VERINT SYSTEMS INC
Form 10-K
March 29, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 31, 2018

Commission File No. 001-34807
Verint Systems Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware	11-3200514
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
175 Broadhollow Road, Melville, New York	11747
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (631) 962-9600
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.001 par value per share	The NASDAQ Stock Market, LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
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 þ Accelerated filer o
Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company) Emerging growth company o

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. o

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

The aggregate market value of common stock held by non-affiliates of the registrant, based on the closing price for the registrant's common stock on the NASDAQ Global Select Market on the last business day of the registrant's most recently completed second fiscal quarter (July 31, 2017) was approximately $2,502,717,000.

There were 63,836,109 shares of the registrant's common stock outstanding on March 15, 2018.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the Annual Meeting of Stockholders to be held in 2018, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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As of and For the Year Ended January 31, 2018

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Cautionary Note on Forward-Looking Statements

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, the provisions of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements include financial projections, statements of plans and objectives for future operations, statements of future economic performance, and statements of assumptions relating thereto. Forward-looking statements may appear throughout this report, including without limitation, in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and are often identified by future or conditional words such as “will”, “plans”, “expects”, “intends”, “believes”, “seeks”, “estimates”, or “anticipates”, or by variati such words or by similar expressions. There can be no assurance that forward-looking statements will be achieved. By their very nature, forward-looking statements involve known and unknown risks, uncertainties, assumptions, and other important factors that could cause our actual results or conditions to differ materially from those expressed or implied by such forward-looking statements. Important risks, uncertainties, assumptions, and other factors that could cause our actual results or conditions to differ materially from our forward-looking statements include, among others:

- uncertainties regarding the impact of general economic conditions in the United States and abroad, particularly in information technology spending and government budgets, on our business;
- risks associated with our ability to keep pace with technological changes, evolving industry standards, and customer challenges, such as the proliferation and strengthening of encryption, and the transition of portions of the software market to the cloud, 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 margins and sufficient levels of investment in our business;
- risks created by the continued consolidation of our competitors or the introduction of large competitors in our markets with greater resources than we have;
- risks associated with our ability to successfully compete for, consummate, and implement mergers and acquisitions, including risks associated with valuations, capital constraints, costs and expenses, maintaining profitability levels, expansion into new areas, management distraction, post-acquisition integration activities, and potential asset impairments;
- risks relating to our ability to effectively and efficiently enhance our existing operations and execute on our growth strategy and profitability goals, including managing investments in our business and operations, managing our cloud transition and our revenue mix, and enhancing and securing our internal and external operations;
- risks associated with our ability to effectively and efficiently allocate limited financial and human resources to business, developmental, strategic, or other opportunities, and risk that such investments may not come to fruition or produce satisfactory returns;
- risks that we may be unable to establish and maintain relationships with key resellers, partners, and systems integrators;
- risks associated with our reliance on third-party suppliers, partners, or original equipment manufacturers (“OEMs”) for certain components, products, or services, including companies that may compete with us or work with our competitors;
- risks associated with the mishandling or perceived mishandling of sensitive or confidential information and with security vulnerabilities or lapses, including information technology system breaches, failures, or disruptions;
- risks that our products or services, or those of third-party suppliers, partners, or OEMs which we use in or with our offerings or otherwise rely on, may contain defects or may be vulnerable to cyber-attacks;
- risks associated with our significant international operations, including, among others, in Israel, Europe, and Asia, exposure to regions subject to political or economic instability, fluctuations in foreign exchange rates, and challenges associated with a significant portion of our cash being held overseas;

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- risks associated with a significant amount of our business coming from domestic and foreign government customers, including the ability to maintain security clearances for applicable projects and reputational risks associated with our security solutions;
- 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, and regulations related to our security solutions;
- risks associated with our ability to retain and recruit qualified personnel in regions in which we operate, including in new markets and growth areas we may enter;
- challenges associated with selling sophisticated solutions, including with respect to educating our customers on the benefits of our solutions or assisting them in realizing such benefits, and offering and maintaining a broad solution portfolio;
- challenges associated with pursuing larger sales opportunities, including with respect to longer sales cycles, transaction reductions, deferrals, or cancellations during the sales cycle, risk of customer concentration, our ability to accurately forecast when a sales opportunity will convert to an order, or to forecast revenue and expenses, and increased volatility of our operating results from period to period;
- risks that our intellectual property rights may not be adequate to protect our business or assets or that others may make claims on our intellectual property or claim infringement on their intellectual property rights;
- risks that our customers or partners delay or cancel orders or are unable to honor contractual commitments due to liquidity issues, challenges in their business, or otherwise;
- risks that we may experience liquidity or working capital issues and related risks that financing sources may be unavailable to us on reasonable terms or at all;
- risks associated with significant leverage resulting from our current debt position 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, and personnel and our ability to successfully implement and maintain enhancements to the foregoing and adequate systems and internal controls for our current and future operations and reporting needs, including related risks of financial statement omissions, misstatements, restatements, or filing delays; and
- risks associated with changing accounting principles or standards, tax rates, tax laws and regulations, and the continuing availability of expected tax benefits.

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

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PART I

Item 1. Business

Our Company

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

Actionable Intelligence is a necessity in a dynamic world of massive information growth because it empowers organizations with crucial insights and enables decision makers to anticipate, respond, and take action. With Verint solutions and value-added services, organizations of all sizes and across many industries can make more informed, timely, and effective decisions. Today, over 10,000 organizations in more than 180 countries, including over 85 percent of the Fortune 100, use Verint solutions to optimize customer engagement and make the world a safer place. Verint delivers its Actionable Intelligence solutions through two operating segments: Customer Engagement Solutions™ (“Customer Engagement”) and Cyber Intelligence Solutions™ (“Cyber Intelligence”).

We have established leadership positions in Actionable Intelligence by developing highly-scalable, enterprise-class software and services with advanced, integrated analytics for both structured and unstructured information. Our innovative solutions are developed by a large research and development (“R&D”) team comprised of approximately 1,400 professionals and backed by more than 850 patents and patent applications worldwide.

To help our customers maximize the benefits of our technology over the solution lifecycle and provide a high degree of flexibility, we offer a broad range of services, such as strategic consulting, managed services, implementation services, training, maintenance, and 24x7 support. Additionally, we offer a broad range of deployment options, including cloud, on-premises, and hybrid, and software licensing and delivery models that include perpetual licenses and software as a service (“SaaS”).

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

Company Background

We were incorporated in Delaware in February 1994 and completed our initial public offering (“IPO”) in May 2002. Over the last two decades, we have grown our revenue and expanded our portfolio of Actionable Intelligence solutions through a combination of organic innovation and acquisitions.

Our two operating segments are described in greater detail below and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under Item 7 of this report. Each operating segment has dedicated management teams, sales and marketing, customer service, and research and development resources with shared back-office services. See also Note 15, “Segment, Geographic, and Significant Customer Information” to our consolidated financial statements included under Item 8 of this report for additional information and financial data about each of our operating segments and geographic regions.

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

Our Actionable Intelligence Strategy

To address the need for Actionable Intelligence across many use cases in Customer Engagement and Cyber Intelligence, we developed an innovative foundation—Verint's advanced Actionable Intelligence platform. We define our platform as having the following four components:

- Data Capture. Our Actionable Intelligence platform enables the capture of a wide range of data, including both structured and unstructured data, such as operational, transactional, network, and web data. Our platform is designed

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to support big data applications which depend on the ability to capture, store, and manage very large data sets from multiple data sources.

- Data Processing. Our Actionable Intelligence platform facilitates the process of taking structured and unstructured data from multiple sources and then cleansing, fusing, and preparing the data for analysis. This data processing stage is particularly important in applications that require data capture and fusion from multiple sources, different systems, and numerous environments.

- Data Analysis. Our Actionable Intelligence platform enables the use of a wide range of engines for data analytics, including classification, correlation, anomaly detection, identity extraction, behavioral analysis, and predictive analytics. Big data analysis is a crucial step in identifying critical insights that otherwise might not be intuitive.

- Data Visualization. Our Actionable Intelligence platform facilitates the presentation of crucial insights from data to decision makers and the provision of workflow, collaboration, and case management capabilities so they can make more timely and informed decisions. The platform supports many use cases, and the type of data visualization used for delivering actionable insights to users can be optimized based on the specific user environment.

Our strategy is to continue to leverage our Actionable Intelligence platform as a foundation for new analytical solutions to address specific use cases for Customer Engagement and Cyber Intelligence. As noted above, our two operating segments have dedicated domain experts and operational functions focused on understanding the specific requirements of their respective markets and customers, and developing leading Actionable Intelligence solutions that can effectively address the unique needs of their customers.

Customer Engagement Solutions

Overview

Organizations have cited effective customer engagement as a key to creating sustainable competitive advantage and as critical to their future success. As a result, many are making it a priority to invest in new customer engagement technologies that can elevate the customer experience, and at the same time reduce operating cost.

As The Customer Engagement Company™, Verint is an established global leader with over two decades of experience helping organizations worldwide improve their customer engagement operations. Our strategy is to help organizations meet their strategic goals by simplifying, modernizing, and automating customer engagement across the enterprise.

For most organizations, customer engagement is no longer just a contact center function. It has become a responsibility shared across many parts of the enterprise. To support the needs of our customers, we offer a broad portfolio of customer engagement solutions that address requirements throughout the enterprise, including contact centers, back-office and branch operations, self-service, ecommerce, customer experience, marketing, IT, and compliance.

Verint is a leader in cloud and has one of the broadest Customer Engagement™ portfolios available, including offerings for Workforce Engagement, Self-Service, Voice of the Customer, and Compliance and Fraud. We leverage the latest in artificial intelligence (AI) and advanced analytics technology to unlock the potential of automation and intelligence to drive real business impact across organizations. We offer organizations a smooth transition to the cloud, and through our hybrid models, organizations can deploy our solutions using a public cloud (SaaS), private cloud, and/or perpetual license approach, as well as combinations of these models. Independent industry experts, such as Forrester, Gartner, and Ventana Research, have all recognized Verint as a leader in customer engagement.

We have more than 10,000 customers and a large partner network globally, helping us drive ongoing innovation in our award-winning offerings. We focus on developing customers for life, and have been recognized as a "CRM Service Winner" for 10 consecutive years.

Trends

Many organizations are facing complex, dated, and mostly disparate environments in their legacy customer engagement operations that make it challenging to deliver on the promise of an exceptional customer experience. Faced with higher customer expectations and the need for market differentiation, organizations view customer engagement as essential to their future success. As a result, they are investing in new customer engagement technologies that can elevate the customer

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experience, while reducing operating cost. We believe the following trends are driving growth in our market as organizations seek to:

- Reduce Complexity and Become More Agile to Adapt Faster. Many organizations have complex environments that were put together over many years with multiple legacy systems from many different vendors deployed in silos across the enterprise. To reduce complexity, they are looking for new solutions that are open and flexible and make it simple to address evolving requirements, while protecting their legacy investments. Organizations also are seeking open platforms that address their customer engagement needs across many enterprise functions, including the contact center, back-office and branch operations, self-service, ecommerce, customer experience, marketing, IT, and compliance.

- Modernize Customer Engagement IT Architectures. Many organizations are looking to modernize their legacy customer engagement operations by transitioning to the cloud, adopting modern architectures that facilitate the orchestration of disparate systems and the sharing of data across enterprise functions. Organizations, which are at different stages of moving to the cloud and other modernization initiatives also are looking for vendors that can help them evolve customer engagement at their own pace with minimal disruption to their operations.

- Automate Customer Engagement Operations. Many organizations are looking to improve the customer experience and increase revenue, while at the same time reducing cost. To achieve this, they seek solutions that incorporate machine learning and analytics to reduce manual work and increase workforce efficiency through automation. They also seek to empower their customers with self-service backed by AI-powered bots, and human/bot collaboration, to elevate the customer experience in a fast, personalized way.

Our Strategy

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

- Simplifying Customer Engagement. We offer solutions that are open, easy to deploy, and simple to use. Our open portfolio is designed to integrate into organizations' current and evolving technology environments and to share data seamlessly across the organization. This enables customers to protect their existing investments, as they can "start anywhere" within the Verint portfolio based on their business-specific requirements and expand over time. Our open portfolio is also compatible with leading providers of call center communications solutions, providing organizations flexibility to select the most suitable communications solution for their contact centers, while leveraging Verint's portfolio for elevating the customer experience and reducing cost. We believe this compatibility is particularly important now as the contact center communications market is going through change with new entrants offering disruptive approaches to communications.

- Modernizing Customer Engagement. We offer organizations a smooth transition to the cloud, and through our hybrid cloud model, they can deploy solutions from our portfolio in public cloud (SaaS), private cloud and perpetual license models, or combinations of these. Our API-rich portfolio provides organizations the ability to easily share data across the enterprise and integrate with third-party applications. Our modern and open portfolio also makes our solutions compatible with IT initiatives for modernizing enterprise architectures.

- Automating Customer Engagement. We enable organizations to draw on the power of automation to reduce repetitive, manual tasks, increase employee efficiency, and lower cost. Our strategy is to infuse automation capabilities throughout our solution portfolio to enable employees to focus on more strategic work, empower consumers with AI bots so they can serve themselves, and support human/bot collaboration. Our automation capabilities deliver intelligence and context in real-time, reduce errors in manual work, ensure adherence to compliance requirements, and enable customer experiences that are faster, personalized, and more enjoyable.

Our Offerings

For most organizations, customer engagement is no longer just a contact center function, it is a responsibility shared across the entire enterprise. To support the needs of our customers, we offer a broad portfolio across a wide spectrum of customer engagement functions. Our solutions address requirements across contact centers, back-office and branch operations, self-service, ecommerce, customer experience, marketing, IT, and compliance functions. Our offerings span the following categories: Workforce Engagement, Self-Service, Voice of the Customer, and Compliance and Fraud.

- Workforce Engagement

Our Workforce Engagement offerings enable organizations to empower the workforce to engage with customers effectively in the contact center and in back-office and branch operations. These solutions empower employees and managers with modern tools to simplify their jobs, easily access and share knowledge, reduce costs, increase revenue, and orchestrate the delivery of exceptional experiences across all engagement channels.

- Self-Service

Our Self-Service offerings enable organizations to improve customer experiences and reduce costs by delivering automated help to their customers that's faster and requires less effort. These solutions help make customer self-service as simple and effective as assisted service. Leveraging the same intelligence that empowers employees, self-service bots enable customers to succeed at helping themselves, and create a modern, conversational experience that is consistent across voice and digital channels.

- Voice of the Customer

Our Voice of the Customer offerings enable organizations to improve customer experiences and reduce costs by effectively listening, analyzing, and acting on customer intelligence, and transforming it into enterprise intelligence to drive desired customer and business outcomes. These solutions measure and improve experiences, satisfaction, and loyalty, and they provide feedback to drive improvements in operational processes. The offerings are deployed across contact center, customer experience, marketing, and other organizational functions.

- Compliance and Fraud

Our Compliance and Fraud offerings enable organizations to avoid fines and minimize fraud. Our Compliance solutions support regulatory requirements, such as the General Data Protection Regulation (GDPR), in contact centers, financial trading compliance, emergency response operations, and other environments. Our Fraud solutions help investigate and mitigate the risk of contact center identity fraud, branch banking fraud, and self-service systems fraud.

We offer our customers solutions that are comprised of one or more of the following products (listed in alphabetical order):

Product Name	Description
Automated Quality Management	Automates the entire quality management (QM) process, from scoring evaluations to assigning coaching. Delivers consistent, calibrated scoring and new levels of employee performance and transparency, bringing a modern, employee-empowering, and cost-effective approach to QM.
Automated Verification	Automates testing and verification of systems across multiple applications (e.g., ACD, IVR, recording, desktop applications, routers, firewalls) to ensure optimum operation. Actively checks systems for issues and proactively simulates user transactions to validate performance. Provides enhanced control and awareness of system health, status, and performance to avoid issues with service availability, data integrity, and data breaches.
Branch Surveillance and Investigation	Helps financial institutions, retailers, and other organizations identify security threats and vulnerabilities, mitigate risk, ensure operational compliance, and improve fraud investigations. Offers real-time intelligence and protection to enhance the customer experience, while safeguarding people, property, and assets. Features video recording and analytics to heighten protection, improve performance, reduce costs, and provide rapid action/response when required.

Case Management	Allows organizations to automate and adapt business processes rapidly in response to changing market and customer requirements. Tracks the progress of customer and internal issues as they are resolved between various parties in the organization, helping deliver end-to-end case lifecycle management using business rules and service level agreements (SLAs).

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Chat Engagement	Enables employees to help online customers in real-time. Provides customers with a quick, easy way to communicate with customer service employees via a simple text interface, and helps employees rapidly address needs and decrease abandonment of online transactions. Guides customers through online processes using chat in conjunction with co-browsing.
Coaching/Learning	Provides a framework for consistent, performance-based mentoring of employees by supervisors and the automated delivery of training right to the employee desktop. Can be scheduled at the best times to minimize impact on service levels, and enable employees to engage and improve their skills on-demand.
Compliance Recording	Reliably and securely captures, encrypts, archives, searches, and replays interactions for compliance and liability protection. Enables organizations and employees to protect credit card data and personal information (data compliance), adhere to rules for recording and telemarketing practices (communications compliance), proactively address complaints, and help prevent identity theft.
Customer Communities	Enables organizations to establish and manage online communities on behalf of their customers and partners to support social customer service, digital marketing, and engagement. Fosters self-service, knowledge sharing, collaboration, and networking through peer-to-peer support forums, communications blogs, and online resources, such as discussion forums, product documentation, and how-to videos.
Desktop and Process Analytics	Provides organizations with visibility into how employees use different systems, applications, and processes to perform their functions. Helps identify opportunities to improve business processes, increase employee productivity and capacity, enhance compliance, and heighten the overall efficiency, cost, and quality of customer service.
Digital Feedback	Features an enterprise solution that captures customer-initiated feedback via web and mobile channels during key moments in the customer journey, and empowers organizations to analyze and act in real-time on that feedback to deliver demonstrable business value.
Email Engagement	Automates the process of capturing, documenting, interpreting, and routing emails, helping organizations respond to customers quickly and consistently. Routes messages to the most appropriate employee based on skills, entitlements, and availability, providing standard templates and responses, a central knowledge base, and unified customer history across channels. Features a secure web portal for customers to send/receive confidential information as needed.
Employee Desktop	Unifies the disparate applications on an employee's desktop. Presents on one screen all of the contextual customer information, relevant knowledge, and business process guidance that an employee needs to handle interactions in any channel, without having to toggle between numerous screens and applications.
Enterprise Feedback	Provides an enterprise-class platform to help organizations gain a complete view of the voice of their customers and employees through company-initiated surveys delivered via mobile, email, web, IVR, and SMS channels, together with the ability to analyze and act on that feedback to achieve desired outcomes.

Financial Compliance	Improves compliance in trading room, contact center, and financial back-office operations by capturing voice, video, desktop, and text interactions across multiple channels, including collaboration tools (e.g., Skype for Business and Cisco Jabber). Delivers reliable, robust recording, indexing, archiving, and retrieval of interactions and transactions to address complex challenges, including MiFID II, trading floor compliance, collaboration compliance, legal hold, and more.
Full-Time Recording	Enables enterprise recording to support customer engagement. Reliably and securely captures, encrypts, indexes, archives, searches, and replays audio, screen, and other methods of interaction from different and mixed recording environments, and couples these capabilities with powerful speech analytics to provide greater value from recorded interactions.

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Gamification	Applies automated game mechanics to energize employee engagement, communicate personal and organizational goals, measure and acknowledge achievements, inspire collaboration, and motivate teams. Delivers key performance indicator (KPI)-linked programs to transform the process of acquiring, maintaining, and improving the skills, knowledge, and behaviors necessary for employees to enhance quality, customer engagement, sales, and other expertise.
Identity Analytics	Combines automated recorder-embedded "passive" voice biometrics technology with multifactor metadata analytics to screen calls against the databases of both customer and known fraudster voiceprints. Offers "upstream fraud detection" functionality to identify suspicious caller behavior within voice self-service interactions, and helps improve experiences by authenticating legitimate customers faster, reducing call handling and fraud-related losses.
Internal Communities	Supports employee engagement, collaboration, and enterprise social networking through open and closed micro-communities, peer-to-peer support forums, communications blogs, wikis, activity streams, and online resources. Enables knowledge and best practice sharing in a high-value, low-effort manner, enhancing relationships, productivity, and efficiency.
Knowledge Management	Provides a central repository of up-to-date information to deliver the right knowledge to users in the contact center and to customers through self-service. Provides answers quickly by searching, browsing, or following guided processes, with personalized results tailored to the customer's context. Helps increase first contact resolution, improve the consistency and quality of answers, enhance compliance with regulations and company processes, and reduce employee training time.
Mobile Workforce	Comprises a family of mobile applications, offering anytime, anywhere access to important operational information. Allows employees to access and change schedules and view performance information, and enables the convenient collection of in-the-moment feedback through device-friendly survey formats over the web, email, and SMS, as well as on site in retail stores and sporting venues.
Performance Management	Provides a complete, closed-loop solution to manage individual and departmental performance against goals. Provides a comprehensive view of KPIs using performance scorecards to report on customer interactions, customer experience trends, and contact center, branch, and back-office staff performance. Leverages scorecards, along with learning, coaching, and gamification as part of a broader capability.
Robotic Process Automation	Automates repetitive manual processes, allowing employees to focus on more complex and value-added customer-facing activities. Leverages software robots to execute specific tasks or entire multistep processes within a functional area, leading to improved quality and productivity.
Social Analytics	Collects, analyzes, and reports relevant insights derived from posts and content published to social media sites and messaging services. Reveals intelligence and trends related to sentiment, emerging topics and themes, and locations, enabling organizations to understand the voice of the customer and giving employees the means and insight they need to respond to/address issues and concerns expressed through these channels.
Speech Analytics	Automatically analyzes and identifies trends, themes, and the root causes driving customer call volumes in order to proactively respond to issues and act on opportunities that enhance the customer experience and support business objectives.

Text Analytics	Performs root cause analysis on the drivers and trends driving customer interactions through text-based communications channels-including survey verbatims, email, and customer service chat sessions-to improve performance, optimize processes, and enhance the customer experience.

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Virtual Assistant	Uses artificial intelligence (AI) and machine learning to provide conversational access to information, get answers to complex questions, and orchestrate self-service transactions across voice and digital channels. Predicts user intent based on context and initiates best next actions based on business rules in order to deliver successful outcomes.
Voice Self-Service	Provides natural language, speech-enabled voice self-service enhanced by real-time, contextual automation and analytics-driven personalization. Leverages business intelligence to analyze and adapt call flow and the pace of interactions based on caller behavior, and to continually improve performance over time.
Voice Self-Service Fraud Detection	Automates and provides upstream fraud detection based on real-time analysis of over 60 parameters of caller behavior in voice self-service across multiple calls and programs. Identifies and flags suspicious callers based on threat level, and alerts the enterprise so action can be taken to mitigate risk prior to account takeover.
Web/Mobile Self-Service	Enables customers to self-serve on the web or via their mobile devices. Unites knowledge management, case management, process management, and channel escalation to enable personalized web and mobile self-service experiences. Features advanced cross-channel messaging, enabling customers to start a digital interaction on one device and continue it on another, as well as seamlessly transition from self-service to live service within a mobile app, mobile web, or web application.
Work Manager	Helps increase productivity, meet service delivery goals, and enhance customer satisfaction by prioritizing the work of individual employees, helping ensure they focus on the right activities at the right time. Provides a practical approach to managing claims processing, loan production, and other blended and back-office functions by prioritizing work items to meet SLAs based on available employees with the right skills.
Workforce Management	Enables organizations to efficiently plan, forecast, and schedule employees to meet service level goals. Provides visibility into and a singular management tool for the work, the people, and the processes across customer touchpoints in contact center, branch and back-office operations.

Cyber Intelligence Solutions

Overview

Verint is a leading global provider of security and intelligence data mining software. Our Intelligence-Powered Security™ software is deployed in over 100 countries, helping governments, critical infrastructure and enterprise organizations to neutralize and prevent terror, crime and cyber threats. Our data mining software helps security organizations capture and analyze data from multiple sources and turn that data into actionable insights. Verint has over two decades of cyber intelligence experience leveraging data mining software, deep domain expertise and advanced intelligence methodologies to address a broad range of security missions for intelligence, cyber and physical security organizations.

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

Verint's growth strategy is to expand our Intelligence-Powered Security software portfolio to address market trends and to offer our solutions directly and through partners to our growing installed base and to new customers globally.

Trends

We believe that the key trends driving demand for security and intelligence data mining software include:

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- Security Threats are Pervasive and Becoming More 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 complex to detect, investigate and neutralize threats. Many of these organizations are seeking to deploy more advanced data mining solutions that can help them capture and analyze data from multiple sources to effectively and efficiently address the challenge of increased complexity.

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

- Security Organizations are Looking for Predictive Intelligence as a Force Multiplier. Predicative intelligence is generated by correlating massive amounts of data from a wide range of disparate sources to uncover previously unknown connections, to identify suspicious behaviors using advanced analytics and to predict future events. Predictive intelligence is a force multiplier, enabling security organizations to allocate resources more effectively to prioritize various operational tasks based on actionable intelligence. Security organizations are seeking advanced data mining solutions that can generate accurate and actionable predictive intelligence to shorten investigation times and empower their teams with greater insights.

Our Strategy

We believe we are well positioned to address these market trends. The key elements of our growth strategy include:

- Address the Increased Complexity of Security Threats with Advanced Data Mining Software, Proven Intelligent Methodologies and Deep Domain Expertise. Verint has a long history of working closely with leading security organizations around the world and has designed its data mining software portfolio based on a thorough understanding of our customers' needs, proven intelligence methodologies and deep domain expertise. We believe this experience positions us well to expand existing customer relationships, win new customers, and continue to grow our data mining software portfolio to address evolving and more complex security threats.

- Leverage Automation Technologies to Reduce Dependency on Security Analysts and Data Scientists. Security analysts and data scientists are critical to conducting security investigations in an environment of growing complexity. However, given a shortage of these skilled resources, it is important to reduce the dependency on them by automating tedious and repetitive functions that previously required manual operation. Our strategy is to increase the use of automation and artificial intelligence technologies across our portfolio and introduce advanced data mining software that can further automate the intelligence and investigative processes for our customers, while reducing dependency on large numbers of intelligence analysts and data scientists.

- Improve the Effectiveness of Security Organizations with Predictive Intelligence Capabilities. Our data mining software portfolio provides our customers the capability to capture and analyze data and to generate predictive intelligence. Our strategy is to further enhance our software to empower security organizations with more accurate predictive intelligence by leveraging analytics and machine learning technologies that can correlate massive amounts of data from a wide range of disparate sources. Our solutions are engineered to collect and analyze vast amounts of data from multiple and diverse sources and leverage artificial intelligence, as well as other advanced analysis tools, to generate intelligence and predict future events, shortening the time to intelligence, reducing the number of routine tasks and empowering our customers to execute their missions faster and more efficiently.

Our Products

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Product Name	Description
Cyber Security	Our cyber security software captures cyber security data and applies machine learning and behavioral analytics to empower an organization's Security Operations Center. "Virtual Analysts" automate the process of detecting, investigating and responding to advanced cyber-attacks and drive intelligence to the security operations team.
Intelligence Fusion Center (IFC) and Web and Social Intelligence	Our Intelligence Fusion software enables security analysts to work more efficiently by fusing cross-organizational data-sources, generating and surfacing valuable insights, and turning knowledge into actions and predictive intelligence. Our Web & Social Intelligence software enables the collection, fusion and analysis of data from the web, including the deep web and dark nets, from social media blogs and from the media.
Network Intelligence Suite	Our network intelligence data mining software helps security organizations generate critical intelligence from large amount of data captured from a variety of network and open sources.
Situational Intelligence	Our Situational Intelligence software delivers intelligence to help organizations increase situational awareness, improve security responsiveness and realize greater operational efficiency. It captures and fuses data from multiple systems and sensors, such as access control, video, intrusion, fire, public safety, weather, traffic, first responder, and other mobile device systems. It enables security organizations to quickly fuse, analyze, and report information, and take action on risks, alarms, and incidents.

Our Solutions: By Industry

Verint offers its broad portfolio of Intelligence-Powered Security software to the security market across many industries, including:

- National Security agencies are using Verint solutions to prevent terrorism, collect intelligence and investigate security threats.
- Law Enforcement Agencies are using Verint solutions to fight a wide range of criminal activity, such as arson, drug trafficking, homicides, human trafficking, identity theft, kidnapping, anti-poaching, illegal immigration, financial crimes, and other organized crimes.
- Critical Infrastructure, such as airports, transportation systems, power plants, public and government facilities, are using Verint solutions to improve efficiency and effectiveness of physical security and to detect and respond to cyber threats.
- Enterprises are using Verint solutions to improve efficiency and effectiveness of security of physical assets and safety of people, to detect and respond to cyber threats, and to investigate fraud.
- Telecommunication Carriers are using Verint solutions to comply with certain government regulations requiring them to assist the government in their evidence and intelligence collection processes.

Our Solutions: By Security Challenge

Below are examples of the challenges security organizations around the world are using Verint's Intelligence-Powered Security portfolio to address:

- Terrorism - Tracking terrorist organizations and generating actionable intelligence for detecting and preventing terror attacks.

- Drug Trafficking - Identifying local and international drug networks, running complex investigations, generating legal evidence and taking action against traffickers.

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- Criminal Investigations - Accelerating investigations through behavioral profiles and visual link analysis and revealing investigation clues.
- Advanced Cyber Threats - Detecting breaches across attack chains and automating cyber investigations.
- Physical Security - Evaluating and responding more efficiently to incidents to ensure facility and asset protection, as well as employee safety.
- Poaching - Generating intelligence about sellers, middlemen and buyers of contraband.
- Financial Crime - Fusing data from financial databases, the web and other sources to identify and investigate suspicious financial transactions.
- Natural Disasters - Empowering field teams with intelligence to quickly zero-in on areas of need and provide urgent help.
- Border Control - Tracking and preventing illegal border activity.

Customer Services

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

Implementation and Training

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

Consulting

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

Managed Services

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

Maintenance and Support

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

Direct and Indirect Sales

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

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

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

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

Customers

Our solutions are used by over 10,000 organizations in more than 180 countries. In the year ended January 31, 2018, we derived approximately 65% and 35% of our revenue from the sale of our Customer Engagement and Cyber Intelligence solutions, respectively. In the year ended January 31, 2017, we derived approximately 66% and 34% of our revenue from the sale of our Customer Engagement and Cyber Intelligence solutions, respectively. In the year ended January 31, 2016, we derived approximately 61% and 39% of our revenue from the sale of our Customer Engagement and Cyber Intelligence solutions, respectively. We are party to contracts with customers in both of our segments, the loss of which could have a material adverse effect on the segment.

In the year ended January 31, 2018, we derived approximately 53%, 31%, and 16% of our revenue from sales to end users in the Americas, in Europe, the Middle East and Africa ("EMEA"), and in the Asia-Pacific ("APAC") regions, respectively. In the year ended January 31, 2017, we derived approximately 54%, 30%, and 16% of our revenue from sales to end users in the Americas, EMEA, and APAC, respectively. In the year ended January 31, 2016, we derived approximately 51%, 31%, and 18% of our revenue from sales to end users in the Americas, EMEA, and APAC, respectively. See also Note 15, "Segment, Geographic, and Significant Customer Information" to our consolidated financial statements included under Item 8 of this report for additional information and financial data about each of our operating segments and geographic regions.

For the year ended January 31, 2018, approximately one third of our business was generated from contracts with various governments around the world, including local, regional, and national government agencies. Due to the unique nature of the terms and conditions associated with government contracts generally, our government contracts may be subject to renegotiation or termination at the election of the government customer. Some of our customer engagements require us to have security credentials or to participate in projects through an approved legal entity.

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, potentially by a significant margin. In addition, we generally receive a higher volume of orders in the last month of a quarter, with orders concentrated in the later part of that month. We believe that these seasonal and cyclical factors primarily reflect customer spending patterns and budget cycles, as well as the impact of compensation incentive plans for our sales personnel. While seasonal and cyclical factors such as these are common in the software and technology industry, this pattern should not be considered a reliable indicator of our future revenue or financial performance. Many other factors, including general economic conditions, also have an impact on our business and financial results. See “Risk Factors” under Item 1A of this report for a more detailed discussion of factors which may affect our business and financial results.

Research and Development

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

To support our research and development efforts, we make significant investments in R&D every year. In the years ended January 31, 2018, 2017, and 2016, we spent approximately $190.6 million, $171.1 million, and $177.7 million, respectively, on R&D, net. We allocate our R&D resources in response to market research and customer demand for additional features and solutions. Our development strategy involves rolling out initial releases of our products and adding features over time. We incorporate product feedback received from our customers into our product development process. While the majority of our products are developed internally, in some cases, we also acquire or license technologies, products, and applications from third parties based on timing and cost considerations. See “Risk Factors—Risks Related to Our Business—Competition, Markets, and Operations—For certain products, components, or services, we rely on third-party suppliers, manufacturers, and partners, and if these relationships are interrupted we may not be able to obtain substitute suppliers, manufacturers, or partners on favorable terms or at all and we may be subject to other adverse effects” under Item 1A of this report.

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

Manufacturing, Suppliers, and Service Providers

While Verint is focused on developing software to accommodate customers’ desire for turnkey solutions, we also deliver solutions that incorporate third-party hardware components. This applies mainly to our Cyber Intelligence segment, as the majority of the solutions from our Customer Engagement segment are comprised of software and do not incorporate hardware components. We utilize both unaffiliated manufacturing subcontractors, as well as our internal operations, to produce, assemble, and deliver solutions incorporating hardware components. These internal operations consist primarily of installing our software on externally purchased hardware components, final assembly, repair, and testing, which involves the application of extensive quality control procedures to materials, components, subassemblies, and systems. We also perform system integration functions prior to shipping turnkey solutions to our customers. Our internal operations are performed primarily in our German, Israeli, U.S. and Cypriot facilities for solutions in our Cyber Intelligence segment, and in our U.S. facility for certain solutions in our Customer Engagement segment. Although we have occasionally experienced delays and shortages in the supply of proprietary components in the past, we have typically been able to obtain adequate supplies of all material components in a timely manner from alternative sources, when necessary. We also rely on third parties to provide certain services to us or to our customers, including hosting providers and providers of other cloud-based services. See “Risk Factors—Risks Related to Our Business—Competition, Markets, and Operations—For certain products, components, or services, we rely on third-party suppliers, manufacturers, and partners, and if these relationships are interrupted we may not be able to obtain substitute suppliers, manufacturers, or partners on favorable terms or at all and we may be subject to other adverse effects" under Item 1A of this report for a discussion of risks associated with our manufacturing operations and suppliers.

Employees

As of January 31, 2018, we employed approximately 5,200 professionals, including certain contractors, with approximately 42%, 22%, 24%, and 12% of our employees and contractors located in the Americas, Israel, EMEA (excluding Israel), and APAC, respectively.

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

Intellectual Property Rights

General

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

Patents

As of January 31, 2018, we had more than 850 patents and patent applications worldwide, including more than 130 patent issuances or allowances during the past year. We have accumulated a significant amount of proprietary know-how and expertise in developing Actionable Intelligence solutions. We regularly review new areas of technology related to our businesses to determine whether they can and should be patented.

Licenses

While we employ many of our innovations exclusively in our products and services, we also engage in outbound and inbound licensing of specific patented technologies. Our licenses are designed to prohibit unauthorized use, copying, and disclosure of our software technology. When we license our software to customers, we require license agreements containing restrictions and confidentiality terms customary in the industry in order to protect our proprietary rights in the software. These agreements generally warrant that the software and propriety hardware will materially comply with written documentation and assert that we own or have sufficient rights in the software we distribute and have not violated the intellectual property rights of others.
We license our products in a format that does not permit users to change the software code. See "Risk Factors—Risks Related to Our Business—Competition, Markets, and Operations—For certain products, components, or services, we rely on third-party suppliers, manufacturers, and partners, and if these relationships are interrupted we may not be able to obtain substitute suppliers, manufacturers, or partners on favorable terms or at all and we may be subject to other adverse effects" under Item 1A of this report.

We license certain software, technology, and related rights for use in the manufacture and marketing of our products and pay royalties to third parties under such licenses and other agreements. While it may be necessary in the future to seek or renew licenses relating to various aspects of our products, we believe, based on industry practice, such licenses generally can be obtained on commercially reasonable terms.

Trademarks and Service Marks

We use various trademarks and service marks to protect the marks used in our business. We also claim common law protections for other marks we use in our business. Competitors and other companies could adopt similar marks or try to prevent us from using our marks, consequently impeding our ability to build brand identity and possibly leading to customer confusion. See “Risk Factors—Risks Related to Our Business—Information/Product Security and Intellectual Property—Our intellectual property may not be adequately protected” under Item 1A of this report for a more detailed discussion regarding the risks associated with the protection of our intellectual property.

Competition

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

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

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

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

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

Export Regulations

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

Item 1A. Risk Factors

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

Risks Related to Our Business

Competition, Markets, and Operations

Our business is impacted by changes in general economic conditions and information technology and government spending in particular.

Our business is subject to risks arising from adverse changes in domestic and global economic conditions. Slowdowns, recessions, economic instability, political unrest, armed conflicts, or natural disasters around the world may cause companies and governments to delay, reduce, or even cancel planned spending. In particular, declines in information technology spending and limited or reduced government budgets have affected the markets for our solutions in both the Customer Engagement market and the Cyber Intelligence market in certain periods and in certain regions. For the year ended January 31, 2018, approximately one third of our business was generated from contracts with various governments around the world, including national, regional, and local government agencies. We expect that government contracts will continue to be a significant source of our revenue for the foreseeable future. Customers or partners who are facing business challenges, reduced budgets, or liquidity issues are also more likely to defer purchase decisions or cancel or reduce orders, as well as to delay or default on payments. If customers or partners significantly reduce their spending with us or significantly delay or fail to make payments to us, our business, results of operations, and financial condition would be materially adversely affected.

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

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

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

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

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

Our future success depends on our ability to enhance our existing operations, execute on our growth strategy, and properly manage investment in our business and operations.

A key element of our long-term strategy is to continue to invest in, enhance, and secure our business and operations and grow, both organically and through acquisitions. Investments in, among other things, new markets, new products, solutions, and technologies, R&D, infrastructure and systems, geographic expansion, and headcount are critical components for achieving this strategy. However, such investments and efforts may not be successful, especially in new areas or new markets in which we have little or no experience, and even if successful, may negatively impact our short-term profitability. Our success depends on our ability to effectively and efficiently enhance our existing operations and execute on our growth strategy. This includes our ability to properly allocate limited investment dollars, balance the extent and timing of investments with the associated impact on expenses and profitability, balance our focus between new areas or new markets and the operation and servicing of our legacy businesses and customers, capture efficiencies and economies of scale, and compete in the new areas or new markets and with the new solutions in which we have invested. Moreover, our existing infrastructure, systems, processes, and personnel may not be adequate for our current or future needs. For example, we recently upgraded our enterprise resource planning system and continue to work on the implementation of our new revenue recognition system. These kinds of implementations

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are complex, time-consuming, and expensive and we cannot assure you that we will not experience problems during or following such implementations, including among others, potential disruptions in our ability to report accurate and timely financial results. If we are unable to effectively and efficiently enhance our existing operations, execute on our growth strategy, and properly manage our investments, focus, and expenditures, our results of operations and market share may be materially adversely affected.

We may not be able to identify suitable targets for acquisition or investment, or complete acquisitions or investments on terms acceptable to us, which could negatively impact our ability to implement our growth strategy.
As part of our long-term growth strategy, we have made a number of acquisitions and investments and expect to continue to make acquisitions and investments in the future, subject to the terms of our senior credit agreement (the "2017 Credit Agreement"), the indenture governing our 1.50% convertible senior notes due June 1, 2021 (the "Notes"), and other restrictions.
In many areas, we have seen the market for acquisitions become more competitive and valuations increase. Our competitors also continue to make acquisitions in or adjacent to our markets and may have greater resources than we do, enabling them to pay higher prices. As a result, it may be more difficult for us to identify suitable acquisition or investment targets or to consummate acquisitions or investments once identified on acceptable terms or at all. If we are not able to execute on our acquisition strategy, we may not be able to achieve our long-term growth strategy, may lose market share, or may lose our leadership position in one or more of our markets.
Our acquisition and investment activity presents certain risks to our business, operations, and financial position.

Acquisitions and investments are an important part of our strategy. Successful execution of a transaction, including the process of integrating an acquired company's business following the closing of an acquisition or investment, is paramount to achieving the anticipated benefits of the transaction. If we are unable to execute successfully, we may experience both a loss on the investment and damage to our legacy business and valuation.

The process of integrating an acquired company's business into our operations and investing in new technologies is challenging and may result in expected or unexpected operating or compliance challenges, which may require significant expenditures and a significant amount of our management's attention that would otherwise be focused on the ongoing operation of our business. The potential difficulties or risks of integrating an acquired company's business include, among others:

- the effect of the acquisition on our financial and strategic positions and our reputation;
- risk that we fail to successfully implement our business plan for the combined business, including plans to accelerate growth;
- risk that we are unable to obtain the anticipated benefits of the acquisition, including synergies or economies of scale;
- risk of unforeseen or underestimated challenges associated with an acquired company's business or operations;
- risk that the market does not accept the integrated product portfolio;
- challenges in reconciling business practices or in integrating product development activities, logistics, or information technology and other systems;
- retention risk with respect to key customers, suppliers, and employees and challenges in assimilating and training new employees;
-

challenges in complying with newly applicable laws and regulations, including obtaining or retaining required approvals, licenses, and permits; and

- potential impact on our internal controls over financial reporting.

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

All of the foregoing risks may be magnified as the cost, size, or complexity of an acquisition or acquired company increases, where the acquired company's products, market, or business are materially different from ours, or where more than one transaction or integration is occurring simultaneously or within a concentrated period of time. There can be no assurance that we will be successful in making additional acquisitions in the future or in integrating or executing on our business plan for existing or future acquisitions.

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

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

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

- There is greater risk of customers deferring, scaling back, or cancelling sales as a result of, among other things, their receipt of a competitive proposal, changes in budgets and purchasing priorities, or the introduction or anticipated introduction of new or enhanced products by us or our competitors during the process.

- We may make a significant investment of time and money in opportunities that do not come to fruition, which investments may not be usable or recoverable in future projects.

- We may be required to bid on a project in advance of the completion of its design or be required to begin working on a project in advance of finalizing a sale, in either case, increasing the risk of unforeseen technological difficulties or cost overruns.

- We face greater downside risks if we do not correctly and efficiently deploy limited personnel and financial resources and convert such sales opportunities into orders.

Larger solution sales also require greater expertise in sales execution and transaction implementation than more basic product sales, including in establishing and maintaining appropriate contacts and relationships with customers and partners, product development, project management, staffing, integration, services, and support. Our ability to develop, sell, and support larger solutions and a broad solution portfolio is a competitive differentiator for us, which provides for diversification and more opportunities for growth, but also requires greater investment for us and challenges associated with competition for limited internal resources.

After the completion of a solution sale or the sale of a more sophisticated product in general, our customers or partners may need assistance from us in making full use of the functionality of these solutions or products, in realizing all of their benefits, or in implementation generally. If we are unable to assist our customers and partners in realizing the benefits they expect from our solutions and products, demand for our solutions and products may decline and our operating results may suffer.

The extended time frame and uncertainty associated with many of our sales opportunities also makes it difficult for us to accurately forecast our revenues (and attendant budgeting and guidance decisions) and increases the volatility of our operating results from period to period. Our ability to forecast and the volatility of our operating results is also impacted by the fact that pricing, margins, and other deal terms may vary substantially from transaction to transaction, especially across business lines. The terms of our transactions, including with respect to pricing, future deliverables, delivery model (e.g., perpetual license versus subscription), and post-contract customer support, also impact the timing of our ability to recognize revenue. Because these transaction-specific factors are difficult to predict in advance, this also complicates the forecasting of revenue and creates

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

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

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

For certain products, components, or services, we rely on third-party suppliers, manufacturers, and partners, and if these relationships are interrupted we may not be able to obtain substitute suppliers, manufacturers, or partners on favorable terms or at all and we may be subject to other adverse effects.

Although we generally use standard parts and components in our products, we do rely on non-affiliated suppliers and OEM partners for certain non-standard products or components which may be critical to our products, including both hardware and software, and on manufacturers of assemblies that are incorporated into our products. We also purchase technology, license intellectual property rights, and oversee third-party development and localization of certain products or components, in some cases, by or from companies that may compete with us or work with our competitors. While we endeavor to use larger, more established suppliers, manufacturers, and partners wherever possible, in some cases, these providers may be smaller, less established companies, particularly in the case of suppliers of new or unique technologies that we have not developed internally. If these suppliers, manufacturers, or partners experience financial, operational, manufacturing capacity, or quality assurance difficulties, cease production or sale, or there is any other disruption in our supply, including as a result of the acquisition of a supplier or partner by a competitor, we will be required to locate alternative sources of supply or manufacturing, to internally develop the applicable technologies, to redesign our products, and/or to remove certain features from our products, any of which would be likely to increase expenses, create delivery delays, and negatively impact our sales. Although we endeavor to establish contractual protections with key providers, including source code escrows (where needed), warranties, and indemnities, we may not be successful in obtaining adequate protections, these agreements may be short-term in duration, and the counterparties may be unwilling or unable to stand behind such protections. Moreover, these types of contractual protections offer limited practical benefits to us in the event our relationship with a key provider is interrupted.

We also rely on third parties to provide certain services to us or to our customers, including hosting partners and providers of other cloud-based services. If these third-party providers do not perform as expected, our customers may be adversely affected, resulting in potential liability and negative exposure for us. If it is necessary to migrate these services to other providers as a result of poor performance by these third parties, cyber breaches, other security considerations, or other financial or operational factors, it could result in service disruptions to our customers and significant time and expense to us, any of which could adversely affect our business.

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

We depend on the continued services of our management and employees to run and grow our business. To remain successful and to grow, we need to retain existing employees and attract new employees who understand and/or have experience with our products, services, and markets, including new markets and growth areas we may enter. As we grow, we must also enhance and expand our management team to execute on new and larger agendas and challenges. The market for qualified personnel is competitive in the geographies in which we operate and may be limited especially in areas of emerging technology, and we may be at a disadvantage to companies with greater brand recognition or financial resources in recruiting. If we are unable to

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attract and retain qualified personnel, when and where they are needed, our ability to operate and grow our business could be impaired. Moreover, if we are not able to properly balance investment in personnel with growth in our business, our profitability may be adversely affected.

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

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

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

- foreign currency fluctuations;
- political, security, and economic instability or corruption;
- changes in and compliance with both international and local laws and regulations, including those related to trade compliance, anti-corruption, information security, data privacy and protection, tax, labor, currency restrictions, and other requirements;
- differences in tax regimes and potentially adverse tax consequences of operating in foreign countries;
- product customization or localization issues;
- preferences for or policies and procedures that protect local suppliers;
- legal uncertainties regarding intellectual property rights or rights and obligations generally; and
- challenges or delays in collection of accounts receivable.

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

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

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

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

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

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Loss of security clearances or political factors may adversely affect our business.

Some of our subsidiaries maintain security clearances domestically and abroad in connection with the development, marketing, sale, and/or support of our Cyber Intelligence solutions. These clearances are reviewed from time to time by these countries and could be deactivated, including for political reasons unrelated to the merits of our solutions, such as the list of countries we do business with or the fact that our local entity is controlled by or affiliated with an entity based in another country. If we lose our security clearances in a particular country, we may be unable to sell our Cyber Intelligence solutions for secure projects in that country and might also experience greater challenges in selling such solutions even for non-secure projects in that country. Even if we are able to obtain and maintain applicable security clearances, government customers may decline to purchase our Cyber Intelligence solutions if they were not developed or manufactured in that country or if they were developed or manufactured in other countries that are considered disfavored by such country. We may also experience negative publicity or other adverse impacts on our business as a result of offering certain types of Cyber Intelligence solutions or if we sell our Cyber Intelligence solutions to countries that are considered disfavored by the media or political or social rights organizations even where such activities or transactions are permissible under applicable law.

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

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

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

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

Regulation of privacy and data security may adversely affect sales of our products and result in increased compliance costs.

We believe that regulation will continue to increase around the world with respect to the solicitation, collection, processing, and/or use of personal, financial, and consumer information. In addition, the interpretation and application of existing consumer and data protection laws and industry standards in the United States, Europe, and elsewhere are often uncertain and in flux. The application of existing laws to cloud-based solutions is particularly uncertain and cloud-based solutions may be subject to further regulation, the impact of which cannot be fully understood at this time. Moreover, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data and privacy practices. Complying with these various laws and regulations may cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

Information / Product Security and Intellectual Property

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

Our products are in some cases used by customers to compile and analyze highly sensitive or confidential information and data, including information or data used in intelligence gathering or law enforcement activities. While our customers' use of our products does not provide us access to the customer's sensitive or confidential information or data, we or our partners may receive or come into contact with such information or data, including personally identifiable information, when we are asked to perform services or support functions for our customers. We or our partners may also receive or come into contact with such information or data in connection with our SaaS or other hosted or managed services offerings. We have implemented policies and procedures, and use information technology systems, to help ensure the proper handling of such information and data, including background screening of certain services personnel, non-disclosure agreements with employees and partners, access rules, and controls on our information technology systems. Customers are also increasingly focused on the security of our products and services and we continuously work to address these concerns, including through the use of encryption, access rights, and other customary security features, which vary based on the solution in question and customer requirements. However, these measures are designed to mitigate the risks associated with handling or processing sensitive data and cannot safeguard against all risks at all times. The improper handling of sensitive data, or even the perception of such mishandling (whether or not valid), or other security lapses or breaches affecting us, our partners, or our products or services, could reduce demand for our products or services or otherwise expose us to financial or reputational harm or legal liability.

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

Many of our existing solutions are and future solutions are expected to be sophisticated and may develop operational problems. New products and new product versions, service models such as hosting, SaaS, and managed services, and the incorporation of third-party products or services into our solutions, also give rise to the risk of defects or errors. These defects or errors may relate to the operation or the security of the products. If we do not discover and remedy such defects, errors, or other operational or security problems until after a product has been released to customers or partners, we may incur significant costs to correct such problems and/or become liable for substantial damages for product liability claims or other liabilities. Moreover, even products or services that are well-designed and tested may be vulnerable to cyber-attacks. If one or more of our products or services, including elements provided by third-party suppliers or partners, are found to have defects or errors, or if there is a successful cyber-attack on one of our products or services even absent a defect or error, it may also result in questions regarding the integrity of our products or services generally, which could cause adverse publicity and impair their market acceptance and could have a material adverse effect on our results or financial condition.

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

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

Our intellectual property may not be adequately protected.

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

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

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

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

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

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

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

Risks Related to Our Finances and Capital Structure

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

At March 15, 2018, we had total outstanding indebtedness of approximately $822 million under our 2017 Credit Agreement and the Notes, meaning that we are significantly leveraged. In addition, we have the ability to borrow additional amounts under our 2017 Credit Agreement, including the revolving credit facility, for a variety of purposes, including, among others, acquisitions and stock repurchases. Our leverage position may, among other things:

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

- require us to dedicate a substantial portion of our cash flow from operations to debt service, reducing the availability of our cash flow for other purposes;

- require us to repatriate cash for debt service from our foreign subsidiaries resulting in dividend tax costs or require us to adopt other disadvantageous tax structures to accommodate debt service payments; or

- increase our vulnerability to economic downturns, limit our ability to capitalize on significant business opportunities, and restrict our flexibility to react to changes in market or industry conditions.

In addition, because our indebtedness under our 2017 Credit Agreement bears interest at a variable rate, we are exposed to risk from fluctuations in interest rates.

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

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

- incur additional indebtedness or liens or issue preferred stock;

- pay dividends or make other distributions or repurchase or redeem our stock or subordinated indebtedness;

- engage in transactions with affiliates;

- engage in sale-leaseback transactions;

- sell certain assets;

- change our lines of business;

- make investments, loans, or advances; and

- engage in consolidations, mergers, liquidations, or dissolutions.

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

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

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

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

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

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

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

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

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

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

As a result of our historical affiliation with CTI and other members of the historical CTI consolidated tax group, we could also become liable for taxes of other members of the CTI consolidated group for historical periods under certain circumstances. Adjustments to the historical CTI consolidated group's tax liability for periods prior to Verint's IPO could also affect the NOLs allocated to Verint in the IPO and cause us to incur additional tax liability in future periods.

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

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

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

We have significant deferred tax assets which can provide us with significant future cash tax savings if we are able to use them, including significant NOLs inherited as a result of the CTI Merger. However, the extent to which we will be able to use these

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

In addition, on December 22, 2017, the 2017 Tax Act was enacted in the United States. The 2017 Tax Act significantly revises the Internal Revenue Code of 1986, as amended, and it includes fundamental changes to taxation of U.S. multinational corporations.

The key provisions impacting our January 31, 2018 year include a reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21% and our use of NOLs to reduce the one-time tax on previously untaxed earnings of foreign subsidiaries at reduced rates regardless of whether the earnings are actually repatriated (the “Transition Tax”).

Additional provisions that are effective beginning after January 31, 2018, which may significantly impact our effective tax rate, include new limitations on the tax deductions for interest expense and executive compensation, elimination of the alternative minimum tax (“AMT”) and the ability to refund unused AMT credits over a four year period, and new rules related to uses and limitations of NOL carryforwards. New international provisions add a new category of deemed income from our foreign operations, eliminates U.S. tax on foreign dividends (subject to certain restrictions), and add a minimum tax on certain payments made to foreign related parties.

Compliance with the 2017 Tax Act will require significant complex computations not previously required by U.S. tax law. It is unclear how certain provisions of the 2017 Tax Act will be applied absent further legislative, regulatory, or accounting clarification and guidance. In addition, it is uncertain if and to what extent various states will enact legislation to conform to the 2017 Tax Act. It is also uncertain if and to what extent foreign governments may enact tax legislation in response to the 2017 Tax Act. These uncertainties and the final interpretation of the 2017 Tax Act may adversely affect our business and financial condition.
Changes in accounting principles, or interpretations thereof, could adversely impact our financial condition or operating results.

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

For example, in May 2014, the Financial Accounting Standard Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes nearly all existing GAAP revenue recognition guidance, changes how and when revenue is recognized, and provides guidance on how to account for costs related to contracts with customers. This new guidance became effective for us on February 1, 2018. We are implementing changes to our accounting systems and processes, internal controls, and disclosures to comply with the requirements of the new guidance. Our assessment of this new revenue recognition guidance and its impact is further discussed in Note 1, “Summary of Significant Accounting Policies” to our consolidated financial statements included under Item 8 of this report, under “Recent Accounting Pronouncements”, along with discussions of other new accounting standards.

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

Our system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect every misstatement. An evaluation of effectiveness is subject to the risk that the controls may become inadequate because of changes in conditions, because the degree of compliance with policies or procedures decreases over time, or because of unanticipated circumstances or other factors. As a result, although our management has concluded that our internal controls are

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effective as of January 31, 2018, we cannot assure you that our internal controls will prevent or detect every misstatement, that material weaknesses or other deficiencies will not occur or be identified in the future, that this or future financial reports will not contain material misstatements or omissions, that future restatements will not be required, or that we will be able to timely comply with our reporting obligations in the future.

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

Because we have historically acquired a significant number of companies, goodwill and other intangible assets have represented a substantial portion of our assets. Goodwill and other intangible assets totaled approximately $1.6 billion, or approximately 63% of our total assets, as of January 31, 2018. We test our goodwill for impairment at least annually, or more frequently if an event occurs indicating the potential for impairment, and we assess on an as-needed basis whether there have been impairments in our other intangible assets. We make assumptions and estimates in this assessment which are complex and often subjective. These assumptions and estimates can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy or our internal forecasts. To the extent that the factors described above change, we could be required to record additional non-cash impairment charges in the future, which could negatively affect our financial condition and results of operations.

Our international operations subject us to currency exchange risk.

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

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

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

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

- announcements by us or our competitors regarding, among other things, strategic changes, new products, product enhancements or technological advances, acquisitions, major transactions, stock repurchases, or management changes;
-

speculation in the press and the analyst community, including with respect to changes in recommendations or earnings estimates or growth rates by financial analysts, changes in investors' or analysts' valuation measures for our securities, our credit ratings, or market trends unrelated to our performance;

- stock sales by our directors, officers, or other significant holders, or stock repurchases by us;
- hedging or arbitrage trading activity by third parties, including by the counterparties to the note hedge and warrant transactions that we entered into in connection with the issuance of the Notes; and
- dilution that may occur upon any conversion of the Notes.

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

We lease a total of approximately 1.1 million square feet of office space covering approximately 72 offices around the world and we own an aggregate of approximately 79,000 square feet of office space at three sites in Scotland, Germany, and Indonesia.

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

Our corporate headquarters is located in a leased facility in Melville, New York, and consists of approximately 49,000 square feet of space under a lease that we entered into on February 13, 2015 and that expires in 2027. The Melville facility is used primarily by our executive management and corporate groups, including finance, legal, and human resources, as well as for customer support and services for our Customer Engagement operations.

We lease approximately 132,700 square feet of space at a facility in Alpharetta, Georgia under a lease that expires in 2026. The Alpharetta facility is used primarily by the administrative, marketing, product development, support, and sales groups for our Customer Engagement operations.

We also occupy approximately 176,000 square feet of space at our main facility in Herzliya, Israel under a lease that we renewed on October 1, 2015 and that expires in 2025. This Herzliya facility is used primarily for logistics and storage, development, sales, marketing, and support related to our Cyber Intelligence operations. We also lease approximately 52,000 square feet of space at secondary facilities in Herzliya under leases with varying expiration dates.

From time to time, we may lease or sublease portions of our owned or leased facilities to third parties based on our operational needs. For additional information regarding our lease obligations, see Note 14, “Commitments and Contingencies” to our consolidated financial statements included under Item 8 of this report.

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

Item 3. Legal Proceedings

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

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of the suspension of option exercises during the period from March 2006 through March 2010, during which we did not make periodic filings with the SEC as a result of certain internal and external investigations and reviews of accounting matters discussed in our prior public filings. In the Deutsch District Action, in addition to a small amount of individual damages, Ms. Deutsch was seeking to certify a class of plaintiffs who were allegedly damaged due to their inability to exercise Verint and CTI stock options as a result of alleged negligence by CTI in its financial reporting. The class certification motions did not specify an amount of damages. On February 8, 2010, the Deutsch Labor Action was dismissed for lack of material jurisdiction and was transferred to the Tel Aviv District Court and consolidated with the Deutsch District Action.

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

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

Prior to the consummation of the Comverse Share Distribution, CTI either sold or transferred substantially all of its business operations and assets (other than its equity ownership interests in us and its then-subsidiary, Comverse, Inc.) to Comverse, Inc. or unaffiliated third parties. On October 31, 2012, CTI completed the Comverse Share Distribution, in which it distributed all of the outstanding shares of common stock of Comverse, Inc. to CTI's shareholders. As a result of the Comverse Share Distribution, Comverse became an independent company and ceased to be a wholly owned subsidiary of CTI, and CTI ceased to have any material assets other than its equity interest in us. As of February 28, 2017, Mavenir Inc. became successor-in-interest to Comverse, Inc.

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

Following an unsuccessful mediation process, the proceeding before the District Court resumed. 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 Mavenir) or VSL who held unexercised CTI stock options at the time CTI suspended option exercises. The court also ruled that the merits of the case and any calculation of damages would be evaluated under New York law.

On December 15, 2016, CTI filed with the Supreme Court a motion for leave to appeal the District Court's August 28, 2016 ruling. The plaintiffs did not file an appeal of the District Court's August 28, 2016 ruling. On February 5, 2017, the District Court approved the plaintiffs' motion to appoint a new representative plaintiff, Mr. David Vaaknin, for the

current or former employees of VSL who held unexercised CTI stock options at the time CTI suspended option exercises, in replacement of Ms. Deutsch.
On August 8, 2017, the 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 in this case under New York law, based on CTI’s previously submitted expert opinion and the opinion of any expert the plaintiffs elect to introduce.

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On November 28, 2017, the plaintiffs submitted an expert opinion regarding New York law. On January 3, 2018, CTI filed a motion to dismiss the motion to certify the class action on the basis that the New York law opinion submitted by the plaintiffs does not directly address the causes of action in question, or alternatively, to dismiss the portions of the opinion that do not specifically relate to CTI's expert opinion. On January 22, 2018, the court ruled that the plaintiffs should submit a motion to amend their class certification motion and that CTI's motion to dismiss would remain pending. Based on input from the court, the parties have agreed to enter into a further round of mediation in an effort to settle the matter.

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

Market Information

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

The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported by the NASDAQ Global Select Market.

	Low	High
Year Ended January 31, 2017:		
First quarter	$29.76	$38.00
Second quarter	$31.43	$37.13
Third quarter	$33.59	$39.68
Fourth quarter	$33.40	$38.95
Year Ended January 31, 2018:		
First quarter	$35.90	$44.70
Second quarter	$38.55	$44.25
Third quarter	$37.05	$44.10
Fourth quarter	$38.35	$44.55

Holders

There were approximately 1,800 holders of record of our common stock at March 15, 2018. Such record holders include holders who are nominees for an undetermined number of beneficial owners.

Dividends

We have not declared or paid any cash dividends on our equity securities and have no current plans to pay any dividends on our equity securities. We intend to retain our earnings to finance the development of our business, repay debt, and for other corporate purposes. In addition, the terms of our 2017 Credit Agreement restrict our ability to pay cash dividends on shares of our common stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" included under Item 7 of this report and Note 6, "Long-Term Debt" to our consolidated financial statements included under Item 8 of this report for a more detailed discussion of these limitations.

Any future determination as to the payment of dividends on our common stock will be made by our board of directors at its discretion, subject to the limitations contained in our 2017 Credit Agreement and will depend upon our earnings, financial condition, capital requirements, and other relevant factors.

Stock Performance Graph

The following table compares the cumulative total stockholder return on our common stock with the cumulative total return on the NASDAQ Composite Index and the NASDAQ Computer & Data Processing Services Index, assuming an investment of $100 on January 31, 2013 through January 31, 2018, and the reinvestment of any dividends. The comparisons in the graph below are based upon the closing sale prices on NASDAQ for our common stock from

January 31, 2013 through January 31, 2018. This data is not indicative of, nor intended to forecast, future performance of our common stock.

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January 31,	2013	2014	2015	2016	2017	2018
Verint Systems Inc.	$100.00	$134.44	$157.93	$108.31	$110.50	$123.52
NASDAQ Composite Index	$100.00	$133.35	$152.66	$153.70	$187.33	$249.85
NASDAQ Computer & Data Processing Index	$100.00	$145.41	$153.09	$191.82	$222.37	$322.02

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

On March 29, 2016, we announced that our board of directors had authorized a common stock repurchase program of up to $150 million over two years. This program expires on March 29, 2018. We have made a total of $46.9 million in repurchases under the program.

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 year ended January 31, 2018.

Item 6. Selected Financial Data

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

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

Five-Year Selected Financial Highlights:

Consolidated Statements of Operations Data

	Year Ended January 31,				
(in thousands, except per share data)	2018	2017	2016	2015	2014
Revenue	$1,135,229	$1,062,106	$1,130,266	$1,128,436	$907,292
Operating income	$48,630	$17,366	$67,852	$79,111	$122,286
Net (loss) income	$(3,454)	$(26,246)	$22,228	$36,402	$58,776
Net (loss) income attributable to Verint Systems Inc.	$(6,627)	$(29,380)	$17,638	$30,931	$53,757
Net (loss) income attributable to Verint Systems Inc. common shares	$(6,627)	$(29,380)	$17,638	$30,931	$53,583
Net (loss) income per share attributable to Verint Systems Inc.:					
Basic	$(0.10)	$(0.47)	$0.29	$0.53	$1.01
Diluted	$(0.10)	$(0.47)	$0.28	$0.52	$0.99
Weighted-average shares:					
Basic	63,312	62,593	61,813	58,096	52,967
Diluted	63,312	62,593	62,921	59,374	53,878

We have never declared a cash dividend to common stockholders.

Consolidated Balance Sheet Data

	January 31,				
(in thousands)	2018	2017	2016	2015	2014
Total assets	$2,580,620	$2,362,784	$2,355,735	$2,340,452	$1,768,192
Long-term debt, including current maturities	$772,984	$748,871	$738,087	$726,258	$637,670
Capital lease obligations, including current portions	$4,350	$68	$—	$—	$—
Total stockholders' equity	$1,132,336	$1,015,040	$1,068,164	$1,004,903	$633,118

During the five-year period ended January 31, 2018, we acquired a number of businesses, the more significant of which are identified in the table below. The operating results of acquired businesses have been included in our consolidated financial statements since their respective acquisition dates.

Our consolidated operating results and consolidated financial condition during the five-year period ended January 31, 2018 included the following notable transactions and items:

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As of and for the year ended January 31,	Description
2018	• Completion of seven business combination throughout the year, for total consideration of approximately $136.0 million. • Losses on early retirements of debt of $2.2 million, associated with refinancing and amending our Credit Agreement. • Provisional deferred income tax expense of $15.0 million related to withholding on foreign earnings which may be repatriated.
2017	• Completion of the acquisitions of Contact Solutions LLC in February 2016 and OpinionLab, Inc. in November 2016.
2016	• None
2015	• Completion of the acquisitions of KANA Software, Inc. and its subsidiaries (“KANA”) in February 2014 and UTX Technologies Limited in March 2014. • An income tax benefit of $44.4 million resulting from the reduction of a valuation allowance on our deferred income tax assets recorded in connection with the acquisition of KANA. • Losses on early retirements of debt of $12.5 million, primarily associated with an amendment to our Credit Agreement and the early partial retirement of our term loans.
2014	• Completion of the CTI Merger on February 4, 2013. • Losses on early retirements of debt of $9.9 million, primarily associated with an amendment to our Credit Agreement.

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

The following management’s discussion and analysis of our financial condition and results of operations should be read in conjunction with “Business” under Item 1, “Selected Financial Data” under Item 6, and our consolidated financial statements and the related notes thereto included under Item 8 of this report. This discussion contains a number of forward-looking statements, all of which are based on our current expectations and all of which could be affected by uncertainties and risks. Our actual results may differ materially from the results contemplated in these forward-looking statements as a result of many factors including, but not limited to, those described in “Risk Factors” under Item 1A of this report.

Overview

Our Business

Verint is a global leader in Actionable Intelligence solutions. Actionable Intelligence is a necessity in a dynamic world of massive information growth because it empowers organizations with crucial insights and enables decision makers to anticipate, respond, and take action. With Verint solutions and value-added services, organizations of all sizes and across many industries can make more informed, timely, and effective decisions. Today, over 10,000 organizations in more than 180 countries, including over 85 percent of the Fortune 100, use Verint solutions to optimize customer engagement and make the world a safer place.

We have established leadership positions in Actionable Intelligence by developing highly-scalable, enterprise-class software and services with advanced, integrated analytics for both structured and unstructured information. Our innovative solutions are developed by a large research and development (“R&D”) team comprised of approximately 1,400 professionals and backed by more than 850 patents and patent applications worldwide.

To help our customers maximize the benefits of our technology over the solution lifecycle and provide a high degree of flexibility, we offer a broad range of services, such as strategic consulting, managed services, implementation services, training, maintenance, and 24x7 support. Additionally, we offer a broad range of deployment options, including cloud, on-premises, and hybrid, and software licensing and delivery models that include perpetual licenses and SaaS.

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In August 2016, we reorganized into two businesses, and are now reporting our results in two operating segments, Customer Engagement and Cyber Intelligence. For the years ended January 31, 2018, 2017, and 2016, our Customer Engagement segment represented approximately 65%, 66%, and 61% of our total revenue, respectively, while for those same years, our Cyber Intelligence segment represented approximately 35%, 34%, and 39% of our total revenue, respectively.

Generally, we make business decisions by evaluating the risks and rewards of the opportunities available to us in the markets served by each of our segments. We view each operating segment differently and allocate capital, personnel, resources, and management attention accordingly. In reviewing each operating segment, we also review the performance of that segment by geography. Our marketing and sales strategies, expansion opportunities, and product offerings may differ materially within a particular segment geographically, as may our allocation of resources between segments. When making decisions regarding investments in our business, capital expenditures, or other decisions that may affect our profitability, we also consider the leverage ratio in our revolving credit facility. See "— Liquidity and Capital Resources" for more information.

Key Trends and Factors That May Impact our Performance

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

Customer Engagement

- Many organizations have significant investments in existing legacy systems that they wish to protect. Our open portfolio is designed to easily integrate into customers' current and evolving technology environments, and easily share data across the organization. Our open portfolio is also compatible with leading providers of call center communications products, which provides organizations flexibility to select the most suitable solutions for their contact centers, while leveraging Verint's portfolio for the both the contact center and enterprise. We believe this compatibility is particularly important now as the contact center communications market is evolving with new entrants offering disruptive approaches to communications.

- 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. We offer organizations a smooth transition to the cloud, and through our hybrid cloud model, organizations can deploy solutions from our portfolio in public cloud (SaaS), private cloud and perpetual license models, or combinations of these models. Organizations are looking for solutions that incorporate machine learning and analytics to automate work and reduce manual labor. Our solutions enable organizations to draw on the power of automation to reduce repetitive, manual tasks, increase employee efficiency, and lower cost. Our growth will be impacted by the rate of adoption of our new solutions and the rate of market saturation for our legacy, more mature solutions.

Cyber Intelligence

- Security and intelligence organizations are finding it more difficult to detect, investigate and neutralize threats. Many of these organizations are seeking to deploy more advanced data mining solutions that can help them capture and analyze data from multiple sources to effectively and efficiently address the challenge of the increased complexity and sophistication of today's security threats and encrypted communications. Verint has a long history of working closely with leading security organizations around the world and has designed its data mining software portfolio based on a deep understanding of our customers' needs, proven intelligence methodologies and deep domain expertise in an effort to help them address these constantly evolving challenges. Our growth will be impacted by our ability to innovate and work with customers to address the more complex security and intelligence challenges.

- Many security organizations are seeking advanced data mining solutions that automate functions historically performed manually to improve the quality and speed of investigations and intelligence production. These organizations are also increasingly seeking artificial intelligence and other advanced data analysis tools such as predictive intelligence to gain intelligence faster with fewer analysts and data scientists, especially given the shortage of qualified personnel in today's market. Our growth will be impacted by our ability to leverage automation and predictive intelligence technologies to improve the quality and speed of investigations and intelligence production.

See Item 1, "Business", of this report for more information on key trends that we believe are driving demand for our solutions and "Risk Factors" under Item 1A of this report for a more complete description of risks that may impact future revenue and profitability.

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Critical Accounting Policies and Estimates

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

Revenue Recognition

Our revenue recognition policy is a critical component of determining our operating results and is based on a complex set of accounting rules that require us to make significant judgments and estimates. We derive and report our revenue in two categories: (a) product revenue, including licensing of software products and sale of hardware products (which include software that works together with the hardware to deliver the product's essential functionality), and (b) service and support revenue, including revenue from installation services, post-contract customer support ("PCS"), project management, hosting services, SaaS, application managed services, product warranties, business advisory consulting and training services. We follow the appropriate revenue recognition rules for each of these revenue streams. For additional information, see Note 1, "Summary of Significant Accounting Policies" to our consolidated financial statements included under Item 8 of this report. Revenue recognition for a particular arrangement is dependent upon such factors as the level of customization within the solution and the contractual delivery, acceptance, payment, and support terms with the customer. Significant judgment is often required to conclude on each of these factors, and if we were to change any of these assumptions or judgments, it could cause a material increase or decrease in the amount of revenue that we report in a particular period.

We generally consider a purchase order or executed sales quote, when combined with a master license agreement, to constitute evidence of an arrangement. Delivery occurs when the product is shipped or transmitted and title and risk of loss have transferred to the customers. Our typical customer arrangements do not include substantive product acceptance provisions; however, if such provisions are provided, delivery is deemed to occur upon acceptance. We consider the fee to be fixed or determinable unless the fee is subject to refund or adjustment or is not payable within our standard payment terms. If the fee due from a customer is not fixed or determinable due to extended payment terms, revenue is recognized when payment becomes due or upon cash receipt, whichever is earlier.

For multiple-element arrangements comprised only of tangible products containing software components and non-software components and related services, we allocate revenue to each element in an arrangement based on a selling price hierarchy. The selling price for a deliverable is based on its vendor-specific objective evidence ("VSOE"), if available, third-party evidence ("TPE"), if VSOE is not available, or estimated selling price ("ESP"), if neither VSOE nor TPE is available. The total transaction revenue is allocated to the multiple elements based on each element's relative selling price compared to the total selling price.

We account for multiple-element arrangements that contain only software and software-related elements by allocating a portion of the total purchase price to the undelivered elements, primarily installation services, PCS, consulting, and training, using VSOE of fair value of the undelivered elements. The remaining portion of the total transaction value is allocated to the delivered software, referred to as the residual method. If we are unable to establish VSOE for the undelivered elements of the arrangement, revenue recognition is deferred for the entire arrangement until all elements of the arrangement are delivered, unless the only undelivered element is PCS, in which case we recognize the arrangement fee ratably over the PCS period.

For multiple-element arrangements that are comprised of a combination of software and non-software deliverables, the total transaction value is bifurcated between the software deliverables and non-software deliverables based on the relative selling prices of the software and non-software deliverables as a group. Revenue is then recognized for the software and software-related services following the residual method or ratably over the PCS period if VSOE for PCS does not exist, and for the non-software deliverables following the revenue recognition methodology outlined above for multiple-element arrangements that contain tangible products and other non-software related services.

Our policy for establishing VSOE for installation, business advisory consulting, and training is based upon an analysis of separate sales of services. We utilize either the substantive renewal rate approach or the bell-shaped curve approach to establish VSOE for our PCS offerings, depending upon the business segment, geographical region, or product line. The timing of revenue recognition on software licenses and other revenue could be significantly impacted if we are unable to maintain VSOE on one or more undelivered elements during any quarterly period. Loss of VSOE could result in (i) the complete deferral of all revenue or (ii) ratable recognition of all revenue under a customer arrangement until such time as VSOE is re-established.

If we are unable to determine the selling price because VSOE or TPE does not exist, we determine ESP for the purposes of allocating the arrangement by considering several external and internal factors including, but not limited to, pricing practices, similar product offerings, margin objectives, geographies in which we offer our products and services, internal costs, competition, and product lifecycle. The determination of ESP is made through consultation with and approval by our management, taking into consideration our go-to-market strategies. We have established processes to update ESP for each element, when appropriate, to ensure that it reflects recent pricing experience.

PCS revenue is derived from providing technical software support services and unspecified software updates and upgrades to customers on a when-and-if-available basis. PCS revenue is recognized ratably over the term of the maintenance period which, in most cases, is one year. When PCS is included within a multiple-element arrangement, we utilize either the substantive renewal rate approach or the bell-shaped curve approach to establish VSOE of the PCS, depending upon the business operating segment, geographical region, or product line.

Under the substantive renewal rate approach, we believe it is necessary to evaluate whether both the support renewal rate and term are substantive, and whether the renewal rate is being consistently applied to subsequent renewals for a particular customer. We establish VSOE under this approach through analyzing the renewal rate stated in the customer agreement and determining whether that rate is above the minimum substantive VSOE renewal rate established for that particular PCS offering. The minimum substantive VSOE rate is determined based upon an analysis of renewal rates associated with historical PCS contracts. Typically, renewal rates of 15% for PCS plans that provide when-and-if-available upgrades, and 10% for plans that do not provide for when-and-if-available upgrades, would be deemed to be minimum substantive renewal rates.

Under the bell-shaped curve approach of establishing VSOE, we perform a VSOE compliance test to ensure that a substantial majority (75% or over) of our actual PCS renewals are within a narrow range of plus or minus 15% of the median pricing.

Some of our arrangements require significant customization of the product to meet the particular requirements of the customer. For these arrangements, revenue is recognized under contract accounting methods, typically using the percentage of completion (“POC”) method. Under the POC method, revenue recognition is generally based upon the ratio of hours incurred to date to the total estimated hours required to complete the contract. Profit estimates on long-term contracts are revised periodically based on changes in circumstances, and any losses on contracts are recognized in the period that such losses become evident. Generally, the terms of long-term contracts provide for progress billings based on completion of milestones or other defined phases of work. Significant judgment is often required when estimating total hours and progress to completion on these arrangements, as well as whether a loss is expected to be incurred on the contract due to several factors including the degree of customization required and the customer’s existing environment. We use historical experience, project plans, and an assessment of the risks and uncertainties inherent in the arrangement to establish these estimates. Uncertainties in these arrangements include implementation delays or performance issues that may or may not be within our control.

We extend customary trade payment terms to our customers in the normal course of conducting business. To assess the probability of collection for purposes of revenue recognition, we have established credit policies that establish prudent credit limits for our customers. These credit limits are based upon our risk assessment of the customer’s ability to pay, their payment history, geographic risk, and other factors, and are not contingent upon the resale of the product or upon the collection of payments from their customers. These credit limits are reviewed and revised periodically on the basis of updated customer financial statement information, payment performance, and other factors. When a customer is not deemed creditworthy, revenue is recognized when payment is received.

We record provisions for estimated product returns in the same period in which the associated revenue is recognized. We base these estimates of product returns upon historical levels of sales returns and other known factors. Actual product returns could be different from our estimates and current or future provisions for product returns may differ from historical provisions. Concessions granted to customers are recorded as reductions to revenue in the period in which they were granted and have been minimal in both amount and frequency.

Product revenue derived from shipments to resellers and OEMs who purchase our products for resale are generally recognized when such products are shipped (on a “sell-in” basis) since we do not expect our resellers or OEMs to carry inventory of our products. This policy is predicated on our ability to estimate sales returns as well as other criteria regarding these customers. We are also required to evaluate whether our resellers and OEMs have the ability to honor their commitment to make fixed or determinable payments regardless of whether they collect payment from their customers. In this regard, we assess whether our resellers and OEMs are new, poorly capitalized, or experiencing financial difficulty, and whether they have a pattern of not paying as amounts become due on previous arrangements or seeking payment terms longer than those provided to end customers. If we were to change any of these assumptions or judgments, it could cause a material change to the revenue

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reported in a particular period. We have historically experienced insignificant product returns from resellers and OEMs, and our payment terms for these customers are similar to those granted to our end-users. Our policy also presumes that we have no significant performance obligations in connection with the sale of our products by our resellers and OEMs to their customers. If a reseller or OEM develops a pattern of payment delinquency, or seeks payment terms longer than generally granted to our resellers or OEMs, we defer the recognition of revenue from transactions with that reseller or OEM until the receipt of cash.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes nearly all existing revenue recognition guidance under GAAP. The standard's core principle is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 defines a five-step process to implement this core principle. In implementing this new principle, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing revenue recognition guidance. We adopted ASU No. 2014-09 under the modified retrospective option effective February 1, 2018. For additional information regarding the new revenue recognition accounting standard, please refer to Note 1, "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements included under Item 8 of this report, under "Recent Accounting Pronouncements".

Allowance for Doubtful Accounts

We estimate the collectability of our accounts receivable balances each accounting period and adjust our allowance for doubtful accounts accordingly. We exercise a considerable amount of judgment in assessing the collectability of accounts receivable, including consideration of the creditworthiness of each customer, their collection history, and the related aging of past due accounts receivable balances. We evaluate specific accounts when we learn that a customer may be experiencing a deterioration of its financial condition due to lower credit ratings, bankruptcy, or other factors that may affect its ability to render payment. If the financial condition of our customers were to deteriorate, affecting their ability to make payments, additional customer-specific provisions for doubtful accounts may be required. Any such additional provisions would reduce operating income in the periods in which they were recorded.

Accounting for Business Combinations

We allocate the purchase price of acquired companies to the tangible and intangible assets acquired, including in-process research and development assets, and liabilities assumed, based upon their estimated fair values at the acquisition date. These fair values are typically estimated with assistance from independent valuation specialists. The purchase price allocation process requires us to make significant estimates and assumptions, especially at the acquisition date with respect to intangible assets, contractual support obligations assumed, contingent consideration arrangements, and pre-acquisition contingencies.

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

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

- future expected cash flows from software license sales, support agreements, consulting contracts, other customer contracts, and acquired developed technologies;
-

expected costs to develop in-process research and development into commercially viable products and estimated cash flows from the projects when completed;

- the acquired company’s brand and competitive position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company’s product portfolio;
- cost of capital and discount rates; and
- estimating the useful lives of acquired assets as well as the pattern or manner in which the assets will amortize.

In connection with the purchase price allocations for applicable acquisitions, we estimate the fair value of the contractual support obligations we are assuming from the acquired business. The estimated fair value of the support obligations is determined utilizing a cost build-up approach, which determines fair value by estimating the costs related to fulfilling the obligations plus a reasonable profit margin. The estimated costs to fulfill the support obligations are based on the historical

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direct costs related to providing the support services. The sum of these costs and operating profit represents an approximation of the amount that we would be required to pay a third party to assume the support obligations.

Impairment of Goodwill and Other Intangible Assets

We test goodwill for impairment at the reporting unit level, which can be an operating segment or one level below an operating segment, on an annual basis as of November 1, or more frequently if changes in facts and circumstances indicate that impairment in the value of goodwill may exist. As of January 31, 2018, our reporting units are Customer Engagement, Cyber Intelligence (excluding situational intelligence solutions), and Situational Intelligence, which is a component of our Cyber Intelligence operating segment.

We review goodwill for impairment utilizing either a qualitative assessment or a two-step process. If we decide that it is appropriate to perform a qualitative assessment and conclude that the fair value of a reporting unit more likely than not exceeds its carrying value, no further evaluation is necessary. For reporting units where we perform the two-step process, the first step requires us to estimate the fair value of each reporting unit and compare that fair value to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired and no further evaluation is necessary. If the carrying value is higher than the estimated fair value, there is an indication that impairment may exist and the second step is required. In the second step, the implied fair value of goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit’s goodwill, the difference is recognized as an impairment charge.

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

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

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

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

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

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

Based upon our November 1, 2017 goodwill impairment reviews, we concluded that the estimated fair values of our Customer Engagement, Cyber Intelligence, and Situational Intelligence reporting units significantly exceeded their carrying values.

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Our Customer Engagement, Cyber Intelligence, and Situational Intelligence reporting units carried goodwill of $1.3 billion, $126.0 million, and $11.3 million, respectively, at January 31, 2018.

Income Taxes

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

We are subject to income taxes in the United States and numerous foreign jurisdictions. The calculation of our income tax provision involves the application of complex tax laws and requires significant judgment and estimates. On December 22, 2017, the 2017 Tax Act was enacted in the United States. The 2017 Tax Act significantly revises the Internal Revenue Code of 1986, as amended, and it includes fundamental changes to taxation of U.S. multinational corporations. Compliance with the 2017 Tax Act will require significant complex computations not previously required by U.S. tax law. It is unclear how certain provisions of the 2017 Tax Act will be applied absent further legislative, regulatory, or accounting clarification and guidance. In addition, it is uncertain if and to what extent various states will enact legislation to conform to the 2017 Tax Act. It is also uncertain if and to what extent foreign governments may enact tax legislation in response to the 2017 Tax Act. Also, on December 22, 2017, the staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 (“SAB No. 118”). SAB No. 118 provides guidance on accounting for the tax effects of the 2017 Tax Act and allows registrants to record provisional amounts for a period of up to one year from the date of enactment of the 2017 Tax Act. We consider amounts related to the 2017 Tax Act to be reasonably estimated as of January 31, 2018. We expect to refine and complete the accounting for the 2017 Tax Act during the year ending January 31, 2019 as we obtain, prepare, and analyze additional information and as additional legislative, regulatory, and accounting guidance and interpretations become available.

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

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

Contingencies

We recognize an estimated loss from a claim or loss contingency when and if information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accounting for claims and contingencies requires the use of significant judgment and estimates. One notable potential source of loss contingencies is pending or threatened litigation. Legal counsel and other advisors and experts are consulted on issues related to litigation as well as on matters related to contingencies occurring in the ordinary course of business.

Accounting for Stock-Based Compensation

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

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During the three-year period ended January 31, 2018, restricted stock units were our predominant stock-based payment award. The fair value of these awards is equivalent to the market value of our common stock on the grant date.

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

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

Cost of Revenue

We have made an accounting policy election whereby certain costs of product revenue, including hardware and third-party software license fees, are capitalized and amortized over the same period that product revenue is recognized, while installation and other service costs are generally expensed as incurred, except for certain contracts recognized according to contract accounting.

For example, in a multiple-element arrangement where revenue is recognized over the PCS support period, the cost of revenue associated with the product is capitalized upon product delivery and amortized over that same period. However, the cost of revenue associated with the services is expensed as incurred in the period in which the services are performed. In addition, we expense customer acquisition and origination costs to selling, general and administrative expenses, including sales commissions, as incurred, with the exception of certain sales referral fees in our Cyber Intelligence segment which are capitalized and amortized ratably over the revenue recognition period.

The new revenue recognition accounting standard discussed above includes guidance on how to account for costs related to a contract, distinguishing between costs of obtaining a contract and costs of fulfilling a contract. When the application of this guidance results in the capitalization of costs, additional guidance is provided on determining an appropriate amortization period and on impairment considerations. For additional information regarding the new revenue recognition accounting standard, please refer to Note 1, “Summary of Significant Accounting Policies” in the Notes to Consolidated Financial Statements included under Item 8 of this report, under “Recent Accounting Pronouncements”.

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, may also have an impact on our business and financial results.

Overview of Operating Results

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The following table sets forth a summary of certain key financial information for the years ended January 31, 2018, 2017, and 2016:

	Year Ended January 31,		
(in thousands, except per share data)	2018	2017	2016
Revenue	$1,135,229	$1,062,106	$1,130,266
Operating income	$48,630	$17,366	$67,852
Net (loss) income attributable to Verint Systems Inc.	$(6,627)	$(29,380)	$17,638
Net (loss) income per common share attributable to Verint Systems Inc.:			
Basic	$(0.10)	$(0.47)	$0.29
Diluted	$(0.10)	$(0.47)	$0.28

Year Ended January 31, 2018 compared to Year Ended January 31, 2017. Our revenue increased approximately $73.1 million, or 7%, from $1,062.1 million in the year ended January 31, 2017 to $1,135.2 million in the year ended January 31, 2018. The increase consisted of a $52.0 million increase in service and support revenue and a $21.1 million increase in product revenue. In our Cyber Intelligence segment, revenue increased approximately $39.0 million, or 11%, from $356.2 million in the year ended January 31, 2017 to $395.2 million in the year ended January 31, 2018. The increase consisted of a $20.9 million increase in service and support revenue and $18.1 million increase in product revenue. In our Customer Engagement segment, revenue increased approximately $34.2 million, or 5%, from $705.9 million in the year ended January 31, 2017 to $740.1 million in the year ended January 31, 2018. The increase consisted of a $31.1 million increase in service and support revenue and a $3.1 million increase in product revenue. For additional details on our revenue by segment, see "—Revenue by Operating Segment". Revenue in the Americas, EMEA, and APAC represented approximately 53%, 31%, and 16% of our total revenue, respectively, in the year ended January 31, 2018, compared to approximately 54%, 30%, and 16%, respectively, in the year ended January 31, 2017. Further details of changes in revenue are provided below.

Operating income was $48.6 million in the year ended January 31, 2018 compared to $17.4 million in the year ended January 31, 2017. This increase in operating income was primarily due to a $48.9 million increase in gross profit, reflecting increased gross profit in both of our segments, partially offset by an $17.7 million increase in operating expenses, which primarily consisted of a $19.6 million increase in net research and development expenses and an $8.0 million increase in selling, general and administrative expenses, partially offset by a $9.9 million decrease in amortization related to other acquired intangible assets. Further details of changes in operating income are provided below.

Net loss attributable to Verint Systems Inc. was $6.6 million, and net loss per common share was $0.10, in the year ended January 31, 2018, compared to a net loss attributable to Verint Systems Inc. of $29.4 million, and net loss per common share of $0.47, in the year ended January 31, 2017. The decrease in net loss attributable to Verint Systems Inc. and net loss per common share in the year ended January 31, 2018 was primarily due to a $31.2 million increase in operating income, as described above, a $1.5 million increase in interest income, and a $12.8 million increase in other income. These were partially offset by a $1.0 million increase in interest expense, a $2.1 million loss on extinguishment of debt, and a $19.6 million increase in our provision for income taxes primarily resulting from a $15.0 million accrual for withholding taxes on foreign cash we may repatriate in the future.

A portion of our business is conducted in currencies other than the U.S. dollar, and therefore our revenue and operating expenses are affected by fluctuations in applicable foreign currency exchange rates. When comparing average exchange rates for the year ended January 31, 2018 to average exchange rates for the year ended January 31, 2017, the U.S. dollar weakened relative to the euro, Australian dollar and the Singapore dollar, resulting in an overall increase in our revenue on a U.S. dollar-denominated basis. Furthermore, the U.S. dollar weakened relative to our Israeli shekel rate (hedged and unhedged), resulting in an overall increase in operating expenses on a U.S. dollar-denominated basis. For the year ended January 31, 2018, had foreign exchange rates remained unchanged from rates in effect for the year ended January 31, 2017, our revenue would have been approximately $4.8 million lower and our cost of revenue and operating expenses on a combined basis would have been approximately $10.7 million lower, which would have resulted in a $5.9 million increase in operating income.

As of January 31, 2018, we employed approximately 5,200 professionals, including part-time employees and certain contractors, compared to approximately 5,100 at January 31, 2017.

Year Ended January 31, 2017 compared to Year Ended January 31, 2016. Our revenue decreased approximately $68.2 million to $1,062.1 million in the year ended January 31, 2017 from $1,130.3 million in the year ended January 31, 2016. The decrease consisted of a $76.9 million decrease in product revenue, partially offset by an $8.7 million increase in service and support revenue. In our Cyber Intelligence segment, revenue decreased approximately $79.2 million, or 18%, from $435.4 million in

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the year ended January 31, 2016 to $356.2 million in the year ended January 31, 2017. The decrease consisted of a $55.8 million decrease in product revenue and a $23.4 million decrease in service and support revenue. In our Customer Engagement segment, revenue increased approximately $11.0 million, or 2%, to $705.9 million in the year ended January 31, 2017 from $694.9 million in the year ended January 31, 2016. The increase consisted of a $32.1 million increase in service and support revenue, partially offset by a $21.1 million decrease in product revenue. For additional details on our revenue by segment, see "—Revenue by Operating Segment". Revenue in the Americas, EMEA, and APAC represented approximately 54%, 30%, and 16% of our total revenue, respectively, in the year ended January 31, 2017, compared to approximately 51%, 31%, and 18%, respectively, in the year ended January 31, 2016. Further details of changes in revenue are provided below.

Operating income was $17.4 million in the year ended January 31, 2017 compared to $67.9 million in the year ended January 31, 2016. This decrease in operating income was primarily due to a $61.9 million decrease in gross profit primarily due to decreased gross profit in our Cyber Intelligence segment, partially offset by an $11.4 million decrease in operating expenses, which primarily consisted of a $6.6 million decrease in net research and development expenses and a $5.7 million decrease in selling, general and administrative expenses. Further details of changes in operating income are provided below.

Net loss attributable to Verint Systems Inc. was $29.4 million, and net loss per common share was $0.47 in the year ended January 31, 2017, compared to net income attributable to Verint Systems Inc. of $17.6 million, and diluted net income per common share of $0.28, in the year ended January 31, 2016. The decrease in net income attributable to Verint Systems Inc. and diluted net income per common share in the year ended January 31, 2017 was primarily due to decreased operating income, as described above, a $1.5 million decrease net income attributable to our noncontrolling interests, a $1.1 million increase in interest expense, and a $1.8 million increase in our provision for income taxes. These increases were partially offset by a $5.3 million decrease in net foreign currency losses.

When comparing average exchange rates for the year ended January 31, 2017 to average exchange rates for the year ended January 31, 2016, the U.S. dollar strengthened relative to the British pound sterling and our hedged Israeli shekel rate, resulting in an overall decrease in our revenue, cost of revenue, and operating expenses on a U.S. dollar-denominated basis. For the year ended January 31, 2017, had foreign exchange rates remained unchanged from rates in effect for the year ended January 31, 2016, our revenue would have been approximately $10.2 million higher and our cost of revenue and operating expenses on a combined basis would have been approximately $17.1 million higher, which would have resulted in a $6.9 million decrease in operating income.

As of January 31, 2017, we employed approximately 5,100 professionals, including part-time employees and certain contractors, compared to approximately 5,000 at January 31, 2016.

Revenue by Operating Segment

The following table sets forth revenue for each of our operating segments for the years ended January 31, 2018, 2017, and 2016:

	Year Ended January 31,			% Change	
(in thousands)	2018	2017	2016	2018 - 2017	2017 - 2016
Customer Engagement	$740,067	$705,897	$694,857	5%	2%
Cyber Intelligence	395,162	356,209	435,409	11%	(18)%
Total revenue	$1,135,229	$1,062,106	$1,130,266	7%	(6)%

Customer Engagement Segment

Year Ended January 31, 2018 compared to Year Ended January 31, 2017. Customer Engagement revenue increased approximately $34.2 million, or 5%, from $705.9 million in the year ended January 31, 2017 to $740.1 million in the year ended January 31, 2018. The increase consisted of a $31.1 million increase in service and support revenue and a $3.1 million increase in product revenue. The increase in service and support revenue was primarily attributable to growth in sales of our cloud-based solutions during the year ended January 31, 2018. The increase in product revenue primarily reflects a modest increase in product deliveries during the year ended January 31, 2018. We continue to experience a shift in our revenue mix from product revenue to service and support revenue as a result of several factors, including a higher component of service offerings in our standard arrangements (including licenses sold through cloud deployment), an increase in services associated with customer product upgrades, and growth in our customer installed base, both organically and as a result of business combinations.

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Year Ended January 31, 2017 compared to Year Ended January 31, 2016. Customer Engagement revenue increased approximately $11.0 million, or 2%, from $694.9 million in the year ended January 31, 2016 to $705.9 million in the year ended January 31, 2017. The increase consisted of a $32.1 million increase in service and support revenue, partially offset by a $21.1 million decrease in product revenue. The increase in Customer Engagement revenue reflects the implementation of our product strategy of expanding our portfolio of Customer Engagement Solutions, through both internal development and acquisitions, and our go-to-market strategy of offering customers the ability to purchase our solutions individually or part of a more comprehensive deployment.

Cyber Intelligence Segment

Year Ended January 31, 2018 compared to Year Ended January 31, 2017. Cyber Intelligence revenue increased approximately $39.0 million, or 11%, from $356.2 million in the year ended January 31, 2017 to $395.2 million in the year ended January 31, 2018. The increase consisted of a $20.9 million increase in service and support revenue and an $18.1 million increase in product revenue. The increase in service and support revenue was primarily attributable to an increase in progress realized during the current year on projects with revenue recognized using the POC method, some of which commenced in previous years, an increase in support services revenue from new and existing customers, and an increase in revenue from our SaaS offerings. The increase in product revenue was primarily due to an increase in product deliveries and, to a lesser extent, an increase in progress realized during the current year on projects with revenue recognized using the POC method, some of which commenced in previous years.

Year Ended January 31, 2017 compared to Year Ended January 31, 2016. Cyber Intelligence revenue decreased approximately $79.2 million, or 18%, from $435.4 million in the year ended January 31, 2016 to $356.2 million in the year ended January 31, 2017. The decrease consisted of a $55.8 million decrease in product revenue and a $23.4 million decrease in service and support revenue. The decrease in product revenue was primarily due to a decrease in product deliveries and, to a lesser extent, a decrease in progress realized during the current year on projects with revenue recognized using the POC method, some of which commenced in previous years. The decrease in service and support revenue was primarily attributable to a decrease in progress realized during the current year on projects with revenue recognized using the POC method, some of which commenced in previous years, partially offset by an increase in support and other value-added services revenue from new and 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 increase attributable to a change in the price of any particular product and/or a change in the number of products sold.

Product Revenue and Service and Support Revenue

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

The following table sets forth product revenue and service and support revenue for the years ended January 31, 2018, 2017, and 2016:

	Year Ended January 31,			% Change	
(in thousands)	2018	2017	2016	2018 - 2017	2017 - 2016

Product revenue	$399,662	$378,504	$455,406	6%	(17)%
Service and support revenue	735,567	683,602	674,860	8%	1%
Total revenue	$1,135,229	$1,062,106	$1,130,266	7%	(6)%

Product Revenue

Year Ended January 31, 2018 compared to Year Ended January 31, 2017. Product revenue increased approximately $21.2 million, or 6%, from $378.5 million for the year ended January 31, 2017 to $399.7 million for the year ended January 31, 2018,

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resulting from an $18.1 million increase in our Cyber Intelligence segment and a $3.1 million increase in our Customer Engagement segment.

Year Ended January 31, 2017 compared to Year Ended January 31, 2016. Product revenue decreased approximately $76.9 million, or 17%, from $455.4 million for the year ended January 31, 2016 to $378.5 million for the year ended January 31, 2017, resulting from a $55.8 million decrease in our Cyber Intelligence segment and a $21.1 million decrease in our Customer Engagement segment.

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

Service and Support Revenue

Year Ended January 31, 2018 compared to Year Ended January 31, 2017. Service and support revenue increased approximately $52.0 million, or 8%, from $683.6 million for the year ended January 31, 2017 to $735.6 million for the year ended January 31, 2018, resulting from a $31.1 million increase in our Customer Engagement segment and a $20.9 million increase in our Cyber Intelligence segment.

Year Ended January 31, 2017 compared to Year Ended January 31, 2016. Service and support revenue increased approximately $8.7 million, or 1%, from $674.9 million for the year ended January 31, 2016 to $683.6 million for the year ended January 31, 2017, resulting from a $32.1 million increase in our Customer Engagement segment, partially offset by a decrease of $23.4 million in our Cyber Intelligence segment.

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

Cost of Revenue

The following table sets forth cost of revenue by product and service and support, as well as amortization of acquired technology for the years ended January 31, 2018, 2017, and 2016:

	Year Ended January 31,			% Change	
(in thousands)	2018	2017	2016	2018 - 2017	2017 - 2016
Cost of product revenue	$ 131,989	$ 123,279	$ 145,071	7%	(15)%
Cost of service and support revenue	276,582	261,978	248,061	6%	6%
Amortization of acquired technology	38,216	37,372	35,774	2%	4%
Total cost of revenue	$ 446,787	$ 422,629	$ 428,906	6%	(1)%

We exclude certain costs of both product revenue and service and support revenue, including shared support costs, stock-based compensation, and asset impairment charges, among others, when calculating our operating segment gross margins.

Cost of Product Revenue

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

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

Year Ended January 31, 2018 compared to Year Ended January 31, 2017. Cost of product revenue increased approximately 7% from $123.3 million for the year ended January 31, 2017 to $132.0 million for the year ended January 31, 2018, primarily due to increased contractor expenses and, to a lesser extent, an increase in material costs in our Cyber Intelligence segment, driven primarily by increased revenue activity as discussed above. Our overall product gross margins were 67% in each of the years ended January 31, 2018 and 2017. Product gross margins in our Customer Engagement segment decreased slightly from

82% in the year ended January 31, 2017 to 81% in the year ended January 31, 2018 primarily due to a change in product mix. Product gross margins in our Cyber Intelligence segment were 57% in each of the years ended January 31, 2018 and 2017.

Year Ended January 31, 2017 compared to Year Ended January 31, 2016. Cost of product revenue decreased approximately 15% from $145.1 million for the year ended January 31, 2016 to $123.3 million for the year ended January 31, 2017 primarily due to decreased cost of product revenue in our Cyber Intelligence segment as a result of decreased Cyber Intelligence product revenue discussed above. Our overall product gross margins decreased slightly to 67% in the year ended January 31, 2017 from 68% in the year ended January 31, 2016. Product gross margins in our Customer Engagement segment were 82% in each of the years ended January 31, 2017 and 2016. Product gross margins in our Cyber Intelligence segment decreased from 62% in the year ended January 31, 2016 to 57% in the year ended January 31, 2017 primarily due to a change in product mix and decreased product revenue, resulting in decreased absorption of fixed overhead costs during in the year ended January 31, 2017 compared to the year ended January 31, 2016.

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, application managed services, 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, with the exception of certain transactions accounted for using the POC method.

Year Ended January 31, 2018 compared to Year Ended January 31, 2017. Cost of service and support revenue increased approximately 6% from $262.0 million in the year ended January 31, 2017 to $276.6 million in the year ended January 31, 2018. Cost of service and support revenue increased in our Customer Engagement segment primarily due to costs associated with providing our cloud-based solutions, which corresponds with growth in cloud-based revenue, and an increase in costs attributable to the use of contractors during the year ended January 31, 2018. Cost of service and support revenue increased in our Cyber Intelligence segment primarily due to costs associated with increased use of contractors as a result of increased revenue activity as discussed above. Our overall service and support gross margins were 62% in each of the years ended January 31, 2018 and 2017.

Year Ended January 31, 2017 compared to Year Ended January 31, 2016. Cost of service and support revenue increased approximately 6% from $248.1 million in the year ended January 31, 2016 to $262.0 million in the year ended January 31, 2017. Cost of service and support revenue increased in our Customer Engagement segment primarily due to increased employee compensation and related expense as a result of additional services employee headcount in connection with business combinations that closed in the year ended January 31, 2017. This increase was partially offset primarily by decreased cost of service and support revenue in our Cyber Intelligence segment resulting from decreased employee compensation and related expense. Our overall service and support gross margins decreased from 63% in the year ended January 31, 2016 to 62% in the year ended January 31, 2017.

Amortization of Acquired Technology

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

Year Ended January 31, 2018 compared to Year Ended January 31, 2017. Amortization of acquired technology increased approximately 2% from $37.4 million in the year ended January 31, 2017 to $38.2 million in the year ended

January 31, 2018. The increase was attributable to amortization expense of acquired technology-based intangible assets associated with business combinations that closed during the year ended January 31, 2018, as well as business combinations that closed during the prior year, for which a full year of amortization expense is reflected in the current year. This increase was partially offset by a decrease in amortization expense as a result of acquired technology intangibles from historical business combinations becoming fully amortized during the year ended January 31, 2018.

Year Ended January 31, 2017 compared to Year Ended January 31, 2016. Amortization of acquired technology increased approximately 4% from $35.8 million in the year ended January 31, 2016 to $37.4 million in the year ended January 31, 2017. The increase was attributable to amortization expense of acquired technology-based intangible assets associated with business combinations that closed during the year ended January 31, 2017, partially offset by a decrease in amortization expense as a result of acquired technology intangibles from historical business combinations becoming fully amortized.

Further discussion regarding our business combinations appears in Note 4, “Business Combinations” to our consolidated financial statements included under Item 8 of this report.

Research and Development, Net

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

The following table sets forth research and development, net for the years ended January 31, 2018, 2017, and 2016:

	Year Ended January 31,			% Change	
(in thousands)	2018	2017	2016	2018 - 2017	2017 - 2016
Research and development, net	$190,643	$171,070	$177,650	11%	(4)%

Year Ended January 31, 2018 compared to Year Ended January 31, 2017. Research and development, net increased approximately $19.5 million, or 11%, from $171.1 million in the year ended January 31, 2017 to $190.6 million in the year ended January 31, 2018. The increase was primarily due to a $12.7 million increase in employee compensation and related expenses as a result of increased R&D headcount, a $3.6 million increase in contractor expenses primarily in our Cyber Intelligence segment, and a $1.5 million increase in stock-based compensation expenses for R&D employees.

Year Ended January 31, 2017 compared to Year Ended January 31, 2016. Research and development, net decreased approximately $6.6 million, or 4%, from $177.7 million in the year ended January 31, 2016 to $171.1 million in the year ended January 31, 2017. The decrease was primarily due to decreased employee compensation and related expenses as a result of decreased R&D employee headcount in both of our operating segments.

Selling, General and Administrative Expenses

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

The following table sets forth selling, general and administrative expenses for the years ended January 31, 2018, 2017, and 2016:

	Year Ended January 31,			% Change	
(in thousands)	2018	2017	2016	2018 - 2017	2017 - 2016
Selling, general and administrative	$414,960	$406,952	$412,728	2%	(1)%

Year Ended January 31, 2018 compared to Year Ended January 31, 2017. Selling, general and administrative expenses increased approximately $8.0 million, or 2%, from $407.0 million in the year ended January 31, 2017 to $415.0 million in the year ended January 31, 2018. This increase was primarily attributable to the following:

- $8.5 million increase in employee compensation and related expenses attributed primarily to additional personnel driven by recent business combinations;
- $5.0 million increase in professional fees resulting primarily from legal services provided in connection with recent business combinations;
-

- $4.7 million increase in contractor expenses due primarily to business agility initiatives, including upgrading our business information systems;
- $3.3 million charge for impairments of certain acquired customer-related intangible assets in our Customer Engagement segment;
- $2.4 increase in stock-based compensation expense due primarily to business combinations that closed during the year ended January 31, 2018, as well as business combinations that closed during the prior year for which a full year of stock-based compensation expense is reflected in the current year;
- $2.0 million increase in software subscription expenses related to internal-use software; and

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- $1.8 million increase in rent expense associated with business combinations that closed during the year ended January 31, 2018, as well as business combinations that closed during the prior year for which a full year of rent expense is reflected in the current year.

These increases were partially offset by a $15.6 million decrease in selling, general, and administrative expenses resulting from changes in fair value of our obligations under contingent consideration arrangements from a net expense of $7.3 million during the year ended January 31, 2017 to net benefit of $8.3 million in the year ended January 31, 2018. 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. Additionally, selling, general, and administrative expenses decreased by $4.6 million as a result of increased capitalization of costs associated with development of internal-use software during the year ended January 31, 2018 compared to the prior year.

Year Ended January 31, 2017 compared to Year Ended January 31, 2016. Selling, general and administrative expenses decreased approximately $5.7 million, or 1%, from $412.7 million in the year ended January 31, 2016 to $407.0 million in the year ended January 31, 2017. This decrease was primarily attributable to the following:

- $4.2 million decrease as a result of increased capitalized software development costs compared to the year ended January 31, 2016;
- $3.3 million decrease in employee compensation and related expenses due primarily to a decrease in headcount of general and administrative employees; and
- $5.3 million decrease in agent commissions in our Cyber Intelligence segment.

These decreases were partially offset by an $8.2 million increase in selling, general, and administrative expenses resulting from changes in fair value of our obligations under contingent consideration arrangements from a net benefit of $0.9 million during the year ended January 31, 2016 to net expense of $7.3 million in the year ended January 31, 2017.

Amortization of Other Acquired Intangible Assets

Amortization of other acquired intangible assets consists of amortization of certain intangible assets acquired in connection with business combinations, including customer relationships, distribution networks, trade names and non-compete agreements.
The following table sets forth amortization of other acquired intangible assets for the years ended January 31, 2018, 2017, and 2016:

	Year Ended January 31,			% Change	
(in thousands)	2018	2017	2016	2018 - 2017	2017 - 2016
Amortization of other acquired intangible assets	$34,209	$44,089	$43,130	(22)%	2%

Year Ended January 31, 2018 compared to Year Ended January 31, 2017. Amortization of other acquired intangible assets decreased approximately $9.9 million, or 22%, from $44.1 million in the year ended January 31, 2017 to $34.2 million in the year ended January 31, 2018 as a result of acquired customer-related intangible assets from historical business combinations becoming fully amortized, partially offset by an increase in amortization expense from acquired intangible assets from business combinations that closed during the year ended January 31, 2018, as well as business combinations that closed during the prior year, for which a full year of amortization expense is reflected in the current year.

Year Ended January 31, 2017 compared to Year Ended January 31, 2016. Amortization of other acquired intangible assets increased approximately $1.0 million, or 2%, from $43.1 million in the year ended January 31, 2016 to $44.1 million in the year ended January 31, 2017 primarily due to amortization expense from acquired intangible assets from business combinations that closed during the year ended January 31, 2017, partially offset by a decrease in amortization expense as a result of acquired other intangibles from historical business combinations becoming fully amortized.

Further discussion regarding our business combinations appears in Note 4, “Business Combinations” to our consolidated financial statements included under Item 8 of this report.

Other Expense, Net

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The following table sets forth total other expense, net for the years ended January 31, 2018, 2017, and 2016:

	Year Ended January 31,			% Change	
(in thousands)	2018	2017	2016	2018 - 2017	2017 - 2016
Interest income	$ 2,477	$ 1,048	$ 1,490	136%	(30)%
Interest expense	(35,959)	(34,962)	(33,885)	3%	3%
Losses on early retirements of debt	(2,150)	—	—	—%	*
Other income (expense):					
Foreign currency gains (losses)	6,760	(2,743)	(8,037)	(346)%	(66)%
(Losses) gains on derivatives	(17)	(322)	394	*	*
Other, net	(841)	(3,861)	(4,634)	(78)%	*
Total other income (expense), net	5,902	(6,926)	(12,277)	(185)%	(44)%
Total other expense, net	$ (29,730)	$ (40,840)	$ (44,672)	(27)%	(9)%

* Percentage is not meaningful.

Year Ended January 31, 2018 compared to Year Ended January 31, 2017. Total other expense, net, decreased by $11.1 million from $40.8 million in the year ended January 31, 2017 to $29.7 million in the year ended January 31, 2018.

Interest expense increased to $36.0 million in the year ended January 31, 2018 from $35.0 million in the year ended January 31, 2017 primarily due to higher interest rates on outstanding borrowings during the year ended January 31, 2018.

During the year ended January 31, 2018 we entered into a new credit agreement (the "2017 Credit Agreement"), which was subsequently amended, and terminated our Prior Credit Agreement (as defined in Note 6, "Long-Term Debt" to our consolidated financial statements included under Item 8 of this report). In connection with these transactions, we recorded $2.2 million of losses on early retirements of debt. There were no comparable charges in the year ended January 31, 2017.

We recorded $6.8 million of net foreign currency gains in the year ended January 31, 2018 compared to $2.7 million of net losses in the year ended January 31, 2017. Foreign currency gains in the year ended January 31, 2018 resulted primarily from the weakening of the U.S. dollar against the euro, resulting in foreign currency gains on euro denominated net assets in certain entities which use a U.S. dollar functional currency, the weakening of the U.S. dollar against the Singapore dollar, resulting in foreign currency gains on Singapore dollar-denominated net assets in certain entities which use a U.S. dollar functional currency, and the weakening of the U.S. dollar against the British pound sterling, resulting in foreign currency gains on U.S. dollar-denominated net payables in certain entities which use a British pound sterling functional currency.

In the year ended January 31, 2018, there were insignificant net losses on derivative financial instruments (not designated as hedging instruments), compared to net losses of $0.3 million on such instruments for the year ended January 31, 2017. The net losses in the prior year reflected losses on contracts executed to hedge movements in the exchange rate between the U.S. dollar and the Brazilian real.

Other net expenses decreased to $0.8 million in the year ended January 31, 2018 from $3.9 million in the year ended January 31, 2017. In the year ended January 31, 2017, we recorded a write-off of a $2.4 million cost-basis investment in our Cyber Intelligence segment, with no comparable charges in the year ended January 31, 2018. Also contributing to the decrease in other net expenses was resolution of a previously accrued sales tax contingency in our APAC region during the year ended January 31, 2018.

Year Ended January 31, 2017 compared to Year Ended January 31, 2016. Total other expense, net, decreased by $3.9 million from $44.7 million in the year ended January 31, 2016 to $40.8 million in the year ended January 31, 2017.

Interest expense increased to $35.0 million in the year ended January 31, 2017 from $33.9 million in the year ended January 31, 2016 primarily due to higher interest rates on outstanding borrowings during the year ended January 31, 2017.

We recorded $2.7 million of net foreign currency losses in the year ended January 31, 2017 compared to $8.0 million of net losses in the year ended January 31, 2016. Foreign currency losses in the year ended January 31, 2017 resulted primarily from the strengthening of the U.S. dollar against the British pound sterling, resulting in foreign currency losses on U.S dollar-denominated net liabilities in certain entities which use the British pound sterling functional currency, and the weakening of the U.S. dollar against the Brazilian real, resulting in foreign currency losses on U.S. dollar-denominated net assets in certain entities which use the Brazilian real function currency.

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In the year ended January 31, 2017, there were net losses on derivative financial instruments (not designated as hedging instruments) of $0.3 million, compared to net gains of $0.4 million on such instruments for the year ended January 31, 2016. The net losses in the year ended January 31, 2017 reflected losses on contracts executed to hedge movements in the exchange rate between the U.S. dollar and the Brazilian real.

Other net expenses decreased to $3.9 million in the year ended January 31, 2017 from $4.6 million in the year ended January 31, 2016. In the year ended January 31, 2017, we recorded a write-off of a $2.4 million cost-basis investment in our Cyber Intelligence segment. In the year ended January 31, 2016, other, net expense consisted primarily of write-offs of indemnification assets associated with tax liabilities recorded in connection with prior business combinations.

Provision for Income Taxes

The following table sets forth our provision for income taxes for the years ended January 31, 2018, 2017, and 2016:

	Year Ended January 31,		
(in thousands)	2018	2017	2016
Provision for income taxes	$22,354	$2,772	$952

Year Ended January 31, 2018 compared to Year Ended January 31, 2017. Our effective income tax rate was 118.3% for the year ended January 31, 2018, compared to a negative effective income tax rate of 11.8% for the year ended January 31, 2017. For the year ended January 31, 2018, our effective income tax rate was higher than the U.S. federal statutory income tax rate of 33.8% due to withholding tax expenses of $15 million, a benefit of $5.4 million related to the revaluation of U.S. deferred tax items, the mix and levels of income and losses among taxing jurisdictions, and changes in unrecognized income tax benefits. Our statutory rate for the year ended January 31, 2018 is 33.8% due to the 2017 Tax Act. The 2017 Tax Act includes a reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%. Section 15 of the Internal Revenue Code stipulates that our fiscal year ending January 31, 2018 will have a blended corporate tax rate of 33.8% which is based on the applicable tax rates before and after the 2017 Tax Act and the number of days in the year. As a result of the 2017 Tax Act, we recorded a provisional Transition Tax on previously untaxed foreign earnings. The Transition tax results in no impact to the tax provision as we intend to utilize a portion of the NOL carryforward and release valuation allowance on the associated deferred tax asset resulting in a net impact of $0 to the tax provision. Foreign earnings subject to the Transition Tax will not be subject to further U.S. taxation upon repatriation. Therefore, we may repatriate certain foreign cash, a portion of which will be subject to a withholding tax estimated to be $15 million. Also, we remeasured U.S. deferred tax items to reflect the reduced rate that will apply under the 2017 Tax Act resulting in the $5.4 million benefit. In accordance with the provisions of SAB No. 118, we consider amounts related to the 2017 Tax Act to be reasonably estimated as of January 31, 2018. We expect to refine and complete the accounting for the 2017 Tax Act during the year ending January 31, 2019 as we obtain, prepare, and analyze additional information and as additional legislative, regulatory, and accounting guidance and interpretations become available. In addition, pre-tax income in our profitable jurisdictions, where we recorded income tax provisions at rates lower than the U.S. federal statutory income tax rate, was greater than the pre-tax losses in our domestic and foreign jurisdictions where we maintain valuation allowances and did not record the related income tax benefits. The result was an income tax provision of $22.4 million on a pre-tax income of $18.9 million, which represented an effective income tax rate of 118.3%. Excluding the net impact of the 2017 Tax Act, the result was an income tax provision of $12.7 million on pre-tax income of $18.9 million, resulting in an effective income tax rate of 67.3%

For the year ended January 31, 2017, our effective income tax rate was lower than the U.S. federal statutory income tax rate of 35% due to the release of $10.4 million of Verint valuation allowances, and the mix and levels of income and losses among taxing jurisdictions, offset by changes in unrecognized income tax benefits. We maintain valuation allowances on our net U.S. deferred income tax assets related to federal and certain state jurisdictions. In connection with acquisitions during the fourth quarter of the year ended January 31, 2017 (OpinionLab, Inc. and an acquisition deemed immaterial in our Customer Engagement segment), we recorded deferred income tax liabilities primarily attributable to acquired intangible assets to the extent the amortization will not be deductible for income tax purposes. Under accounting guidelines, because the amortization of the intangible assets in future periods provides a source of taxable income, we expect to realize a portion of our existing deferred income tax assets. As such, we reduced the valuation allowance recorded on our deferred income tax assets to the extent of the deferred income tax liabilities recorded. Because the valuation allowance related to existing Verint deferred income tax assets, the impact of the release was reflected as a discrete income tax benefit and not as a component of the acquisition accounting. Pre-tax income in our profitable jurisdictions, where we recorded income tax provisions at rates lower than the U.S. federal statutory income tax rate, was lower than the pre-tax losses in our domestic and foreign jurisdictions where we maintain valuation allowances and did not record the related income tax benefits. The result was an income tax provision of $2.8 million on a pre-tax loss of $23.5 million, which represented a negative effective income tax rate of 11.8%.

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Year Ended January 31, 2017 compared to Year Ended January 31, 2016. Our effective income tax rate was negative 11.8% for the year ended January 31, 2017, compared to an effective income tax rate of 4.1% for the year ended January 31, 2016. For the year ended January 31, 2017, our effective income tax rate was lower than the U.S. federal statutory income tax rate of 35% for the reasons discussed above. For the year ended January 31, 2016, our effective income tax rate was lower than the U.S. federal statutory income tax rate of 35% primarily due to mix and levels of income and losses among taxing jurisdictions and changes in unrecognized income tax benefits. We recorded tax benefits of $20.2 million as a result of audit settlements and statute of limitation lapses related to domestic and foreign jurisdictions. Pre-tax income in our profitable jurisdictions, where we recorded income tax provisions at rates lower than the U.S. federal statutory income tax rate, was substantially offset by our domestic losses where we maintain valuation allowances and did not record the related income tax benefits. The result was an income tax provision of $1.0 million on $23.2 million of pre-tax income, which represented an effective income tax rate of 4.1%.

The comparison of our effective income tax rates between periods is significantly impacted by changes in the U.S. federal statutory income tax rate, the level and mix of earnings and losses by tax jurisdiction, foreign income tax rate differentials, amount of permanent book to tax differences, the impact of unrecognized tax benefits, and the effects of valuation allowances on certain loss jurisdictions.

Backlog

For most of our transactions, delivery generally occurs within several months following receipt of the order. However, certain projects, particularly in our Cyber Intelligence segment, can extend over longer periods of time, delivery under which, for various reasons, may be delayed, modified, or canceled. As a result, we believe that our backlog at any particular time is not meaningful because it is not necessarily indicative of future revenue.

Liquidity and Capital Resources

Overview

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

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

On June 29, 2017, we entered into the 2017 Credit Agreement with certain lenders, and terminated our Prior Credit Agreement. The 2017 Credit Agreement was amended on January 31, 2018 (the “2018 Amendment”). Further discussion of our 2017 Credit Agreement and 2018 Amendment appears below, under “Financing Arrangements”.

We have historically expanded our business in part by investing in strategic growth initiatives, including acquisitions of products, technologies, and businesses. We may finance such acquisitions using cash, debt, stock, or a combination of the foregoing, however, we have used cash as consideration for substantially all of our historical business acquisitions, including approximately $103 million and $142 million of net cash expended for business acquisitions during the years ended January 31, 2018 and 2017, respectively.

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

A considerable portion of our operating income is earned outside the United States. Cash, cash equivalents, short-term investments, and restricted cash and bank time deposits (excluding any long-term portions) held by our subsidiaries outside of the United States were $346.2 million and $282.1 million as of January 31, 2018 and 2017, respectively, and are generally used to fund the subsidiaries' operating requirements and to invest in growth initiatives, including business acquisitions. These

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subsidiaries also held long-term restricted cash and bank time deposits of $28.4 million and $54.5 million at January 31, 2018 and January 31, 2017, respectively.

While we intend to continue to indefinitely reinvest a portion of our foreign subsidiaries' earnings, we currently no longer intend to indefinitely invest all such earnings, which, as a result of the 2017 Tax Act, may now be repatriated without incurring additional U.S. federal income taxes. Accordingly, we recognized provisional deferred income tax expense of $15.0 million for the year ended January 31, 2018 for withholding taxes on certain unremitted foreign earnings, for which we are evaluating our plans for repatriation.

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. 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. federal tax provided under the 2017 Tax Act and withholding taxes on certain identified cash that may be repatriated to the U.S., we have not provided for taxes 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. It is not practical to estimate this potential liability.

The following table summarizes our total cash, cash equivalents, restricted cash and bank time deposits, and short-term investments, as well as our total debt, as of January 31, 2018 and 2017:

	January 31,	
(in thousands)	2018	2017
Cash and cash equivalents	$337,942	$307,363
Restricted cash and bank time deposits (excluding long term portions)	33,303	9,198
Short-term investments	6,566	3,184
Total cash, cash equivalents, restricted cash and bank time deposits, and short-term investments	$377,811	$319,745
Total debt, including current maturities	$772,984	$748,871

Consolidated Cash Flow Activity

The following table summarizes selected items from our consolidated statements of cash flows for the years ended January 31, 2018, 2017, and 2016:

	Year Ended January 31,		
(in thousands)	2018	2017	2016
Net cash provided by operating activities	$176,327	$172,415	$156,903
Net cash used in investing activities	(144,481)	(156,028)	(75,600)
Net cash used in financing activities	(5,503)	(56,919)	(10,204)
Effect of exchange rate changes on cash and cash equivalents	4,236	(4,210)	(4,066)
Net increase (decrease) in cash and cash equivalents	$30,579	$(44,742)	$67,033

Our operating activities generated $176.3 million of cash during the year ended January 31, 2018, which was partially offset by $150.0 million of net cash used in combined investing and financing activities during this period. Further discussion of these items appears below.

Net Cash Provided by Operating Activities

Net cash provided by operating activities is driven primarily by our net income or loss, as adjusted for non-cash items, and working capital changes. Operating activities generated $176.3 million of net cash during the year ended January 31, 2018, compared to $172.4 million generated during the year ended January 31, 2017. Our improved operating cash flow in the current year reflects, in part, $3.6 million of lower combined interest and net income tax payments, compared to the prior year.

Operating activities generated $172.4 million of net cash during the year ended January 31, 2017, compared to $156.9 million generated during the year ended January 31, 2016. Our operating cash flow improved, despite reporting a net loss in the year ended January 31, 2017, compared to net income in the prior year, and despite $12.4 million of higher net income tax payments.

Our cash flow from operating activities can fluctuate from period to period due to several factors, including the timing of our billings and collections, the timing and amounts of interest, income tax and other payments, and our operating results.

Net Cash Used in Investing Activities

During the year ended January 31, 2018, our investing activities used $144.5 million of net cash, including $103.0 million of net cash utilized for business acquisitions, $38.7 million of payments for property, equipment, and capitalized software development costs, $3.2 million of net purchases of short-term investments, and $1.7 million of net cash used by other investing activities. Partially offsetting those uses was a $2.1 million decrease in restricted cash and bank time deposits during the period. Restricted cash and bank time deposits are typically short-term deposits used to secure bank guarantees in connection with sales contracts, the amounts of which will fluctuate from period to period.

During the year ended January 31, 2017, our investing activities used $156.0 million of net cash, including $141.8 million of net cash utilized for business acquisitions, $29.9 million of payments for property, equipment, and capitalized software development costs, and a $36.6 million increase in restricted cash and bank time deposits during the period. The increase in restricted cash and bank time deposits during the year ended January 31, 2017 reflected increased restricted cash associated with several large sales contracts. Partially offsetting those uses were $52.6 million of net proceeds from sales, maturities, and purchases of short-term investments.

During the year ended January 31, 2016, our investing activities used $75.6 million of net cash, the primary components of which were $31.4 million of net cash utilized for business acquisitions, $30.3 million of payments for property, equipment, and capitalized software development costs, and $21.4 million of net purchases of short-term investments during the year. Partially offsetting those uses was $7.5 million of net cash provided by other investing activities, consisting primarily of decreases in restricted cash and bank time deposits during the period.

We had no significant commitments for capital expenditures at January 31, 2018.

Net Cash Used in Financing Activities

For the year ended January 31, 2018, our financing activities used $5.5 million of net cash. Under the 2017 Credit Agreement, we received net proceeds of $424.5 million from the 2017 Term Loan, the majority of which was used to repay all $406.9 million that remained outstanding under the 2014 Term Loans (both the 2017 Term Loan and the 2014 Term Loans are as defined in Note 6, “Long-Term Debt” to our consolidated financial statements included under Item 8 of this report) at June 29, 2017 upon termination of the Prior Credit Agreement. In addition, under the 2018 Amendment, $19.9 million of the 2017 Term Loan was considered extinguished and replaced by new loans. We also made $5.1 million for repayments of borrowings and other financing obligations during the year. Other financing activities during the year included payments of $7.5 million for the financing portion of payments under contingent consideration arrangements related to prior business combinations, $7.1 million paid for debt issuance costs related to the 2017 Credit Agreement, and dividend payments of $3.3 million to the noncontrolling interest holders in a joint venture which serves as a systems integrator for certain Asian markets.

For the year ended January 31, 2017, our financing activities used $56.9 million of net cash, the most significant portions of which were payments of $46.9 million for stock repurchases under our share repurchase program, $3.3 million for repayments of borrowings and other financing obligations, $3.2 million for the financing portion of payments under contingent consideration arrangements related to prior business combinations, and dividend payments of $2.4 million to the noncontrolling interest holders in our joint venture.

For the year ended January 31, 2016, our financing activities used $10.2 million of net cash, including payments of $7.2 million for the financing portion of payments under contingent consideration arrangements related to prior business combinations, and dividend payments of $3.2 million to the noncontrolling interest holders in our joint venture.

Liquidity and Capital Resources Requirements

Based on past performance and current expectations, we believe that our cash, cash equivalents, short-term investments and cash generated from operations will be sufficient to meet anticipated operating costs, required payments of principal and interest, working capital needs, ordinary course capital expenditures, research and development spending, and other commitments for at least the next 12 months. Currently, we have no plans to pay any cash dividends on our common stock, which are not permitted under our 2017 Credit Agreement.

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

On March 29, 2016, we announced that our board of directors had authorized a common stock repurchase program of up to $150 million over two years. This program expires on March 29, 2018. We have made a total of $46.9 million in repurchases under the program.

Financing Arrangements

1.50% Convertible Senior Notes

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

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

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

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

- during any calendar quarter commencing after the calendar quarter which ended on September 30, 2014, if the closing sale price of our common stock, for at least 20 trading days (whether or not consecutive) in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter, is more than 130% of the conversion price of the Notes in effect on each applicable trading day;

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during the ten consecutive trading-day period following any five consecutive trading-day period in which the trading price for the Notes for each such trading day was less than 98% of the closing sale price of our common stock on such date multiplied by the then-current conversion rate; or

- upon the occurrence of specified corporate events, as described in the indenture governing the Notes, such as a consolidation, merger, or binding share exchange.

On or after December 1, 2020 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may surrender their Notes for conversion regardless of whether any of the foregoing conditions have been satisfied. Holders of the Notes may require us to purchase for cash all or any portion of their Notes upon the occurrence of a “fundamental change” at a price equal to 100% of the principal amount of the Notes being purchased, plus accrued and unpaid interest.

As of January 31, 2018, the Notes were not convertible.

Note Hedges and Warrants

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

Note Hedges

Pursuant to the Note Hedges, we purchased call options on our common stock, under which we have the right to acquire from the counterparties up to approximately 6,205,000 shares of our common stock, subject to customary anti-dilution adjustments, at a price of $64.46, which equals the initial conversion price of the Notes. Our exercise rights under the Note Hedges generally trigger upon conversion of the Notes and the Note Hedges terminate upon maturity of the Notes, or the first day the Notes are no longer outstanding. The Note Hedges may be settled in cash, shares of our common stock, or a combination thereof, at our option, and are intended to reduce our exposure to potential dilution upon conversion of the Notes. We paid $60.8 million for the Note Hedges, which was recorded as a reduction to additional paid-in capital. As of January 31, 2018, we had not purchased any shares of our common stock under the Note Hedges.

Warrants

We sold the Warrants to several counterparties. The Warrants provide the counterparties rights to acquire from us up to approximately 6,205,000 shares of our common stock at a price of $75.00 per share. The Warrants expire incrementally on a series of expiration dates beginning in August 2021. At expiration, if the market price per share of our common stock exceeds the strike price of the Warrants, we will be obligated to issue shares of our common stock having a value equal to such excess. The Warrants could have a dilutive effect on net income per share to the extent that the market value of our common stock exceeds the strike price of the Warrants. Proceeds from the sale of the Warrants were $45.2 million and were recorded as additional paid-in capital. As of January 31, 2018, 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 our Prior Credit Agreement. The 2017 Credit Agreement provides for $725.0 million of senior secured credit facilities, comprised of the $425.0 million 2017 Term Loan maturing on June 29, 2024 and 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 $406.9 million that remained outstanding under the 2014 Term Loans at June 29, 2017 upon termination of the Prior Credit Agreement. There were no borrowings under our Prior Revolving Credit Facility (as defined in Note 6, “Long-Term Debt” to our consolidated financial statements included under Item 8 of this report) at June 29, 2017.

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

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

Interest rates on loans under the 2017 Credit Agreement are periodically reset, at our option, at either a Eurodollar Rate or an ABR rate (each as defined in the 2017 Credit Agreement), plus in each case a margin.
We are required to pay a commitment fee with respect to unused availability under the 2017 Revolving Credit Facility at a rate per annum determined by reference to our Consolidated Total Debt to Consolidated EBITDA (each as defined in the 2017 Credit Agreement) leverage ratio (the "Leverage Ratio").

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

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

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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 will continue to be amortized over the remaining term of the 2017 Term Loan.

For loans under the 2017 Revolving Credit Facility, the margin is determined by reference to our Leverage Ratio. As of January 31, 2018, the interest rate on the 2017 Term Loan was 3.58%. 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 3.80% at January 31, 2018.

On February 11, 2016, we executed a pay-fixed, receive-variable interest rate swap agreement with a multinational financial institution to partially mitigate risks associated with the variable interest rate on the term loans under our Prior Credit Agreement, under which we pay interest at a fixed rate of 4.143% and receive variable interest of three-month LIBOR (subject to a minimum of 0.75%), plus a spread of 2.75%, on a notional amount of $200.0 million. Although the Prior Credit Agreement was terminated on June 29, 2017, the interest rate swap agreement remains in effect, and serves as an economic hedge to partially mitigate the risk of higher borrowing costs under the 2017 Credit Agreement resulting from increases in market interest rates. The interest rate swap agreement is no longer formally designated as a cash flow hedge for accounting purposes, and therefore settlements are reported within other income (expense), net on the consolidated statement of operations, not within interest expense.

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

The 2017 Credit Agreement contains certain customary affirmative and negative covenants for credit facilities of this type. The 2017 Credit Agreement also contains a financial covenant that, solely with respect to the 2017 Revolving Credit Facility, requires us to maintain a Leverage Ratio of no greater than 4.50 to 1. At January 31, 2018, our Leverage Ratio was approximately 2.7 to 1. The limitations imposed by the covenants are subject to certain exceptions as detailed in the 2017 Credit Agreement.

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

Contractual Obligations

At January 31, 2018, our contractual obligations were as follows:

	Payments Due by Period				
(in thousands)	Total	< 1 year	1-3 years	3-5 years	> 5 years
Long-term debt obligations, including interest	$944,103	$25,741	$51,055	$441,347	$425,960
Operating lease obligations	116,632	21,497	32,223	25,786	37,126
Capital lease obligations	4,699	1,171	2,053	1,475	—
Purchase obligations	109,383	104,398	4,983	2	—
Other long-term obligations	660	374	94	94	98
Total contractual obligations	$1,175,477	$153,181	$90,408	$468,704	$463,184

The long-term debt obligations reflected above include projected interest payments over the term of our outstanding debt as of January 31, 2018, assuming interest rates consistent with those in effect for our 2017 Term Loan as of January 31, 2018.

Operating lease obligations reflected above exclude future sublease income from certain space we have subleased to third parties. As of January 31, 2018, total expected future sublease income was $0.4 million and will range from $0.1 million to $0.3 million on an annual basis through May 2019.

We entered into leases for infrastructure equipment that qualify as capital leases during the year ended January 31, 2018.

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

Our consolidated balance sheet at January 31, 2018 included $41.0 million of non-current tax reserves, net of related benefits (including interest and penalties of $5.6 million) for uncertain tax positions. However, these amounts are not included in the table above because we are unable to reasonably estimate the timing of payments for these obligations. We do not expect to make any significant payments for these uncertain tax positions within the next 12 months.

Contingent Payments Associated with Business Combinations

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

For the year ended January 31, 2018, we made $9.4 million of payments under contingent consideration arrangements. As of January 31, 2018, potential future cash payments under contingent consideration arrangements, including consideration earned in completed performance periods which is still to be paid, total $123.6 million, the estimated fair value of which was $62.8 million, including $13.7 million reported in accrued expenses and other current liabilities, and $49.1 million reported in other liabilities. The performance periods associated with these potential payments extend through January 2022.

Off-Balance Sheet Arrangements

As of January 31, 2018, we did not have any off-balance sheet arrangements that we believe have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Recent Accounting Pronouncements

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk on Our Debt

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

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

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

The interest rate on borrowings under our 2017 Credit Agreement is variable. On January 31, 2018, we entered into the 2018 Amendment to the 2017 Credit Agreement providing for, among other things, a reduction of the interest rate margins applicable to term loan borrowings from 2.25% to 2.00% for Eurodollar loans, and from 1.25% to 1.00% for ABR loans. As of January 31, 2018, we have $422.9 million of outstanding term loan borrowings and no outstanding borrowings under the revolving credit facility. As of January 31, 2018, the interest rate on our term loan borrowings was 3.58%.

Because the interest rates applicable to borrowings under our 2017 Credit Agreement are variable, we are exposed to market risk from changes in the underlying index rates, which affect our cost of borrowing. To partially mitigate risks associated with the variable interest rate on the term loan borrowings under our Prior Credit Agreement, in February 2016, we executed a pay-fixed, receive-variable interest rate swap agreement with a multinational financial institution under which we pay interest at a fixed rate of 4.143% and receive variable interest of three-month LIBOR (subject to a minimum of 0.75%), plus a spread of 2.75%, on a notional amount of $200.0 million.

Although the Prior Credit Agreement was terminated on June 29, 2017, the interest rate swap remains in effect, and serves as an economic hedge to partially mitigate the risk of higher borrowing costs under the 2017 Credit Agreement resulting from increases in market interest rates. The interest rate swap agreement is no longer formally designated as a cash flow hedge for accounting purposes, and therefore settlements are reported within other income (expense), net on the consolidated statement of operations, not within interest expense. As of January 31, 2018, the fair value of the interest rate swap agreement was a gain of $2.6 million.

Settlements with the counterparty under the interest rate swap agreement occur quarterly, and the agreement will terminate on September 6, 2019.

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

Excluding the impact of the interest swap agreement, upon our borrowings as of January 31, 2018, for each 1.00% increase in the applicable LIBOR rate, our annual interest expense would increase by approximately $4.3 million.

Interest Rate Risk on Our Investments

We invest in cash, cash equivalents, bank time deposits, and marketable debt securities. Market interest rate changes increase or decrease the interest income we generate from these interest-bearing assets. Our cash, cash equivalents, and bank time deposits are primarily maintained at high credit-quality financial institutions around the world, and our marketable debt security investments are restricted to highly rated corporate debt securities. We have not invested in marketable debt securities with remaining maturities in excess of twelve months or in marketable equity securities during the three-year period ended January 31, 2018.

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

As of January 31, 2018 and 2017, we had cash and cash equivalents totaling approximately $337.9 million and $307.4 million, respectively, consisting of demand deposits, bank time deposits with maturities of 90 days or less, money market accounts, and marketable debt securities with remaining maturities of 90 days or less. At such dates we also held $61.7 million and $63.8 million, respectively, of restricted cash and restricted bank time deposits (including long-term portions) which were not available for general operating use. These restricted balances primarily represent deposits to secure bank guarantees in connection with customer sales contracts. The amounts of these deposits can vary depending upon the terms of the underlying contracts. We also had short-term investments of $6.6 million and $3.2 million at January 31, 2018 and 2017, respectively, consisting of bank time deposits and marketable debt securities of corporations, all with remaining maturities in excess of 90 days, but less than one year, at the time of purchase.

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To provide a meaningful assessment of the interest rate risk associated with our investment portfolio, we performed a sensitivity analysis to determine the impact a change in interest rates would have on the value of the investment portfolio assuming, during the year ending January 31, 2018, average short-term interest rates increase or decrease by 50 basis points relative to average rates realized during the year ended January 31, 2017. Such a change would cause our projected interest income from cash, cash equivalents, restricted cash and bank time deposits, and short-term investments to increase or decrease by approximately $2.0 million, assuming a similar level of investments in the year ending January 31, 2019 as in the year ended January 31, 2018.

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

Foreign Currency Exchange Risk

The functional currency for most of our foreign subsidiaries is the applicable local currency, although we have several subsidiaries with functional currencies that differ from their local currency, of which the most notable exceptions are our subsidiaries in Israel, whose functional currencies are the U.S. dollar. We are exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries into U.S. dollars for consolidated reporting purposes. If there are changes in foreign currency exchange rates, the conversion of the foreign subsidiaries' financial statements into U.S. dollars results in an unrealized gain or loss which is recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity.

For the year ended January 31, 2018, a significant portion of our operating expenses, primarily labor expenses, were denominated in the local currencies where our foreign operations are located, primarily Israel, the United Kingdom, Germany, Australia, and Singapore. We also generate some portion of our revenue in foreign currencies, mainly the euro, British pound sterling, Australian dollar, and Singapore dollar. As a result, our consolidated U.S. dollar operating results are subject to potential material adverse impact from fluctuations in foreign currency exchange rates between the U.S. dollar and the other currencies in which we transact.

In addition, we have certain monetary assets and liabilities that are denominated in currencies other than the respective entity's functional currency. Changes in the functional currency value of these assets and liabilities result in gains or losses which are reporting within other income (expense), net in our consolidated statement of operations. We recorded net foreign currency gains of $6.8 million, and losses of $2.7 million and $8.0 million, for the years ended January 31, 2018, 2017, and 2016, respectively.

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

During the year ended January 31, 2018, net losses on foreign currency forward contracts not designated as hedges for accounting purposes were insignificant. For the year ended January 31, 2017, we recorded net losses of $0.3 million on foreign currency forward contracts not designated as hedges for accounting purposes, and net gains on such contracts of $0.4 million for the year ended January 31, 2016. We had $2.4 million of net unrealized gains on outstanding foreign currency forward contracts as of January 31, 2018, with notional amounts totaling $153.5 million. We had $0.4 million of net unrealized losses on outstanding foreign currency forward contracts as of January 31, 2017, with notional amounts totaling $144.0 million.

A sensitivity analysis was performed on all of our foreign exchange derivatives as of January 31, 2018. This sensitivity analysis was based on a modeling technique that measures the hypothetical market value resulting from a 10% shift in the value of exchange rates relative to the U.S. dollar, and assumes no changes in interest rates. A 10% increase in the relative value of the U.S. dollar would decrease the estimated fair value of our foreign exchange derivatives by approximately $6.2 million. Conversely, a 10% decrease in the relative value of the U.S. dollar would increase the estimated the fair value of these financial instruments by approximately $7.6 million.

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

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of disruption in the financial markets could affect our ability to secure creditworthy counterparties for our foreign currency hedging programs.

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Item 8. Financial Statements and Supplementary Data

VERINT SYSTEMS INC. AND SUBSIDIARIES
Index to Consolidated Financial Statements

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Verint Systems Inc. and subsidiaries (the “Company”) as of January 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), shareholders’ equity, and cash flows, for each of the three years in the period ended January 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of January 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended January 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of January 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 28, 2018, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Basis for Opinion

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

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

/s/ DELOITTE & TOUCHE LLP

New York, New York
March 28, 2018

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

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VERINT SYSTEMS INC. AND SUBSIDIARIES
Consolidated Balance Sheets

(in thousands, except share and per share data)	January 31, 2018	2017
Assets		
Current Assets:		
Cash and cash equivalents	$337,942	$307,363
Restricted cash and bank time deposits	33,303	9,198
Short-term investments	6,566	3,184
Accounts receivable, net of allowance for doubtful accounts of $2.2 million and $1.8 million, respectively	296,324	266,590
Inventories	19,871	17,537
Deferred cost of revenue	6,096	3,621
Prepaid expenses and other current assets	82,090	64,561
Total current assets	782,192	672,054
Property and equipment, net	89,089	77,551
Goodwill	1,388,299	1,264,818
Intangible assets, net	226,093	235,259
Capitalized software development costs, net	9,228	9,509
Long-term deferred cost of revenue	2,804	5,463
Deferred income taxes	30,878	21,510
Other assets	52,037	76,620
Total assets	$2,580,620	$2,362,784
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$84,639	$62,049
Accrued expenses and other current liabilities	220,265	213,224
Current maturities of long-term debt	4,500	4,611
Deferred revenue	196,107	182,515
Total current liabilities		