200,000 shares of the Series B Preferred Stock upon the completion of the Spin-Off and other customary closing conditions (the "Future Tranche Right") meets the definition of a freestanding financial instrument as the Future Tranche Right is legally detachable and separately exercisable from the Series A Preferred Stock. Since the Future Tranche Right is subject to fair value accounting, we allocated the proceeds from the issuance of the Series A Preferred Stock to the Future Tranche Right based upon its fair value at the date of issuance, with the remaining proceeds being allocated to the Series A Preferred Stock. The Future Tranche Right is remeasured at fair value each reporting period until settlement, and changes in its fair value are recognized as a component of other income (expense), net on the condensed consolidated statement of operations.

At the Series A Closing Date, the Future Tranche Right was recorded as an asset of $3.4 million, as the purchase price of the Series B Preferred Stock was greater than its estimated fair value at the expected settlement date. This resulted in a $203.4 million carrying value, before direct and incremental issuance costs, for the Series A Preferred Stock.

At July 31, 2020, the fair value of the Future Tranche Right was a liability of $10.2 million, due primarily to declining credit market interest rates associated with worsened and uncertain economic conditions occurring during the period. The $13.6 million change in fair value of the Future Tranche Right was recorded as an expense for the three months ended July 31, 2020 within other (expense) income, net. The $10.2 million fair value of the Future Tranche Right is included within accrued expenses and other liabilities on our condensed consolidated balance sheet at July 31, 2020. Please refer to Note 12, "Fair Value Measurements" for additional information regarding valuations of the Future Tranche Right.

## *10. 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, 2020 and 2019. Under the terms of our 2017 Credit Agreement, we are subject to certain restrictions on declaring and paying dividends on our common stock.

### *Stock Repurchase Program*

On December 4, 2019, we announced that our board of directors had authorized a stock repurchase program whereby we may repurchase up to $300.0 million of common stock over the period ending on February 1, 2021. We made $34.0 million in repurchases under the program during the six months ended July 31, 2020 and $116.1 million of repurchases during the year ended January 31, 2020. Due to the uncertainty surrounding the impact of the COVID-19 pandemic, we will consider further repurchases under the stock repurchase program based on economic and market conditions as they evolve.

### *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, 2020, we repurchased approximately 613,000 shares of treasury stock for a cost of $34.0 million under the share repurchase program described above. 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.

At July 31, 2020, we held approximately 4,404,000 shares of treasury stock with a cost of $208.1 million. At January 31, 2020, we held approximately 3,791,000 shares of treasury stock with a cost of $174.1 million.

### *Issuance of Convertible Preferred Stock*

On December 4, 2019, in conjunction with the planned separation of our businesses into two independent publicly traded companies, we announced that an affiliate of Apax Partners would invest up to $400.0 million in us, in the form of convertible preferred stock. Under the terms of the Investment Agreement, the Apax Investor initially purchased $200.0 million of our Series A Preferred Stock, which closed on May 7, 2020. Please refer to Note 9, "Convertible Preferred Stock" for additional information regarding the closing of the initial tranche.

*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, 2020:

| (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 income (loss) at January 31, 2020** | **$ 626** | **$ (10,528)** | **$ (141,963)** | **$ (151,865)** |
| Other comprehensive income (loss) before reclassifications | 496 | (5,940) | (2,336) | (7,780) |
| Amounts reclassified out of accumulated other comprehensive income (loss) | (11) | (1,339) | — | (1,350) |
| Net other comprehensive income (loss) | 507 | (4,601) | (2,336) | (6,430) |
| **Accumulated other comprehensive income (loss) at July 31, 2020** | **$ 1,133** | **$ (15,129)** | **$ (144,299)** | **$ (158,295)** |

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 months ended July 31, 2020 and 2019 were as follows:

| | Three Months Ended July 31, | | Six Months Ended July 31, | | |
|---|---|---|---|---|---|
| (in thousands) | 2020 | 2019 | 2020 | 2019 | Location |
| **Unrealized gains (losses) on derivative financial instruments:** | | | | | |
| Foreign currency forward contracts | $ 2 | $ — | $ (1) | $ (72) | Cost of product revenue |
| | 4 | — | (2) | (84) | Cost of service and support |
| | 20 | — | (6) | (472) | Research and development, net |
| | 13 | — | (4) | (311) | Selling, general and administrative |
| | **39** | **—** | **(13)** | **(939)** | **Total, before income taxes** |
| | (4) | — | 2 | 94 | (Provision) benefit from income taxes |
| | **$ 35** | **$ —** | **$ (11)** | **$ (845)** | **Total, net of income taxes** |
| | | | | | |
| Interest rate swap agreement | $ (1,120) | $ — | $ (1,711) | $ — | Interest expense |
| | **(1,120)** | **—** | **(1,711)** | **—** | **Total, before income taxes** |
| | 244 | — | 372 | — | Benefit from income taxes |
| | **$ (876)** | **$ —** | **$ (1,339)** | **$ —** | **Total, net of income taxes** |

## *11. 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, 2020, we recorded an income tax expense of $10.1 million on pre-tax income of $20.7 million, which represented an effective income tax rate of 48.8%. The effective tax rate differs from the U.S. federal statutory rate of 21% primarily due to the impact of U.S. taxation of certain foreign activities and a change in the fair value of the Future Tranche Right associated with the Series A Preferred Stock, offset by lower statutory rates in several foreign jurisdictions.

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 six months ended July 31, 2020, we recorded an income tax provision of $8.3 million on pre-tax income of $14.9 million, which represented an effective income tax rate of 55.8%. The effective tax rate differs from the U.S. federal statutory rate of 21% primarily due to the impact of U.S. taxation of certain foreign activities and a change in the fair value of the Future Tranche Right associated with the Series A Preferred Stock, offset by lower statutory rates in several foreign jurisdictions.

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%.

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. We intend to maintain valuation allowances until sufficient positive evidence exists to support a reversal.

We had unrecognized income tax benefits of $93.0 million and $91.3 million (excluding interest and penalties) as of July 31, 2020 and January 31, 2020, respectively. The accrued liability for interest and penalties was $3.2 million and $2.9 million at July 31, 2020 and January 31, 2020, 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, 2020 and January 31, 2020, the total amount of unrecognized income tax benefits that, if recognized, would impact our effective income tax rate were approximately $93.0 million and $91.3 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, 2020 could decrease by approximately $1.3 million in the next twelve months as a result of settlement of certain tax audits or lapses of statutes of limitation. Such decreases may involve the payment of additional 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.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was enacted and signed into U.S. law to provide economic relief to individuals and businesses facing economic hardship as a result of the COVID-19 pandemic. The income tax provisions of the CARES Act do not have a significant impact on our current taxes, deferred taxes, or uncertain tax positions. However, we plan to defer the timing of employer payroll taxes and accelerate the refund of AMT credits as permitted by the CARES Act.

## *12. FAIR VALUE MEASUREMENTS*

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

Our assets and liabilities measured at fair value on a recurring basis consisted of the following as of July 31, 2020 and January 31, 2020:

| | July 31, 2020 | | |
|---|---|---|---|
| | Fair Value Hierarchy Category | | |
| (in thousands) | Level 1 | Level 2 | Level 3 |
| **Assets:** | | | |
| Money market funds | $ 344,815 | $ — | $ — |
| Foreign currency forward contracts | — | 1,467 | — |
| Contingent consideration receivable | — | — | 698 |
| **Total assets** | **$ 344,815** | **$ 1,467** | **$ 698** |
| **Liabilities:** | | | |
| Foreign currency forward contracts | $ — | $ 140 | $ — |
| Interest rate swap agreement | — | 19,188 | — |
| Future tranche right | — | — | 10,236 |
| Contingent consideration - business combinations | — | — | 22,012 |
| Option to acquire noncontrolling interests of consolidated subsidiaries | — | — | 3,050 |
| **Total liabilities** | **$ —** | **$ 19,328** | **$ 35,298** |

| | January 31, 2020 | | |
|---|---|---|---|
| | Fair Value Hierarchy Category | | |
| (in thousands) | Level 1 | Level 2 | Level 3 |
| **Assets:** | | | |
| Money market funds | $ 89 | $ — | $ — |
| Foreign currency forward contracts | — | 812 | — |
| Contingent consideration receivable | — | — | 738 |
| **Total assets** | **$ 89** | **$ 812** | **$ 738** |
| **Liabilities:** | | | |
| Foreign currency forward contracts | $ — | $ 132 | $ — |
| Interest rate swap agreements | — | 13,501 | — |
| Contingent consideration - business combinations | — | — | 42,875 |
| Option to acquire noncontrolling interests of consolidated subsidiaries | — | — | 2,900 |
| **Total liabilities** | **$ —** | **$ 13,633** | **$ 45,775** |

On May 7, 2020, we issued a total of 200,000 shares of our Series A Preferred Stock, and upon completion of the Spin-Off, we will issue up to 200,000 shares of Series B Preferred Stock, subject to certain conditions. Please refer to Note 9, “Convertible Preferred Stock” for additional information regarding the preferred stock investment. The Future Tranche Right associated with the Series A Preferred Stock was initially recorded as an asset, as the purchase price of the Series B Preferred Stock was greater than its estimated value at the expected settlement date. As of July 31, 2020, the Future Tranche Right was recorded as a liability as the purchase price of the Series B Preferred Stock was less than its estimated value at the expected settlement date, and is included in accrued expenses and other liabilities on our condensed consolidated balance sheet. Due to the nature of and inputs in the model used to assess the fair value of the Future Tranche Right as described further below, we may experience significant fluctuations in its fair value during each remeasurement period.

The following table presents the changes in the estimated fair value of the Future Tranche Right measured using significant unobservable inputs (Level 3) for the six months ended July 31, 2020.

| (in thousands) | Six Months Ended July 31, 2020 | 2019 |
|---|---|---|
| Fair value measurement at beginning of period | $ — | $ — |
| Fair value of future tranche right upon issuance of the Series A Preferred Stock | 3,374 | — |
| Change in fair values, recorded in other (expense) income, net | (13,610) | — |
| **Fair value measurement at end of period** | **$ (10,236)** | **$ —** |

In January 2020, we completed the sale of an insignificant subsidiary in our Customer Engagement segment. In accordance with the terms of the sale agreement, 100% of the aggregate purchase price is contingent in nature based on a percentage of net sales of the former subsidiary's products during the thirty-six month period following the transaction closing. We include the fair value of the contingent consideration receivable within prepaid expenses and other current assets and other assets on our consolidated balance sheet. The estimated fair value of this asset as of July 31, 2020, which is measured using Level 3 inputs, was $0.7 million. We did not receive any payments, and the change in the estimated fair value of this contingent receivable was not material, during the six months ended July 31, 2020.

The following table presents the changes in the estimated fair values of our liabilities for contingent consideration measured using significant unobservable inputs (Level 3) for the six months ended July 31, 2020 and 2019:

| (in thousands) | Six Months Ended July 31, 2020 | 2019 |
|---|---|---|
| Fair value measurement at beginning of period | $ 42,875 | $ 61,340 |
| Contingent consideration liabilities recorded for business combinations, including measurement period adjustments | — | 5,200 |
| Changes in fair values, recorded in operating expenses | (3,714) | 370 |
| Payments of contingent consideration | (17,375) | (23,712) |
| Foreign currency translation and other | 226 | (218) |
| **Fair value measurement at end of period** | **$ 22,012** | **$ 42,980** |

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, 2020 and 2019:

| (in thousands) | Six Months Ended July 31, 2020 | 2019 |
|---|---|---|
| Fair value measurement at beginning of period | $ 2,900 | $ 3,000 |
| Change in fair value, recorded in operating expenses | 150 | (50) |
| **Fair value measurement at end of period** | **$ 3,050** | **$ 2,950** |

There were no transfers between levels of the fair value measurement hierarchy during the six months ended July 31, 2020 and 2019.

***Fair Value Measurements***

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

*Short-term Investments, Corporate Debt Securities, and Commercial Paper* - The fair values of short-term investments, as well as corporate debt securities and commercial paper classified as cash equivalents, are estimated using observable market prices for identical securities that are traded in less-active markets, if available. When observable market prices for identical securities are not available, we value these short-term investments using non-binding market price quotes from brokers which we review for reasonableness using observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model.

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

*Future Tranche Right* - The fair value of the Future Tranche Right is classified within Level 3 of the fair value hierarchy because it is valued using pricing models that incorporate management assumptions that cannot be corroborated with observable market data. The fair value of the Future Tranche Right was estimated using a binomial tree model to estimate the value the Series B Preferred Stock and a Monte Carlo simulation to estimate the stock price of our Customer Engagement Solutions business post-Spin-Off, which we believe is reflective of all significant assumptions that market participants would likely consider in negotiating the transfer of the Future Tranche Right. The fair value of the Future Tranche Right also reflects the likelihood of the Series B Preferred Stock being issued, which management currently considers to be highly probable.

Significant inputs and assumptions used in the valuation model as of the issuance date, May 7, 2020, and July 31, 2020 are as follows:

| | July 31, 2020 | May 7, 2020 |
|---|---|---|
| Risk-free interest rate for preferred stock | 1.19 % | 1.31 % |
| Implied credit spread | 7.78 % | 10.78 % |
| Expected volatility | 30.00 % | 30.00 % |

*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 Asset or Liability - Business Combinations and Divestitures* - The fair value of the contingent consideration related to business combinations and divestitures is estimated using a probability-adjusted discounted cash flow model. These fair value measurements are based on significant inputs not observable in the market. The key internally developed assumptions used in these models are discount rates and the probabilities assigned to the milestones to be achieved. We remeasure the fair value of the contingent consideration at each reporting period, and any changes in fair value resulting from either the passage of time or events occurring after the acquisition date, such as changes in discount rates, or in the expectations of achieving the performance targets, are recorded within selling, general, and administrative expenses. Increases or decreases in discount rates would have inverse impacts on the related fair value measurements, while favorable or unfavorable changes in expectations of achieving performance targets would result in corresponding increases or decreases in the related fair value measurements. We utilized discount rates ranging from 1.9% to 5.5%, with a weighted average discount rate of 4.2%, in our calculations of the estimated fair values of our contingent consideration liabilities as of July 31, 2020. We utilized discount rates ranging from 2.1% to 4.9% in our calculations of the estimated fair values of our contingent consideration liabilities as of January 31, 2020. We utilized discount rates ranging from 4.8% to 5.5%, with a weighted average discount rate of 5.2%, in our calculation of the estimated fair value of our contingent consideration asset as of July 31, 2020. We utilized discount rates ranging from 4.3% to 4.9%, in our calculation of the estimated fair value of our contingent consideration asset as of January 31, 2020.

*Option to Acquire Noncontrolling Interests of Consolidated Subsidiaries* - The fair value of the option is determined primarily by using the income approach, which discounts expected future cash flows to present value using estimates and assumptions determined by management. This fair value measurement is based upon significant inputs not observable in the market. We remeasure the fair value of the option at each reporting period, and any changes in fair value are recorded within selling, general, and administrative expenses. We utilized a discount rate of 9.0% in our calculation of the estimated fair value of the option as of July 31, 2020 and January 31, 2020.

***Other Financial Instruments***

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

The estimated fair values of our term loan and our revolving credit borrowings at July 31, 2020 were $411 million and $198 million, respectively. The estimated fair values of our term loan and our revolving credit borrowings at January 31, 2020 were $417 million and $45 million, respectively. The estimated fair 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 participation in our term loans are traded. The indicative prices provided to us as at each of July 31, 2020 and January 31, 2020 did not significantly differ from par value. The estimated fair value of our revolving credit borrowings is based upon indicative market values provided by one of our lenders.

The estimated fair values of our Notes were approximately $385 million and $438 million at July 31, 2020 and January 31, 2020, 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, operating lease right-of-use assets, and property, plant and equipment, are measured at fair value when there is an indication of impairment and the carrying amount exceeds the asset’s projected undiscounted cash flows. These assets are recorded at fair value only when an impairment charge is recognized.

As of July 31, 2020, 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, 2020.

## *13. DERIVATIVE FINANCIAL INSTRUMENTS*

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

***Foreign Currency Forward Contracts***

Under our risk management strategy, we periodically use foreign currency forward contracts to manage our short-term exposures to fluctuations in operational cash flows resulting from changes in foreign currency exchange rates. These cash flow exposures result from portions of our forecasted operating expenses, primarily compensation and related expenses, which are transacted in currencies other than the U.S. dollar, most notably the Israeli shekel. We also periodically utilize foreign currency forward contracts to manage exposures resulting from forecasted customer collections to be remitted in currencies other than the applicable functional currency, and exposures from cash, cash equivalents and short-term investments denominated in currencies other than the applicable functional currency. These foreign currency forward contracts generally have maturities of no longer than twelve months, although occasionally we will execute a contract that extends beyond twelve months, depending upon the nature of the underlying risk.

We held outstanding foreign currency forward contracts with notional amounts of $79.7 million and $89.0 million as of July 31, 2020 and January 31, 2020, respectively.

***Interest Rate Swap Agreements***

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

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

On June 29, 2017, concurrent with the execution of the 2017 Credit Agreement and termination of the prior credit agreement, the 2016 Swap was no longer designated as a cash flow hedge for accounting purposes and, because occurrence of the specific forecasted variable cash flows which had been hedged by the 2016 Swap was no longer probable, the $0.9 million fair value of the 2016 Swap at that date was reclassified from accumulated other comprehensive income (loss) into the condensed consolidated statement of operations as income within other income (expense), net. Ongoing changes in the fair value of the 2016 Swap were recognized within other income (expense), net in the 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 pay interest at a fixed rate of 2.949% and receive variable interest of three-month LIBOR (subject to a minimum of 0.00%), on a notional amount of $200.0 million (the “2018 Swap”). The effective date of the 2018 Swap was September 6, 2019, and settlements with the counterparty began on November 1, 2019, and occur on a quarterly basis. The 2018 Swap will terminate on June 29, 2024.

Prior to May 1, 2020, the 2018 Swap was designated as a cash flow hedge for accounting purposes and as such, changes in its fair value were recognized in accumulated other comprehensive income (loss) in the condensed consolidated balance sheet and were reclassified into the condensed consolidated statement of operations within interest expense in the periods in which the hedged transactions affected earnings.

On May 1, 2020, which was an interest rate reset date on our 2017 Term Loan, we selected an interest rate other than three-month LIBOR. As a result, the 2018 Swap, which was designated specifically to hedge three-month LIBOR interest payments, no longer qualified as a cash flow hedge. Subsequent to May 1, 2020, changes in fair value of the 2018 Swap are being accounted for as a component of other income (expense), net. Accumulated deferred losses on the 2018 Swap of $20.4 million, or $16.0 million after tax, at May 1, 2020 that were previously recorded as a component of accumulated other comprehensive loss, will be reclassified to the condensed consolidated statement of operations as interest expense over the remaining term of the 2018 Swap, as the previously hedged interest payments occur.

***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, 2020 and January 31, 2020 were as follows:

| (in thousands) | Balance Sheet Classification | Fair Value at July 31, 2020 | Fair Value at January 31, 2020 |
|---|---|---|---|
| **Derivative assets:** | | | |
| Foreign currency forward contracts: | | | |
| Designated as cash flow hedges | Prepaid expenses and other current assets | $ 1,321 | $ 710 |
| Not designated as hedging instruments | Prepaid expenses and other current assets | 146 | 102 |
| **Total derivative assets** | | **$ 1,467** | **$ 812** |
| **Derivative liabilities:** | | | |
| Foreign currency forward contracts: | | | |
| Designated as cash flow hedges | Accrued expenses and other current liabilities | $ 20 | $ 16 |
| Not designated as hedging instruments | Accrued expenses and other current liabilities | 120 | 116 |
| Interest rate swap agreement: | | | |
| Designated as a cash flow hedge | Accrued expenses and other current liabilities | — | 2,060 |
| Designated as a cash flow hedge | Other liabilities | — | 11,441 |
| Not designated as hedging instrument | Accrued expenses and other current liabilities | 3,043 | — |
| Not designated as hedging instrument | Other liabilities | 16,145 | — |
| **Total derivative liabilities** | | **$ 19,328** | **$ 13,633** |

***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, 2020 and 2019 were as follows:

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|---|---|---|---|
| (in thousands) | 2020 | 2019 | 2020 | 2019 |
| **Net gains (losses) recognized in AOCL:** | | | | |
| Foreign currency forward contracts | $ 1,519 | $ 1,637 | $ 594 | $ 1,979 |
| Interest rate swap agreement | — | (4,541) | (7,535) | (6,558) |
| | **$ 1,519** | **$ (2,904)** | **$ (6,941)** | **$ (4,579)** |
| **Net gains (losses) reclassified from AOCL to the condensed consolidated statements of operations:** | | | | |
| Foreign currency forward contracts | $ 39 | $ — | $ (13) | $ (939) |
| Interest rate swap agreement | (1,120) | — | (1,711) | — |
| | **$ (1,081)** | **$ —** | **$ (1,724)** | **$ (939)** |

For information regarding the line item locations of the net (losses) gains on derivative financial instruments reclassified out of AOCL into the condensed consolidated statements of operations, see Note 10, "Stockholders' Equity".

All of the foreign currency forward contracts underlying the $1.1 million of net unrealized gains recorded in our accumulated other comprehensive loss at July 31, 2020 mature within twelve months, and therefore we expect all such gains to be reclassified into earnings within the next twelve months. Approximately $4.1 million of the $15.1 million of net unrealized losses related to our interest rate swap agreement recorded in our accumulated other comprehensive loss at July 31, 2020 settle within twelve months, and therefore we expect those losses to be reclassified into earnings within the next twelve months.

***Derivative Financial Instruments Not Designated as Hedging Instruments***

Gains (losses) recognized on derivative financial instruments not designated as hedging instruments in our condensed consolidated statements of operations for the three and six months ended months ended July 31, 2020 and 2019 were as follows:

| | Classification in Condensed Consolidated Statements of Operations | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|---|---|---|---|---|
| (in thousands) | | 2020 | 2019 | 2020 | 2019 |
| Foreign currency forward contracts | Other income (expense), net | $ (601) | $ 212 | $ 413 | $ 776 |
| Interest rate swap agreement | Other income (expense), net | 137 | (33) | 137 | (48) |
| | | **$ (464)** | **$ 179** | **$ 550** | **$ 728** |

## *14. STOCK-BASED COMPENSATION*

***Stock-Based Compensation Plan***

On June 20, 2019, our stockholders approved the Verint Systems Inc. 2019 Long-Term Stock Incentive Plan (the "2019 Plan"). Upon approval of the 2019 Plan, additional awards are no longer permitted under our prior stock-based compensation plan (the "2017 Amended Plan"). Awards outstanding at June 20, 2019 under the 2017 Amended Plan or other previous stock-based compensation plans were not impacted by the approval of the 2019 Plan. Collectively, our stock-based compensation plans are referred to herein as the "Plans".

The 2019 Plan authorizes our board of directors to provide equity-based compensation in the form of stock options, stock appreciation rights, restricted stock, restricted stock units ("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 months ended July 31, 2020 and 2019:

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|---|---|---|---|
| (in thousands) | **2020** | **2019** | **2020** | **2019** |
| Cost of revenue - product | $ 410 | $ 488 | $ 720 | $ 822 |
| Cost of revenue - service and support | 1,328 | 1,546 | 1,985 | 2,616 |
| Research and development, net | 2,956 | 3,347 | 5,292 | 5,937 |
| Selling, general and administrative | 12,703 | 15,170 | 23,584 | 28,279 |
| **Total stock-based compensation expense** | **$ 17,397** | **$ 20,551** | **$ 31,581** | **$ 37,654** |

The following table summarizes stock-based compensation expense by type of award for the three and six months ended July 31, 2020 and 2019:

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|---|---|---|---|
| (in thousands) | **2020** | **2019** | **2020** | **2019** |
| Restricted stock units and restricted stock awards | $ 13,420 | $ 17,966 | $ 28,449 | $ 32,856 |
| Stock bonus program and bonus share program | 3,955 | 2,574 | 3,118 | 4,749 |
| **Total equity-settled awards** | **17,375** | **20,540** | **31,567** | **37,605** |
| Phantom stock units (cash-settled awards) | 22 | 11 | 14 | 49 |
| **Total stock-based compensation expense** | **$ 17,397** | **$ 20,551** | **$ 31,581** | **$ 37,654** |

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 and Performance 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, 2020 and 2019:

| (in thousands, except per share data) | Six Months Ended July 31, 2020 Shares or Units | 2020 Weighted-Average Grant Date Fair Value | 2019 Shares or Units | 2019 Weighted-Average Grant Date Fair Value |
|---|---|---|---|---|
| Beginning balance | 2,736 | $ 52.53 | 2,777 | $ 41.05 |
| Granted | 161 | $ 49.73 | 1,554 | $ 60.75 |
| Released | (1,274) | $ 47.94 | (1,349) | $ 40.36 |
| Forfeited | (138) | $ 52.56 | (139) | $ 42.56 |
| **Ending balance** | **1,485** | **$ 56.17** | **2,843** | **$ 52.22** |

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, 2020, for such awards that are outstanding, settlement with cash payments was not considered probable, and therefore these awards have been accounted for as equity-classified awards and are included in the table above.

The following table summarizes PSU activity in isolation under the Plans for the six months ended July 31, 2020 and 2019 (these amounts are already included in the Award Activity Table above for 2020 and 2019):

| (in thousands) | Six Months Ended July 31, 2020 | 2019 |
|---|---|---|
| Beginning balance | 526 | 512 |
| Granted | 107 | 286 |
| Released | (231) | (233) |
| Forfeited | (25) | (30) |
| **Ending balance** | **377** | **535** |

Excluding PSUs, we granted 54,000 RSUs during the six months ended July 31, 2020.

As of July 31, 2020, there was approximately $58.1 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 1.4 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 generally 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.

There was no activity under the stock bonus program during the six months ended July 31, 2020 and 2019.

For bonuses in respect of the year ending January 31, 2020, our board of directors approved the use of up to 200,000 shares of common stock, and a discount of 15%, under the stock bonus program. We currently expect to issue no more than 32,000 shares under the stock bonus program for the performance period ended January 31, 2020, which are expected to be issued during the three months ending October 31, 2020.

In March 2020, our board of directors approved up to 200,000 shares of common stock, and a discount of 15%, for awards under our stock bonus program for the performance period ended January 31, 2021.

***Bonus Share Program***

Under our bonus share program, we may provide discretionary bonuses to employees or pay earned bonuses that are outside the stock bonus program in the form of shares of common stock. Unlike the stock bonus program, there is no enrollment for this program and no discount feature.

For bonuses in respect of the year ending January 31, 2020, our board of directors has approved the use of up to 305,000 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. For the performance period ended January 31, 2020, we currently expect to issue no more than 32,000 shares under the stock bonus program, with the remaining 273,000 shares authorized by the board of directors available for use under the bonus share program for the same performance period. Awards under the bonus share program for the performance period ended January 31, 2020 are expected to be issued during the three months ending October 31, 2020.

For bonuses in respect of the year ending January 31, 2021, our board of directors has approved the use of up to 300,000 shares of common stock under this program, reduced by any shares used under the stock bonus program in respect of the same performance period.

The combined accrued liabilities for the stock bonus program and the bonus share program were $18.5 million and $17.3 million at July 31, 2020 and January 31, 2020, respectively.

## *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-subsidiary, 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 two unsuccessful rounds of mediation in mid to late 2018 and in mid-2019, the proceedings resumed. On April 16, 2020, the District Court accepted plaintiffs' application to amend the motion to certify a class action and set deadlines for filing amended pleadings by the parties. CTI submitted a motion to appeal the District Court's decision to the Supreme Court, as well as a motion to stay the proceedings in the District Court pending the resolution of the appeal. On July 6, 2020, the Supreme Court granted the motion for a stay. On July 27, 2020, the plaintiffs filed their response on the merits of the motion for leave to appeal, and the parties are waiting for further instructions or decisions from the Supreme Court.

We are a party to various litigation matters and claims that arise from time to time in the ordinary course of our business. While we believe that the ultimate outcome of any such current matters will not have a material adverse effect on us, their outcomes are not determinable and negative outcomes may adversely affect our financial position, liquidity, or results of operations.

### *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 and Cyber Intelligence. Our Customer Engagement solutions help customer-centric organizations optimize customer engagement, increase customer loyalty, and maximize revenue opportunities, while generating operational efficiencies, reducing cost, and mitigating risk. Our Cyber Intelligence solutions are used for a wide range of applications, including predictive intelligence, advanced and complex investigations, security threat analysis, and electronic data and physical assets protection, as well as for generating legal evidence and preventing criminal activity and terrorism.

We measure the performance of our operating segments primarily based on segment revenue and segment contribution.

Segment revenue includes adjustments associated with revenue of acquired companies which are not recognizable within GAAP revenue. These adjustments primarily relate to the acquisition-date excess of the historical carrying value over the fair value of acquired companies' future maintenance and service performance obligations. As the obligations are satisfied, we report our segment revenue using the historical carrying values of these obligations, which we believe better reflects our ongoing maintenance and service revenue streams, whereas GAAP revenue is reported using the obligations' acquisition-date fair values. Segment revenue adjustments can also result from aligning an acquired company's historical revenue recognition policies to our policies.

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

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

Revenue from transactions between our operating segments is not material.

Operating results by segment for the three and six months ended July 31, 2020 and 2019 were as follows:

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|---|---|---|---|
| (in thousands) | 2020 | 2019 | 2020 | 2019 |
| **Revenue:** | | | | |
| Customer Engagement | | | | |
| Segment revenue | $ 207,146 | $ 218,424 | $ 396,273 | $ 434,291 |
| Revenue adjustments | (3,066) | (6,988) | (6,328) | (15,760) |
| | 204,080 | 211,436 | 389,945 | 418,531 |
| Cyber Intelligence | | | | |
| Segment revenue | 106,267 | 112,893 | 208,789 | 221,184 |
| Revenue adjustments | (1,238) | (24) | (2,330) | (151) |
| | 105,029 | 112,869 | 206,459 | 221,033 |
| **Total revenue** | **$ 309,109** | **$ 324,305** | **$ 596,404** | **$ 639,564** |
| **Segment contribution:** | | | | |
| Customer Engagement | $ 90,302 | $ 78,788 | $ 156,099 | $ 157,606 |
| Cyber Intelligence | 35,675 | 31,571 | 60,639 | 58,861 |
| **Total segment contribution** | **125,977** | **110,359** | **216,738** | **216,467** |
| **Reconciliation of segment contribution to operating income:** | | | | |
| Revenue adjustments | 4,304 | 7,012 | 8,658 | 15,911 |
| Shared support expenses | 40,822 | 44,416 | 84,163 | 88,270 |
| Amortization of acquired intangible assets | 12,486 | 13,226 | 25,160 | 27,646 |
| Stock-based compensation | 17,397 | 20,551 | 31,581 | 37,654 |
| Acquisition, integration, restructuring, and other unallocated expenses | 8,651 | 9,879 | 18,685 | 17,243 |
| Total reconciling items, net | 83,660 | 95,084 | 168,247 | 186,724 |
| **Operating income** | **$ 42,317** | **$ 15,275** | **$ 48,491** | **$ 29,743** |

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, 2020 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

#### *Recent Developments*

*Separation of Businesses*

On December 4, 2019, we announced our intention to separate into two independent publicly traded companies: one which will consist of our Customer Engagement Solutions business, and one which will consist of our Cyber Intelligence Solutions business. We expect to implement the separation through a pro-rata distribution of common stock of a new entity that will hold the Cyber Intelligence Solutions business to our stockholders (the "Spin-Off") that is intended to be generally tax-free to our stockholders for U.S. federal income tax purposes. We currently expect to complete the Spin-Off shortly after the end of this fiscal year ending January 31, 2021, though this timeline may be impacted by the current business environment brought on by the COVID-19 pandemic. We believe the two independent, publicly traded companies will both benefit from the separation and be well positioned to pursue their own strategies, drive opportunities to accelerate growth and extend their market leadership. The separation will make it easier for investors to evaluate and make independent investment decisions in each business. We believe that both our businesses are leaders in their respective markets and the separation will enable them to achieve better performance over the long term as a result of several factors, including having: separate boards of directors with further differentiated skillsets to support tailored strategic plans; specific incentive programs more closely aligned with standalone business performance; capital structures tailored to the unique characteristics of each business; and enhanced appeal to a broader set of investors suited to the strategic and financial characteristics of each company.

We expect to incur significant costs in connection with the planned separation of our Cyber Intelligence Solutions business. The costs include developing stand-alone Cyber Intelligence Solutions information systems and related IT costs, third-party advisory, consulting, legal and professional services, as well as other items that are incremental and one-time in nature that are related to the planned Spin-Off. We capitalized \$4.3 million of these costs and expensed \$14.3 million during the six months ended July 31, 2020. We have capitalized \$8.3 million and expensed \$19.6 million of separation related costs since commencing in the year ended January 31, 2020. The expense portion is reflected in selling, general and administrative expenses.

*Apax Investment*

On December 4, 2019, we also announced that Valor Parent LP, an affiliate of Apax Partners, would make an investment in us in an amount of up to \$400.0 million. Under the terms of the Investment Agreement, on May 7, 2020 the Apax Investor initially purchased \$200.0 million of our Series A convertible preferred stock ("Series A Preferred Stock"). Further discussion regarding the Apax investment and the initial closing appears in the "Liquidity and Capital Resources-Overview" section below.

*COVID-19 Pandemic*

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The outbreak has reached all of the regions in which we do business, and governmental authorities around the world have implemented numerous measures attempting to contain and mitigate the effects of the virus, including travel bans and restrictions, border closings, quarantines, shelter-in-place orders, shutdowns, limitations or closures of non-essential businesses, and social distancing requirements. Companies around the world, including us, our customers, partners, and vendors, have implemented actions in response, including among others, office closings, site restrictions, and employee travel restrictions. The global spread of COVID-19 and actions taken in response have negatively affected us, our customers, partners, and vendors and caused significant economic and business disruption the extent and duration of which is not currently known. In response to these challenges, we quickly adjusted our operations to work from home and we believe our business continuity plan is working well. We are monitoring and assessing the impact of the COVID-19 pandemic daily, including recommendations and orders issued by government and public health authorities. We continue to work to help our customers meet their business continuity needs and help keep the world safe during this difficult time and are managing our operations with a view to resuming normal business activity as soon as possible.

During the six months ending July 31, 2020, revenue in both of our operating segments was negatively impacted by delays and reduced spending attributed to the impact of the COVID-19 pandemic on our customers' operational priorities and as a result of cost containment measures they have implemented. Due to the pandemic, we have seen a reduction or delay in large customer contracts, particularly on-premises arrangements, and we have in most cases been unable to conduct face-to-face meetings with existing or prospective customers and partners, present in-person demonstrations of our solutions, or host or attend in-person trade shows and conferences. Limitations on access to the facilities of our customers have also impacted our ability to deliver some of our products, complete certain implementations, and provide in-person consulting and training services, negatively impacting our ability to recognize revenue. We continued to experience high recurring revenue renewal rates during the first half of this fiscal year. We have also begun to offer new versions of our solutions in both of our segments designed to help our customers address challenges created by the pandemic and to offer simpler packages of software and services for some of our Customer Engagement solutions to make it easier and faster for customers to make purchases. Notwithstanding our strong recurring renewal rates and these new offerings, we cannot predict how the pandemic will impact our results in future periods, including to the extent that customers delay or miss payments, customers defer, reduce, or refrain from placing orders or renewing subscriptions or support arrangements, or travel restrictions and site access restrictions remain necessary.

In light of the adverse impact of COVID-19 on global economic conditions and our revenue, along with the uncertainty associated with the extent and timing of a potential recovery, we have implemented several cost-reduction actions of varying durations. Such actions have included, but are not limited to, reducing our discretionary spending, substantially decreasing capital expenditures, extending days payable outstanding, considering the optimal uses of our cash and other capital resources, including with respect to our stock repurchase program, and reducing workforce-related costs. Some of the COVID-19 cost reduction actions referred to periodically within this Management's Discussion and Analysis of Financial Condition and Results of Operations were temporary in nature and are complete, and the associated cost savings will not extend beyond July 31, 2020. Other cost reduction actions are still in place and may also be rescinded at some point, depending upon our ongoing assessment of business conditions and other factors, while other cost reduction actions are expected to be permanent in nature. We continue to evaluate and may decide to implement further cost control strategies to help us mitigate the impact of the pandemic.

The ultimate impact of the COVID-19 pandemic and the effects of the operational alterations we have made in response on our business, financial condition, liquidity and financial results cannot be predicted at this time.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was enacted and signed into U.S. law to provide economic relief to individuals and businesses facing economic hardship as a result of the COVID-19 pandemic. The CARES Act did not have a material impact on our consolidated financial condition or results of operations as of and for the six months ended July 31, 2020. However, we plan to defer the timing of employer payroll taxes and accelerate the refund of AMT credits as permitted by the CARES Act.

***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 over 1,000 patents and patent applications worldwide across areas including data capture, artificial intelligence, machine learning, unstructured data analytics, predictive analytics, and automation.

Verint's Actionable Intelligence strategy is focused on two use cases and the Company has two operating segments: Customer Engagement and Cyber Intelligence. 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***

In addition to the impact of the COVID-19 pandemic discussed above, we see the following business trends and factors which may impact our performance:

***Customer Engagement***

- **Digital Transformation.** Many organizations are going through digital transformations by expanding their customer service interactions to include digital channels, such as chat, virtual assistants, mobile apps and social media. Remote work arrangements and site restrictions due to the COVID-19 pandemic have increased this trend. While these new channels make it easier for consumers to connect, they caused organizations increased system complexity and new challenges. In many cases these new customer touch points reside in different functional groups and are not connected, resulting in siloed information, a decentralized customer service workforce and difficulty gaining insight into customer experiences. To facilitate effective digital transformations, organizations are looking for vendors that help them to connect silos across the enterprise, take proactive action to improve customer experience and facilitate open and modular design to simplify integration across systems.

- **Cloud Migration.** Many organizations are looking to modernize their legacy customer engagement operations by transitioning to the cloud, adopting modern architectures that facilitate the orchestration of disparate systems and the sharing of data across enterprise functions. Organizations which are at different stages of migrating to the cloud and other modernization initiatives are also looking for vendors that can help them evolve customer engagement at their own pace while protecting their legacy investments with minimal disruption to their operations. Remote work arrangements and site restrictions due to the COVID-19 pandemic have increased this trend.

- **Automation Adoption.** Many organizations are seeking solutions that incorporate artificial intelligence and analytics to reduce manual work and increase workforce efficiency through automation. They also seek to empower their customers with self-service backed by AI-powered bots and human/bot collaboration, to elevate the customer experience in a fast, personalized way.

***Cyber Intelligence***

- **Security Threats Becoming Increasingly Pervasive and Complex.** Governments, critical infrastructure providers, and enterprises face many types of security threats from criminal and terrorist organizations and foreign governments. Some of these security threats come from well-organized and well-funded organizations that utilize new and increasingly sophisticated methods. As a result, security and intelligence organizations find it more difficult and complicated to detect, investigate and neutralize threats. Many of these organizations are seeking to deploy more advanced data mining solutions that generate predictive intelligence and accelerate investigations. These solutions are effective by correlating massive amounts of data from a wide range of disparate sources to uncover previously unknown connections to identify suspicious behaviors and current and future threats.

- **Shortage of Security Analysts Increasing the Need for Automation.** Security organizations are using data mining solutions to help conduct investigations and generate actionable insights. Typically, data mining solutions require security organizations to employ analysts and data scientists to operate them. However, there is a shortage of such qualified personnel globally leading to elongated investigations and increased risk that security threats go undetected or are not addressed. To overcome this challenge, many security organizations are seeking advanced data mining solutions that automate functions historically performed manually to improve the quality and speed of investigations. These organizations are also increasingly seeking artificial intelligence and other advanced data analysis tools to gain actionable intelligence faster with fewer analysts and data scientists.

- **Security Organizations Seeking Faster Innovation Through Open Software Solutions.** As security threats have become more pervasive and complex, security organizations have been seeking faster innovation from security vendors. Historically, security organizations purchased customized solutions incorporating software, hardware and integration services. This project-based approach resulted in closed systems, limiting the pace of innovation as upgrades were complex, costly and time consuming. Today, we see a growing preference to purchase software solutions that are open and can run on standard hardware, that are faster and easier to deploy, and that can be refreshed more quickly to keep up with the accelerating pace of evolving threats.

***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, 2020 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, 2020, and include the following:

- Revenue recognition;
- Accounting for business combinations;
- Goodwill and other intangible assets;
- Income taxes; 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, 2020.

**Results of Operations**

***Seasonality and Cyclicality***

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, and more recently, the impact of the COVID-19 pandemic, 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, 2020 and 2019:

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|---|---|---|---|
| (in thousands, except per share data) | 2020 | 2019 | 2020 | 2019 |
| Revenue | $ 309,109 | $ 324,305 | $ 596,404 | $ 639,564 |
| Operating income | $ 42,317 | $ 15,275 | $ 48,491 | $ 29,743 |
| Net income (loss) attributable to Verint Systems Inc. common shares | $ 6,010 | $ 10,558 | $ (4) | $ 12,134 |
| Net income (loss) per common share attributable to Verint Systems Inc.: | | | | |
| Basic | $ 0.09 | $ 0.16 | $ — | $ 0.18 |
| Diluted | $ 0.09 | $ 0.16 | $ — | $ 0.18 |

*Three Months Ended July 31, 2020 compared to Three Months Ended July 31, 2019.* Our revenue decreased approximately $15.2 million, or 5%, to $309.1 million in the three months ended July 31, 2020 from $324.3 million in the three months ended July 31, 2019. The decrease consisted of a $13.9 million decrease in product revenue and a $1.3 million decrease in service and support revenue. In our Cyber Intelligence segment, revenue decreased approximately $7.9 million or approximately 7%, from $112.9 million in the three months ended July 31, 2019 to $105.0 million in the three months ended July 31, 2020. The decrease consisted of a $5.4 million decrease in product revenue and a $2.5 million decrease in service and support revenue. In our

Customer Engagement segment, revenue decreased $7.3 million, or approximately 3%, from $211.4 million in the three months ended July 31, 2019 to $204.1 million in the three months ended July 31, 2020. The decrease consisted of a $8.5 million decrease in product revenue, partially offset by a $1.2 million increase in service and support 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 53%, 24%, and 23% of our total revenue, respectively, in the three months ended July 31, 2020, compared to approximately 52%, 29%, and 19%, respectively, in the three months ended July 31, 2019. Further details of changes in revenue are provided below.

We reported operating income of $42.3 million in the three months ended July 31, 2020 compared to operating income of $15.3 million in the three months ended July 31, 2019. The increase in operating income was primarily due to a $23.9 million decrease in operating expenses, from $192.6 million to $168.7 million, and a $3.1 million increase in gross profit, from $207.9 million to $211.0 million. The decrease in operating expenses consisted of a $20.9 million decrease in selling, general and administrative expenses and a $3.5 million decrease in net research and development expenses, partially offset by a $0.5 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. common shares was $6.0 million, and diluted net income per common share was $0.09, in the three months ended July 31, 2020 compared to net income attributable to Verint Systems Inc. common shares of $10.6 million, and diluted net income per common share of $0.16, in the three months ended July 31, 2019. The decrease in income attributable to Verint Systems Inc. common shares in the three months ended July 31, 2020 was primarily due to a $14.6 million increase in provision for income taxes, a $14.1 million increase in total other expense, net primary due to the change in fair value of the Future Tranche Right associated with our Series A Preferred Stock, a $2.5 million increase in dividends on preferred stock, and a $0.4 million increase in net income attributable to our noncontrolling interests, partially offset by a $27.0 million increase in operating income described above. 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, 2020 to average exchange rates for the three months ended July 31, 2019, the U.S. dollar strengthened relative to the Singapore dollar, Brazilian real, British pound sterling, the Australian dollar and our hedged Israeli shekel, resulting in an overall decrease in our revenue, cost of revenue, and operating expenses on a U.S. dollar-denominated basis. For the three months ended July 31, 2020, had foreign currency exchange rates remained unchanged from rates in effect for the three months ended July 31, 2019, our revenue would have been approximately $2.2 million higher and our cost of revenue and operating expenses on a combined basis would have been approximately $0.1 million higher, which would have resulted in a $2.1 million increase in our operating income.

*Six Months Ended July 31, 2020 compared to Six Months Ended July 31, 2019*. Our revenue decreased approximately $43.2 million, or 7%, to $596.4 million in the six months ended July 31, 2020 from $639.6 million in the six months ended July 31, 2019. The decrease consisted of a $40.8 million decrease in product revenue and a $2.4 million decrease in service and support revenue. In our Customer Engagement segment, revenue decreased $28.7 million, or approximately 7%, from $418.6 million in the six months ended July 31, 2019 to $389.9 million in the six months ended July 31, 2020, substantially all of which resulted from a decrease in product revenue. In our Cyber Intelligence segment, revenue decreased approximately $14.6 million, or 7%, from $221.1 million in the six months ended July 31, 2019 to $206.5 million in the six months ended July 31, 2020. The decrease consisted of a $12.3 million decrease in product revenue and a $2.3 million decrease in service and support 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 52%, 26%, and 22% of our total revenue, respectively, in the six months ended July 31, 2020, compared to approximately 53%, 28% and 19%, respectively, in the six months ended July 31, 2019. Further details of changes in revenue are provided below.

We reported operating income of $48.5 million in the six months ended July 31, 2020, compared to operating income of $29.7 million in the six months ended July 31, 2019. The increase in operating income was primarily due to a $31.7 million decrease in operating expenses, from $379.2 million to $347.5 million, partially offset by a $12.9 million decrease in gross profit, from $408.9 million to $396.0 million. The decrease in operating expenses consisted of a $30.9 million decrease in selling, general and administrative expenses, a $1.6 million decrease in net research and development expenses, partially offset by a $0.8 million increase in amortization of other acquired intangible assets. Further details of changes in operating income are provided below.

Net loss attributable to Verint Systems Inc. common shares and diluted net loss per common share were insignificant in the six months ended July 31, 2020 compared to net income attributable to Verint Systems Inc. common shares of $12.1 million, and a net income per common share of $0.18, in the six months ended July 31, 2019. These reduced operating results in the six months ended July 31, 2020 were primarily due to a $16.8 million increase in total other expense, net primarily due the change in fair value of the Future Tranche Right associated with our Series A Preferred Stock, an $11.4 million increase in provision for income taxes, a $2.5 million increase in dividends on preferred stock and a $0.2 million increase in net income attributable to our noncontrolling interests, partially offset by an $18.8 million increase in operating income described above. 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, 2020 to average exchange rates for the six months ended July 31, 2019, the U.S. dollar strengthened relative to the Singapore dollar, Brazilian real, British pound sterling, Australian dollar, the euro, and our hedged Israeli shekel, resulting in an overall decrease in our revenue, cost of revenue, and operating expenses on a U.S. dollar-denominated basis. For the six months ended July 31, 2020, had foreign currency exchange rates remained unchanged from rates in effect for the six months ended July 31, 2019, our revenue would have been approximately $6.0 million higher and our cost of revenue and operating expenses on a combined basis would have been approximately $3.2 million higher, which would have resulted in a $2.8 million increase in our operating income.

As of July 31, 2020, we employed approximately 6,200 professionals, including part-time employees and certain contractors, as compared to approximately 6,400 at July 31, 2019.

**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, 2020 and 2019:

| | Three Months Ended July 31, | | % Change | Six Months Ended July 31, | | % Change |
|---|---|---|---|---|---|---|
| (in thousands) | 2020 | 2019 | 2020-2019 | 2020 | 2019 | 2020-2019 |
| Customer Engagement | $ 204,080 | $ 211,436 | (3)% | $ 389,945 | $ 418,531 | (7)% |
| Cyber Intelligence | 105,029 | 112,869 | (7)% | 206,459 | 221,033 | (7)% |
| **Total revenue** | **$ 309,109** | **$ 324,305** | **(5)%** | **$ 596,404** | **$ 639,564** | **(7)%** |

***Customer Engagement Segment***

*Three Months Ended July 31, 2020 compared to Three Months Ended July 31, 2019.* Customer Engagement revenue decreased approximately $7.3 million, or 3%, from $211.4 million in the three months ended July 31, 2019 to $204.1 million in the three months ended July 31, 2020. The decrease consisted of an $8.5 million decrease in product revenue, partially offset by a $1.2 million increase in service and support revenue. The decrease in product revenue was primarily due to delayed purchasing decisions on large contracts, particularly on-premises arrangements, and reduced spending by customers, both due to COVID-19, partially offset by an increase in unbundled SaaS revenue. 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. The slight increase in service and support revenue was primarily driven by growth in recurring revenue as we continue to see positive demand from customers across our portfolio of cloud-based solutions, partially offset by decrease in implementation revenue due to COVID-19 and related containment measures, including customer facility closures and travel restrictions. We expect our revenue mix to continue to shift to recurring sources, which is consistent with our cloud-first strategy and a general market shift from on-premises to cloud solutions.

*Six Months Ended July 31, 2020 compared to Six Months Ended July 31, 2019*. Customer Engagement revenue decreased approximately $28.7 million, or 7%, from $418.6 million in the six months ended July 31, 2019 to $389.9 million in the six months ended July 31, 2020. The decrease consisted mainly of a $28.7 million decrease in product revenue. The decrease in product revenue was primarily driven by delayed purchasing decisions on large contracts, particularly on-premises arrangements, and reduced spending by customers, both due to COVID-19. 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. Service and support revenue remained unchanged from the prior period as the decrease in implementation revenue due to COVID-19 and related containment measures was offset by growth in recurring revenue as we continue to see positive demand from customers across our portfolio of cloud-based solutions. 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, 2020 compared to Three Months Ended July 31, 2019.* Cyber Intelligence revenue decreased approximately $7.9 million, from $112.9 million in the three months ended July 31, 2019 to $105.0 million in the three months ended July 31, 2020. The decrease consisted of a $5.4 million decrease in product revenue and a $2.5 million decrease in service and support revenue. The decrease in product revenue was primarily due to a decrease in product deliveries due to delays attributed to the impact of COVID-19, as our customers shifted their attention to addressing operational challenges associated with the pandemic and a decrease in progress realized during the current period on long-term projects for which revenue is recognized over time using the percentage-of-completion (“POC”) method. The decrease in service and support revenue was primarily attributable to a decrease in progress realized during the current period on long-term projects for which revenue is recognized over time using the POC method and a decrease in deployment services due to COVID-19 restrictions, partially offset by an increase in SaaS revenue, and to a lesser extent, an increase in support revenue from existing customers.

*Six Months Ended July 31, 2020 compared to Six Months Ended July 31, 2019*. Cyber Intelligence revenue decreased approximately $14.6 million, or 7%, from $221.1 million in the six months ended July 31, 2019 to $206.5 million in the six months ended July 31, 2020. The decrease consisted of a $12.3 million decrease in product revenue and a $2.3 million decrease in service and support revenue. The decrease in product revenue was primarily due to a decrease in product deliveries due to delays attributed to the impact of COVID-19, as our customers shifted their attention to addressing operational challenges associated with the pandemic and a decrease in progress realized during the current period on long-term projects for which revenue is recognized over time using the POC method. The decrease in service and support revenue was primarily attributable to a decrease in progress realized during the current year on long-term projects for which revenue is recognized over time using the POC method and a decrease in deployment services due to COVID-19 restrictions, partially offset by an increase in SaaS revenue and an increase in support revenue from existing customers.

***Volume and Price***

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

**Product Revenue and Service and Support Revenue**

We derive and report our revenue in two categories: (a) product revenue, including licensing of software products, unbundled SaaS, and sale of hardware products (which include software that works together with the hardware to deliver the product’s essential functionality), and (b) service and support revenue, including revenue from installation services, initial and renewal support, project management, hosting services, cloud deployments, bundled SaaS, optional managed services, product warranties, and business advisory consulting and training services.

The following table sets forth product revenue and service and support revenue for the three and six months ended July 31, 2020 and 2019:

| | Three Months Ended July 31, | | % Change | Six Months Ended July 31, | | % Change |
|---|---|---|---|---|---|---|
| (in thousands) | 2020 | 2019 | 2020-2019 | 2020 | 2019 | 2020-2019 |
| Product revenue | $ 96,076 | $ 109,983 | (13)% | $ 173,360 | $ 214,207 | (19)% |
| Service and support revenue | 213,033 | 214,322 | (1)% | 423,044 | 425,357 | (1)% |
| **Total revenue** | **$ 309,109** | **$ 324,305** | **(5)%** | **$ 596,404** | **$ 639,564** | **(7)%** |

***Product Revenue***

*Three Months Ended July 31, 2020 compared to Three Months Ended July 31, 2019.* Product revenue decreased approximately $13.9 million, or 13%, from $110.0 million for the three months ended July 31, 2019 to $96.1 million for the three months ended July 31, 2020, resulting from an $8.5 million decrease in our Customer Engagement segment and a $5.4 million decrease in our Cyber Intelligence segment.

*Six Months Ended July 31, 2020 compared to Six Months Ended July 31, 2019*. Product revenue decreased approximately $40.8 million, or 19%, from $214.2 million for the six months ended July 31, 2019 to $173.4 million for the six months ended July

31, 2020, resulting from a $28.6 million decrease in our Customer Engagement segment and a $12.2 million decrease in our Cyber Intelligence segment.

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

***Service and Support Revenue***

*Three Months Ended July 31, 2020 compared to Three Months Ended July 31, 2019.* Service and support revenue decreased approximately $1.3 million, or 1%, from $214.3 million for the three months ended July 31, 2019 to $213.0 million for the three months ended July 31, 2020. This decrease was the result of a $2.5 million decrease in our Cyber Intelligence segment, partially offset by a $1.2 million increase in our Customer Engagement segment.

*Six Months Ended July 31, 2020 compared to Six Months Ended July 31, 2019*. Service and support revenue decreased approximately $2.4 million, or 1%, from $425.4 million for the six months ended July 31, 2019 to $423.0 million for the six months ended July 31, 2020. This decrease was a result of a $2.4 decrease 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, 2020 and 2019:

| | Three Months Ended July 31, | | % Change | Six Months Ended July 31, | | % Change |
|---|---|---|---|---|---|---|
| (in thousands) | 2020 | 2019 | 2020-2019 | 2020 | 2019 | 2020-2019 |
| Cost of product revenue | $ 24,648 | $ 29,424 | (16)% | $ 45,966 | $ 57,544 | (20)% |
| Cost of service and support revenue | 69,023 | 81,430 | (15)% | 145,422 | 160,791 | (10)% |
| Amortization of acquired technology | 4,428 | 5,587 | (21)% | 9,037 | 12,294 | (26)% |
| **Total cost of revenue** | **$ 98,099** | **$ 116,441** | **(16)%** | **$ 200,425** | **$ 230,629** | **(13)%** |

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, 2020 compared to Three Months Ended July 31, 2019.* Cost of product revenue decreased approximately $4.8 million, or 16%, from $29.4 million in the three months ended July 31, 2019 to $24.6 million in the three months ended July 31, 2020, primarily due to decreased cost of product revenue in both our Cyber Intelligence and Customer Engagement segments, driven primarily by a corresponding decrease in product revenue as discussed above, cost reduction initiatives we implemented related to COVID-19, including reducing employee costs and travel expenses, and a decrease in Cyber Intelligence subcontractor costs resulting from prior investments to further productize our portfolio. Our overall product gross margins increased to 74% in the three months ended July 31, 2020 from 73% in the three months ended July 31, 2019. Product gross margins in our Cyber Intelligence segment increased from 66% in the three months ended July 31, 2019 to 69% in the three months ended July 31, 2020, primarily due to a change in product mix, temporary cost reduction initiatives we implemented related to COVID-19, and a decrease in product customization work that is not considered a separate performance obligation driven by recent and ongoing investments to productize our portfolio. Cyber Intelligence product margins are subject to considerable fluctuation from period to period, based on the product mix sold. Product gross margins in our Customer Engagement segment decreased from 84% in the three months ended July 31, 2019 to 82% in the three months ended July 31, 2020, primarily due to lower sales volume due to COVID-19, which resulted in revenue decreasing at a faster rate than product costs, including software amortization costs.

*Six Months Ended July 31, 2020 compared to Six Months Ended July 31, 2019*. Cost of product revenue decreased approximately $11.5 million, or 20%, from $57.5 million in the six months ended July 31, 2019 to $46.0 million in the six months ended July 31, 2020 primarily due to decreased cost of product revenue in our both our Cyber Intelligence and Customer Engagement segments, driven primarily by a corresponding decrease in product revenue as discussed above, cost reduction initiatives we implemented related to COVID-19, and a decrease in Cyber Intelligence subcontractor costs resulting from prior investments to further productize our portfolio. Our overall product gross margins were 73% in each of the six months ended July 31, 2020 and 2019. Product gross margins in our Cyber Intelligence segment increased from 65% in the six months ended July 31, 2019 to 69% in the six months ended July 31, 2020, primarily due to a change in product mix, temporary cost reduction initiatives we implemented related to COVID-19, and a decrease in product customization work that is not considered a separate performance obligation driven by recent and ongoing investment to productize our portfolio. Cyber Intelligence product margins are subject to considerable fluctuation from period to period, based on the product mix sold. Product gross margins in our Customer Engagement segment decreased from 84% in the six months ended July 31, 2019 to 81% in the six months ended July 31, 2020, primarily due to lower sales volume due to COVID-19, which resulted in revenue decreasing at a faster rate than product costs, including software amortization costs.

***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, 2020 compared to Three Months Ended July 31, 2019.* Cost of service and support revenue decreased approximately $12.4 million, or 15%, from $81.4 million in the three months ended July 31, 2019 to $69.0 million in the three months ended July 31, 2020. The decrease was primarily due to a decrease in travel costs and employee compensation expenses as a result of cost reduction initiatives related to COVID-19, offset by an increase in data center and cloud costs associated with the increase in cloud revenue. Our overall service and support gross margins increased from 62% in the three months ended July 31, 2019 to 68% in the three months ended July 31, 2020, primarily due to service and support costs decreasing at a faster rate than service and support revenue, primarily due to temporary COVID-19 cost containment measures that we implemented.

*Six Months Ended July 31, 2020 compared to Six Months Ended July 31, 2019*. Cost of service and support revenue decreased approximately $15.4 million, or 10%, from $160.8 million in the six months ended July 31, 2019 to $145.4 million in the six months ended July 31, 2020. The decrease was primarily due to a decrease in travel costs and employee compensation expenses as a result of cost reduction initiatives related to COVID-19, offset by an increase in data center and cloud costs associated with the increase in cloud revenue. Our overall service and support gross margins increased from 62% in the six months ended July 31, 2019 to 66% in the six months ended July 31, 2020, primarily due to service and support costs decreasing at a faster rate than service and support revenue, primarily due to temporary COVID-19 cost containment measures that we implemented.

***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, 2020 compared to Three Months Ended July 31, 2019.* Amortization of acquired technology decreased approximately $1.2 million, or 21%, from $5.6 million in the three months ended July 31, 2019 to $4.4 million in the three months ended July 31, 2020. The decrease was attributable to acquired technology intangible assets from historical business combinations becoming fully amortized, partially offset by amortization expense of acquired technology intangible assets associated with recent business combinations.

*Six Months Ended July 31, 2020 compared to Six Months Ended July 31, 2019*. Amortization of acquired technology decreased approximately $3.3 million, or 27%, from $12.3 million in the six months ended July 31, 2019 to $9.0 million in the six months ended July 31, 2020. 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 months ended July 31, 2020 and 2019:

| | Three Months Ended July 31, | | % Change | Six Months Ended July 31, | | % Change |
|---|---|---|---|---|---|---|
| (in thousands) | 2020 | 2019 | 2020-2019 | 2020 | 2019 | 2020-2019 |
| Research and development, net | $ 55,229 | $ 58,685 | (6)% | $ 114,308 | $ 115,854 | (1)% |

*Three Months Ended July 31, 2020 compared to Three Months Ended July 31, 2019.* Research and development, net decreased approximately $3.5 million, or 6%, from $58.7 million in the three months ended July 31, 2019 to $55.2 million in the three months ended July 31, 2020. This decrease was primarily attributable to cost reduction initiatives we implemented in response to the COVID-19 pandemic, which resulted in a $1.5 million decrease in employee compensation and related expenses, a $0.8 million decrease in contractor costs, and a $0.8 million decrease in travel related expenses. Certain R&D costs that were temporarily reduced due to COVID-19 cost-saving initiatives were restored in the latter part of our fiscal second quarter.

*Six Months Ended July 31, 2020 compared to Six Months Ended July 31, 2019*. Research and development, net decreased approximately $1.6 million, or 1%, from $115.9 million in the six months ended July 31, 2019 to $114.3 million in the six months ended July 31, 2020. The decrease was primarily due to a $1.3 million increase in capitalized software development costs and a $1.1 million decrease in travel related expenses, partially offset by a $0.8 million increase in employee compensation and related expenses in the six months ended July 31, 2020 compared to the six months ended July 31, 2019. Certain R&D costs that were temporarily reduced due to COVID-19 cost-saving initiatives were restored in the latter part of our fiscal second quarter.

**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, 2020 and 2019:

| | Three Months Ended July 31, | | % Change | Six Months Ended July 31, | | % Change |
|---|---|---|---|---|---|---|
| (in thousands) | 2020 | 2019 | 2020-2019 | 2020 | 2019 | 2020-2019 |
| Selling, general and administrative | $ 105,406 | $ 126,265 | (17)% | $ 217,057 | $ 247,986 | (12)% |

*Three Months Ended July 31, 2020 compared to Three Months Ended July 31, 2019.* Selling, general and administrative expenses decreased approximately $20.9 million, or 17%, from $126.3 million in the three months ended July 31, 2019 to $105.4 million in the three months ended July 31, 2020. This decrease was primarily attributable to cost reduction initiatives we implemented in response to the COVID-19 pandemic, which resulted in a $7.4 million decrease in employee compensation related expenses, a $6.1 million decrease in travel related costs, a $3.7 million decrease in marketing related expenses due to the cancellation of certain sales and marketing events and trade shows, and a $1.2 million decrease in facility expenses as a result of the majority of our workforce working from home. Certain selling, general and administrative costs that were temporarily reduced due to COVID-19 cost-saving initiatives were restored in the latter part of our fiscal second quarter. Additionally, professional fees decreased by $6.9 million due to a shareholder proxy contest that impacted the three months ended July 31, 2019 and stock-based compensation decreased by $2.5 million primarily due to a year-over-year decrease in our stock price and a change in the timing of the annual employee grant. These decreases were partially offset by a $6.5 million increase in expenses related to the planned separation of our businesses (as discussed in “Overview” above). Selling, general, and administrative expenses were also impacted by a $1.9 million increase due to the change in the fair value of our obligations under contingent consideration arrangements, from a net benefit of $0.8 million in the three months ended July 31, 2019 to a net expense of $1.1 million during the three months ended July 31, 2020, as a result of revised outlooks for achieving the performance targets under several unrelated contingent consideration arrangements.

*Six Months Ended July 31, 2020 compared to Six Months Ended July 31, 2019*. Selling, general and administrative expenses decreased approximately $30.9 million, or 12%, from $248.0 million in the six months ended July 31, 2019 to $217.1 million in the six months ended July 31, 2020. This decrease was primarily attributable to cost reduction initiatives we implemented in response to the COVID-19 pandemic, which resulted in a $9.8 million decrease in travel related costs, a $8.2 million decrease in employee compensation related expenses, a $5.4 million decrease in marketing related expenses due to the cancellation of certain sales and marketing events and trade shows, and a $1.9 million decrease in facility expenses as a result of the majority of our workforce working from home. Certain selling, general and administrative costs that were temporarily reduced due to COVID-19 cost-saving initiatives were restored in the latter part of our fiscal second quarter. Additionally, professional fees decreased by $8.8 million due to a shareholder proxy contest that impacted the six months ended July 31, 2019 and stock-based compensation decreased by $4.7 million primarily due to a year-over-year decrease in our stock price and a change in the timing of the annual employee grant. Selling, general, and administrative expenses were also impacted by a $4.1 million decrease due to the change in the fair value of our obligations under contingent consideration arrangements, from a net expense of $0.4 million in the six months ended July 31, 2019 to a net benefit of $3.7 million during the six months ended July 31, 2020, as a result of revised outlooks for achieving the performance targets under several unrelated contingent consideration arrangements. These decreases were partially offset by a $14.3 million increase in expenses related to the planned separation of our businesses (as discussed in “Overview” above).

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, 2020 and 2019:

| | Three Months Ended July 31, | | % Change | Six Months Ended July 31, | | % Change |
|---|---|---|---|---|---|---|
| (in thousands) | 2020 | 2019 | 2020-2019 | 2020 | 2019 | 2020-2019 |
| Amortization of other acquired intangible assets | $ 8,058 | $ 7,639 | 5% | $ 16,123 | $ 15,352 | 5% |

*Three Months Ended July 31, 2020 compared to Three Months Ended July 31, 2019.* Amortization of other acquired intangible assets increased approximately $0.5 million, or 5%, from $7.6 million in the three months ended July 31, 2019 to $8.1 million in the three months ended July 31, 2020. 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, 2020 compared to Six Months Ended July 31, 2019.* Amortization of other acquired intangible assets increased approximately $0.7 million, or 5%, from $15.4 million in the six months ended July 31, 2019 to $16.1 million in the six months ended July 31, 2020. 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, 2020 and 2019:

| | Three Months Ended July 31, | | % Change | Six Months Ended July 31, | | % Change |
|---|---|---|---|---|---|---|
| (in thousands) | 2020 | 2019 | 2020-2019 | 2020 | 2019 | 2020-2019 |
| Interest income | $ 839 | $ 1,687 | (50)% | $ 1,856 | $ 3,113 | (40)% |
| Interest expense | (10,263) | (10,107) | 2% | (20,961) | (20,041) | 5% |
| Other income (expense): | | | | | | |
| Foreign currency gains (losses), net | 3,032 | 774 | * | (222) | (412) | (46)% |
| Gains (losses) on derivatives | (463) | 179 | * | 551 | 728 | (24)% |
| Fair value change in future tranche right | (13,610) | — | * | (13,610) | — | * |
| Other, net | (1,170) | (44) | * | (1,160) | (197) | * |
| Total other (expense) income, net | (12,211) | 909 | * | (14,441) | 119 | * |
| **Total other expense, net** | **$ (21,635)** | **$ (7,511)** | **188%** | **$ (33,546)** | **$ (16,809)** | **100%** |

* Percentage is not meaningful.

*Three Months Ended July 31, 2020 compared to Three Months Ended July 31, 2019.* Total other expense, net, increased by $14.1 million from $7.5 million in the three months ended July 31, 2019 to $21.6 million in the three months ended July 31, 2020.

Interest expense increased from $10.1 million in the three months ended July 31, 2019 to $10.3 million in the three months ended July 31, 2020 primarily due to an increase in borrowings under our revolving credit facility, partially offset by lower interest rates. Further discussion of our outstanding borrowings appears in Note 7, "Long-term Debt" to our condensed consolidated financial statements included under Part I, Item 1 of this report.

We recorded $3.0 million of net foreign currency gains in the three months ended July 31, 2020 compared to $0.8 million of net foreign currency gains in the three months ended July 31, 2019. Our foreign currency gains resulted primarily from the weakening of the U.S dollar against certain foreign currencies from April 30, 2020 to July 31, 2020, mainly the euro, Israeli shekel and British pound sterling.

In the three months ended July 31, 2020, there were net losses on derivative financial instruments (not designated as hedging instruments) of $0.5 million, compared to net gains of $0.2 million on such instruments for the three months ended July 31, 2019. The net losses in the current period primarily reflected losses on contracts executed to hedge movements in the exchange rate between the U.S. dollar and the Singapore dollar.

During the three months ended July 31, 2020, we recorded a non-cash Future Tranche Right revaluation loss of $13.6 million. The non-cash charge for the period relates to the change in fair value of the Future Tranche Right (right to purchase Series B Preferred Stock by the Apax Investor at a future date), associated with the Future Tranche Right issued in connection with the closing of the Series A Preferred Stock on May 7, 2020. The change in fair value was primarily due to declining credit market interest rates associated with worsened and uncertain economic conditions occurring during the period. Please refer to Note 9, "Convertible Preferred Stock" and Note 12, "Fair Value Measurements" to our condensed consolidated financial statements included under Part I, Item 1 of this report for additional information regarding the Future Tranche Right.

Other, net expense increased $1.1 million primarily due to fees in connection with our second amendment to the 2017 Credit Agreement. Further discussion of the second amendment to the 2017 Credit Agreement appears in Note 7, "Long-term Debt" to our condensed consolidated financial statements included under Part I, Item 1 of this report.

Six Months Ended July 31, 2020 compared to Six Months Ended July 31, 2019. Total other expense, net, increased by $16.8 million from $16.8 million in the six months ended July 31, 2019 to $33.6 million in the six months ended July 31, 2020.

Interest expense increased from $20.0 million in the six months ended July 31, 2019 to $21.0 million in the six months ended July 31, 2020 primarily due to an increase in borrowing under our revolving credit facility, partially offset by lower interest rates.

We recorded $0.2 million of net foreign currency losses in the six months ended July 31, 2020 compared to $0.4 million of net foreign currency losses in the six months ended July 31, 2019. Our foreign currency gains and losses are primarily the result of the fluctuation of the value of the U.S. dollar relative to other foreign currencies, mainly the euro, Israeli shekel, Brazilian real and British pound sterling.

In the six months ended July 31, 2020, there were net gains on derivative financial instruments of $0.6 million, compared to net gains of $0.7 million on such instruments for the six months ended July 31, 2019. The net gains in the current period primarily reflected gains on contracts executed to hedge movements in the exchange rate between the U.S. dollar and the Singapore dollar.

During the six months ended July 31, 2020, we recorded a non-cash Future Tranche Right revaluation loss of $13.6 million. The non-cash charge for the period relates to the change in fair value of the Future Tranche Right (right to purchase Series B Preferred Stock by the Apax Investor at a future date), associated with the Future Tranche Right issued in connection with the closing of the Series A Preferred Stock on May 7, 2020. The change in fair value was primarily due to declining credit market interest rates associated with worsened and uncertain economic conditions occurring during the period. Please refer to Note 9, "Convertible Preferred Stock" and Note 12, "Fair Value Measurements" to our condensed consolidated financial statements included under Part I, Item 1 of this report for additional information regarding the Future Tranche Right.

Other, net expense increased $1.0 million primarily due to fees in connection with our second amendment to the 2017 Credit Agreement. Further discussion of the second amendment to the 2017 Credit Agreement appears in Note 7, "Long-term Debt" to our condensed consolidated financial statements included under Part I, Item 1 of this report.

**Provision (Benefit) for Income Taxes**

The following table sets forth our (benefit) provision from income taxes for the three and six months ended July 31, 2020 and 2019:

| | Three Months Ended July 31, | | % Change | Six Months Ended July 31, | | % Change |
|---|---|---|---|---|---|---|
| (in thousands) | 2020 | 2019 | 2020-2019 | 2020 | 2019 | 2020-2019 |
| Provision (benefit) for income taxes | $ 10,095 | $ (4,507) | (324)% | $ 8,333 | $ (3,098) | (369)% |

*Three Months Ended July 31, 2020 compared to Three Months Ended July 31, 2019.* Our effective income tax rate was 48.8% for the three months ended July 31, 2020, compared to a negative effective income tax rate of 58.0% for the three months ended July 31, 2019.

For the three months ended July 31, 2020, the effective tax rate differs from the U.S. federal statutory rate of 21% primarily due to the impact of U.S. taxation of certain foreign activities and a change in the fair value of the Future Tranche Right associated with the Series A Preferred Stock, offset by lower statutory rates in several foreign jurisdictions. The result was an income tax expense of $10.1 million on pre-tax income of $20.7 million, which represented an effective income tax rate of 48.8%.

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%.

*Six Months Ended July 31, 2020 compared to Six Months Ended July 31, 2019*. Our effective income tax rate was 55.8% for the six months ended July 31, 2020, compared to a negative effective income tax rate of 24.0% for the six months ended July 31, 2019. The effective tax rate differs from the U.S. federal statutory rate of 21% primarily due to the impact of U.S. taxation of certain foreign activities and a change in the fair value of the Future Tranche Right associated with the Series A Preferred Stock, offset by lower statutory rates in several foreign jurisdictions. The result was an income tax provision of $8.3 million on pre-tax income of $14.9 million, which represented an effective income tax rate of 55.8%.

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% 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%.

## Liquidity and Capital Resources

### *Overview*

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

On December 4, 2019, we announced that Valor Parent LP (the "Apax Investor"), an affiliate of Apax Partners ("Apax") would make an investment in us in an amount of up to $400.0 million. Under the terms of the Investor Agreement, dated as of December 4, 2019, the Apax Investor initially purchased $200.0 million of our Series A Preferred Stock, which closed on May 7, 2020, with an initial conversion price of $53.50. The initial conversion price represents a conversion premium of 17.1% over the volume-weighted average price per share of our common stock over the 45 consecutive trading days immediately prior to the signing date. Assuming completion of the Spin-Off described above, the Series A Preferred Stock will not participate in the Spin-Off distribution of the shares of the company holding the Company's Cyber Intelligence Solutions business, and instead, the conversion price will be adjusted based on the ratio of the trading prices of the two companies over a short period following the Spin-Off, subject to a collar. Shortly following the Spin-Off, the Apax Investor will purchase, subject to certain conditions, up to $200.0 million of Series B convertible preferred stock ("Series B Preferred Stock") in the Company, as the entity holding the Customer Engagement Solutions business. The Series B Preferred Stock will be convertible at a conversion price that is 100% of the average of the volume-weighted average price per share of the common stock for the 20 consecutive trading days immediately following the consummation of the Spin-Off, subject to a collar on the minimum and maximum enterprise value of the Company post consummation of the Spin-Off. Following the closing of the Series A Preferred Stock investment, Apax's ownership in us on an as-converted basis is approximately 5.5%. Following completion of the Spin-Off and assuming the issuance of the Series B Preferred Stock, Apax's ownership in us on an as-converted basis will be between 11.5% and 15%. The convertible preferred stock will pay dividends at an annual rate of 5.2% until the 48-month anniversary of the closing of the Series A Preferred Stock investment, and thereafter at a rate of 4.0%, subject to adjustment under certain circumstances. Dividends will be cumulative and payable semiannually in arrears in cash. All dividends that are not paid in cash will remain accumulated dividends with respect to each share of preferred stock. We intend to use the proceeds from the initial Apax investment to repay outstanding indebtedness, including borrowings under our revolving credit facility used to fund our stock repurchase program (as described below under "Liquidity and Capital Resources Requirements"), and/or for general corporate purposes. Please refer to Note 9, "Convertible Preferred Stock", to our condensed consolidated financial statements included under Part I, Item 1 of this report for more information regarding the Apax convertible preferred stock investment.

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, stock repurchases, dividends on the convertible preferred stock, and periodically for business acquisitions. Cash generated from operations, along with our existing cash, cash equivalents, and short-term investments, are our primary sources of operating liquidity, and we believe that our operating liquidity is currently sufficient to support our business operations, including debt service, capital expenditure requirements, and dividends on the convertible preferred stock.

On June 29, 2017, we entered into the 2017 Credit Agreement with certain lenders, and terminated a prior credit agreement. The 2017 Credit Agreement was amended on January 31, 2018 (the "2018 Amendment"), and again on June 8, 2020 (the "2020 Amendment"). Further discussion of our 2017 Credit Agreement as amended, appears below, under "Financing Arrangements".

We have historically expanded our business in part by investing in strategic growth initiatives, including acquisitions of products, technologies, and businesses. We may finance such acquisitions using cash, debt, stock, or a combination of the foregoing, however, we have used cash as consideration for substantially all of our historical business acquisitions, including approximately $74 million of net cash expended for business acquisitions during the year ended January 31, 2020. There were no business acquisitions during the six months ended July 31, 2020.

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. During the six months ended July 31, 2020, we increased borrowings under our revolving credit facility by $155.0 million to a total of $200.0 million as of July 31, 2020. The proceeds of these borrowings were used to fund a portion of our stock repurchase program or will be used for general corporate purposes.

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 $453.9 million and $426.6 million as of July 31, 2020 and January 31, 2020, 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 $22.4 million and $26.3 million, at July 31, 2020 and January 31, 2020, 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, 2020 and withholding taxes of approximately $15.0 million accrued as of July 31, 2020, with respect to certain identified cash that may be repatriated to the U.S., we have not provided tax on the outside basis difference of foreign subsidiaries nor have we provided for any additional withholding or other tax that may be applicable should a future distribution be made from any unremitted earnings of foreign subsidiaries. Due to complexities in the laws of the foreign jurisdictions and the assumptions that would have to be made, it is not practicable to estimate the total amount of income and withholding taxes that would have to be provided on such earnings.

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

| (in thousands) | July 31, 2020 | January 31, 2020 |
|---|---|---|
| Cash and cash equivalents | $ 731,101 | $ 379,146 |
| Restricted cash and cash equivalents, and restricted bank time deposits (excluding long term portions) | 31,662 | 43,860 |
| Short-term investments | 82,443 | 20,215 |
| **Total cash, cash equivalents, restricted cash and cash equivalents, restricted bank time deposits, and short-term investments** | **$ 845,206** | **$ 443,221** |
| **Total debt, including current portions** | **$ 984,104** | **$ 837,048** |

***Capital Allocation Framework***

As noted above, after cash utilization required for working capital, capital expenditures, required debt service, and dividends on the convertible preferred stock, we expect that our primary usage of cash will be for business combinations, repayment of outstanding indebtedness, and our current stock repurchase program (including the repayment of any borrowings under our revolving credit facility used to fund the stock repurchase program). Due to the uncertainty surrounding the impact of the COVID-19 pandemic, we will consider further repurchases under the stock repurchase program based on economic and market conditions as they evolve.

***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, 2020 and 2019:

| (in thousands) | Six Months Ended July 31, 2020 | Six Months Ended July 31, 2019 |
|---|---|---|
| Net cash provided by operating activities | $ 136,731 | $ 98,279 |
| Net cash used in investing activities | (68,488) | (66,015) |
| Net cash provided by (used in) financing activities | 283,902 | (27,136) |
| Effect of foreign currency exchange rate changes on cash and cash equivalents | (796) | (1,890) |
| **Net increase in cash, cash equivalents, restricted cash, and restricted cash equivalents** | **$ 351,349** | **$ 3,238** |

Our operating activities generated $136.7 million of cash during the six months ended July 31, 2020, which was in addition to $215.4 million of net cash provided by 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 $136.7 million of net cash during the six months ended July 31, 2020, compared to $98.3 million generated during the six months ended July 31, 2019. Our increased operating cash flow in the current period was primarily due to $5.1 million of lower combined interest and net income tax payments, a favorable impact on operating cash flow from changes in operating assets and liabilities and the net effect of non-cash items, as compared to the prior period, partially offset by lower net 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, 2020, our investing activities used $68.5 million of net cash, including $62.1 million of net purchases of short-term investments and $22.3 million of payments for property, equipment and capitalized software development costs, partially offset by $15.9 million of net cash provided by other investing activities, consisting primarily of a net decrease in restricted bank time deposits and settlements of derivative instruments during the period. Restricted bank time deposits are typically deposits, which do not qualify as cash equivalents, used to secure bank guarantees in connection with sales contracts, the amounts of which will fluctuate from period to period.

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 sales and maturities 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 and settlements of derivative instruments during the period.

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

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

For the six months ended July 31, 2020, our financing activities generated $283.9 million of net cash, primarily due to $197.3 million of net proceeds from the issuance of preferred stock and a $155.0 million increase in borrowings under our revolving credit facility, partially offset by $36.8 million of payments to repurchase treasury stock, $13.0 million of payments to repurchase $13.1 million principal amount of our convertible notes, $11.8 million for the financing portion of payments under contingent consideration arrangements related to prior business combinations, $3.8 million repayments of borrowings and other financing obligations, $2.2 million paid for debt-related costs, and $0.6 million of distributions to a noncontrolling shareholder of one of our subsidiaries.

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, and $0.5 million of payments to repurchase treasury stock.

***Liquidity and Capital Resources Requirements***

Based on past performance and current expectations, we believe that our cash, cash equivalents, short-term investments and cash generated from operations will be sufficient to meet anticipated operating costs, required payments of principal and interest, dividends on convertible preferred stock, working capital needs, ordinary course capital expenditures, research and development spending, and other commitments for at least the next 12 months. Currently, we have no plans to pay any cash dividends on our common stock, which are subject to certain restrictions under our 2017 Credit Agreement.

Our liquidity could be negatively impacted by a decrease in demand for our products and service and support, including the impact of changes in customer buying behavior due to circumstances over which we have no control, including, but not limited to, the effects of the COVID-19 pandemic. 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 December 4, 2019, we announced that our board of directors had authorized a stock repurchase program whereby we may repurchase up to $300.0 million of common stock over the period ending on February 1, 2021. During the six months ended July 31, 2020, we acquired approximately 613,000 shares of treasury stock at a cost of $34.0 million under this program. During the year ended January 31, 2020, we acquired approximately 2,119,000 shares of treasury stock at a cost of $116.1 million under this program, of which $2.8 million was settled in cash in February 2020.

***Financing Arrangements***

**1.50% Convertible Senior Notes**

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

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

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

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

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. 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.

During the three months ended July 31, 2020, we repurchased $13.1 million principal amount of our Notes in open market transactions for an aggregate of $13.0 million in cash. As a result, the outstanding principal of the Notes was $386.9 million at July 31, 2020 and would result in the issuance of approximately 6,002,000 shares of common stock if all of the outstanding Notes were converted.

As of July 31, 2020, the Notes were not convertible.

**Note Hedges and Warrants**

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

***Note Hedges***

Pursuant to the Note Hedges, we purchased call options on our common stock, under which we have the right to acquire from the counterparties up to approximately 6,205,000 shares of our common stock, subject to customary anti-dilution adjustments, at a price of $64.46, which equals the initial conversion price of the Notes. Our exercise rights under the Note Hedges generally trigger upon conversion of the Notes and the Note Hedges terminate upon maturity of the Notes, or the first day the Notes are no longer outstanding. The Note Hedges may be settled in cash, shares of our common stock, or a combination thereof, at our option, and are intended to reduce our exposure to potential dilution upon conversion of the Notes. We paid $60.8 million for the Note Hedges, which was recorded as a reduction to additional paid-in capital. As of July 31, 2020, we had not purchased any shares of our common stock under the Note Hedges.

The Note repurchases executed during the three months ended July 31, 2020 described above did not change the number of common shares subject to the Note Hedges. However, since a Note conversion is a prerequisite to exercising the call right under the Note Hedges, the number of common shares subject to call under the Note Hedges was effectively reduced since the repurchased Notes can no longer be converted.

***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, 2020, no Warrants had been exercised and all Warrants remained outstanding.

**Credit Agreements**

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

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

The maturity dates of the 2017 Term Loan and 2017 Revolving Credit Facility will be accelerated to March 1, 2021 if on such date any Notes remain outstanding, unless such outstanding Notes are cash collateralized pursuant to the 2020 Amendment to the 2017 Credit Agreement, as further described below.

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.

On June 8, 2020, we entered into a second amendment to the 2017 Credit Agreement (the "2020 Amendment"). Pursuant to the 2020 Amendment, we are permitted to effect the previously announced Spin-Off of our Cyber Intelligence business within the parameters set forth in the 2017 Credit Agreement, as amended, and our Notes will not be deemed to be outstanding if such Notes are cash collateralized in accordance with the 2017 Credit Agreement, as amended, for purposes of the determination of the maturity dates of the 2017 Term Loan and the 2017 Revolving Credit Facility discussed above. We currently intend to cash collateralize, or otherwise refinance or repurchase, the Notes prior to their maturity.

For loans under the 2017 Revolving Credit Facility, the margin is determined by reference to our Leverage Ratio. Borrowings under the 2017 Revolving Credit Facility were $200.0 million as of July 31, 2020. As of July 31, 2020, the weighted average interest rate on our revolving credit facility borrowings was 2.17%.

As of July 31, 2020, the interest rate on the 2017 Term Loan was 2.17%. 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 2.37% at July 31, 2020. As of January 31, 2020, the interest rate on the 2017 Term Loan was 3.85%.

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

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

Prior to May 1, 2020, the 2018 Swap was designated as a cash flow hedge for accounting purposes and as such, changes in its fair value were recognized in accumulated other comprehensive income (loss) in the condensed consolidated balance sheet and were reclassified into the condensed statement of operations within interest expense in the periods in which the hedged transactions affected earnings.

On May 1, 2020, which was an interest rate reset date on our 2017 Term Loan, we selected an interest rate other than three-month LIBOR. As a result, the 2018 Swap, which was designated specifically to hedge three-month LIBOR interest payments, no longer qualified as a cash flow hedge. Subsequent to May 1, 2020, changes in fair value of the 2018 Swap are being accounted for as a component of other income (expense), net. Accumulated deferred losses on the 2018 Swap of $20.4 million, or $16.0 million after tax, at May 1, 2020 that were previously recorded as a component of accumulated other comprehensive loss, will be reclassified to the statement of operations as interest expense over the remaining term of the 2018 Swap, as the hedged interest payments occur.

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, 2020, our Leverage Ratio was approximately 2.6 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***

Except for additional borrowings under our revolving credit facility of $155.0 million during the six months ended July 31, 2020, we believe there have been no material changes to our contractual obligations disclosed in the contractual obligations section of our Annual Report on Form 10-K for the year ended January 31, 2020. That table appears under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the report. For additional information regarding our leases, long-term debt and our commitments and contingencies, see Note 15, "Leases", Note 7, "Long-Term Debt" and Note 16, "Commitments and Contingencies" in the Form 10-K and Note 7, "Long-Term Debt", Note 9, "Convertible Preferred Stock", and Note 15, "Commitments and Contingencies" in the notes to our condensed consolidated financial statements included elsewhere in this Form 10-Q.

***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, 2020, we made $17.4 million of payments under contingent consideration arrangements. As of July 31, 2020, potential future cash payments, and earned consideration expected to be paid, subsequent to July 31, 2020 under contingent consideration arrangements total $119.8 million, the estimated fair value of which was $22.0 million, including $14.0 million reported in accrued expenses and other current liabilities, and $8.0 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, 2020, we did not have any off-balance sheet arrangements that we believe have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

### Recent Accounting Pronouncements

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

The 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, 2020 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” and the market risk that is created by the global market disruptions and uncertainties resulting from COVID-19, we believe that our market risk profile did not materially change during the six months ended July 31, 2020.

## 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, 2020. Disclosure controls and procedures are those controls and other procedures that are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified by the rules and forms promulgated by the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As a result of this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of July 31, 2020.

### 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, 2020, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Due to the COVID-19 pandemic, a significant number of our employees are now working from home. The design of our financial reporting processes, systems, and controls allows for remote execution with accessibility to secure data.

### 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

Other than as discussed below, 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, 2020. In addition to the other information set forth in this Quarterly Report, you should carefully consider the risks discussed in our Annual Report on Form 10-K, which could materially affect our business, financial condition, or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing us, however. Additional risks and uncertainties not currently known to us or that we currently deem to be insignificant also may materially and adversely affect our business, financial condition, or operating results in the future.

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

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The outbreak has reached all of the regions in which we do business, and governmental authorities around the world have implemented numerous measures attempting to contain and mitigate the effects of the virus, including travel bans and restrictions, border closings, quarantines, shelter-in-place orders, shutdowns, limitations or closures of non-essential businesses, and social distancing requirements. Companies around the world, including us, our customers, partners, and vendors, have implemented actions in response, including among others, office closings, site restrictions, and employee travel restrictions. Notwithstanding the loosening of these restrictions in some countries and for some companies in recent months, the global spread of COVID-19 and actions taken in response have negatively affected us, our customers, partners, and vendors and caused significant economic and business disruption the extent and duration of which is not currently known. We are continuously monitoring and assessing the impact of the COVID-19 pandemic, including recommendations and orders issued by government and public health authorities in countries where we operate.

During the six months ended July 31, 2020, revenue in both of our operating segments was negatively impacted by delays and reduced spending attributed to the impact of the COVID-19 pandemic on our customers’ operational priorities and as a result of cost containment measures they have implemented. Due to the pandemic, we have seen a reduction or delay in large customer contracts, particularly on-premises arrangements, and in many cases, we have been unable to conduct face-to-face meetings with existing or prospective customers and partners, present in-person demonstrations of our solutions, or host or attend in-person trade shows and conferences. Limitations on access to the facilities of our customers have also impacted our ability to deliver some of our products, complete certain implementations, and provide in-person consulting and training services, negatively impacting our ability to recognize revenue. We cannot predict how the pandemic will impact our results in future periods, including to the extent that customers delay or miss payments, customers defer, reduce, or refrain from placing orders or renewing subscriptions or support arrangements, or travel restrictions and site access restrictions remain necessary.

In light of the adverse impact of COVID-19 on global economic conditions and our revenue, along with the uncertainty associated with the extent and timing of a potential recovery, we have implemented several cost-reduction actions of varying durations. Such actions have included, but are not limited to, reducing our discretionary spending, substantially decreasing capital expenditures, extending days payable outstanding, considering the optimal uses of our cash and other capital resources, including with respect to our stock repurchase program, and reducing workforce-related costs. These actions may have an adverse impact on us, particularly if they remain in place for an extended period. We continue to evaluate and may decide to implement further cost control strategies to help us mitigate the impact of the pandemic.

The ultimate impact of the COVID-19 pandemic and the effects of the operational alterations we have made in response on our business, financial condition, liquidity and financial results cannot be predicted at this time.

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

On May 7, 2020, we closed the initial tranche of the previously announced strategic partnership with the Apax Investor. Pursuant to the Investor Agreement, at the Closing, we sold 200,000 shares of our Series A Convertible Perpetual Preferred Stock, par value $0.001 per share, for an aggregate purchase price of $200.0 million. See "Management's discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Overview" under Item 2 of this report for a more detailed discussion regarding the Apax investment.

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

On December 4, 2019, we announced that our board of directors had authorized a stock repurchase program whereby we may repurchase up to $300 million of common stock over the period ending on February 1, 2021. There were no share repurchases made under this share repurchase program during the three months ended July 31, 2020.

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, 2020.

### 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, 2020:

| Number | Description | Filed Herewith / Incorporated by Reference from |
|---|---|---|
| 10.1 | First Amended and Restated Certificate of Designation, Preferences and Rights of Series A Convertible Perpetual Preferred Stock | Form 8-K filed on May 7, 2020 |
| 10.2 | Registration Rights Agreement, dated May 7, 2020, by and between Verint Systems Inc. and Valor Parent LP | Form 8-K filed on May 7, 2020 |
| 10.3 | Second Amendment, dated June 8, 2020, to the Credit Agreement, dated June 29, 2017, among Verint Systems Inc., as borrower, the lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as administrative agent and collateral agent | Form 8-K filed on June 9, 2020 |
| 10.4 | Form of Time-Based Restricted Stock Unit Award Agreement for Grants Subsequent to July 2020* | Filed herewith |
| 10.5 | Form of Performance-Based Restricted Stock Unit Award Agreement for Grants Subsequent to July 2020* | Filed herewith |
| 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 9, 2020 | /s/ Douglas E. Robinson |
| | Douglas E. Robinson |
| | Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) |