VERINT SYSTEMS INC
Form 10-Q
December 07, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended October 31, 2016

OR

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

For the transition period from to .

Commission File No. 001-34807

Verint Systems Inc.
(Exact Name of Registrant as Specified in its Charter)

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

(631) 962-9600
(Registrant’s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

There were 62,679,652 shares of the registrant’s common stock outstanding on November 15, 2016.

Table of Contents

Verint Systems Inc. and Subsidiaries
Index to Form 10-Q
As of and For the Period Ended October 31, 2016

		Page
Cautionary Note on Forward-Looking Statements		ii
Part I.	Financial Information	1
Item 1.	Financial Statements (Unaudited)	1
	Condensed Consolidated Balance Sheets	2
	Condensed Consolidated Statements of Operations	3
	Condensed Consolidated Statements of Comprehensive (Loss) Income	4
	Condensed Consolidated Statements of Stockholders' Equity	5
	Condensed Consolidated Statements of Cash Flows	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	33
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	50
Item 4.	Controls and Procedures	51
Part II.	Other Information	52
Item 1.	Legal Proceedings	52
Item 1A.	Risk Factors	52
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	52
Item 3.	Defaults Upon Senior Securities	52
Item 4.	Mine Safety Disclosures	53
Item 5.	Other Information	53
Item 6.	Exhibits	54
Signature		55

Table of Contents

Cautionary Note on Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, the provisions of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include financial projections, statements of plans and objectives for future operations, statements of future economic performance, and statements of assumptions relating thereto. Forward-looking statements may appear throughout this report, including without limitation, Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and are often identified by future or conditional words such as "will", "plans", "expects", "intends", "believes", "seeks", "estimates", or "anticipates", or by variations of such words or by similar expressions. There can be no assurances that forward-looking statements will be achieved. By their very nature, forward-looking statements involve known and unknown risks, uncertainties, assumptions, and other important factors that could cause our actual results or conditions to differ materially from those expressed or implied by such forward-looking statements. Important risks, uncertainties, assumptions, and other factors that could cause our actual results or conditions to differ materially from our forward-looking statements include, among others:

- uncertainties regarding the impact of general economic conditions in the United States and abroad, particularly in information technology spending and government budgets, on our business;
- risks associated with our ability to keep pace with technological changes, 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;
- 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 incorporate into our offerings or otherwise rely on, may contain defects or may be vulnerable to cyber-attacks;
- risks associated with our significant international operations, including, among others, in Israel, Europe, and Asia, exposure to regions subject to political or economic instability, and fluctuations in foreign exchange rates;
-

risks associated with a significant amount of our business coming from domestic and foreign government customers, including the ability to maintain security clearances for applicable projects;

Table of Contents

- risks associated with complex and changing local and foreign regulatory environments in the jurisdictions in which we operate;
- risks associated with our ability to retain and recruit qualified personnel in regions in which we operate, including in new markets and growth areas we may enter;
- challenges associated with selling sophisticated solutions, including with respect to educating our customers on the benefits of our solutions or assisting them in realizing such benefits;
- challenges associated with 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 CTI's former subsidiary, Xura, Inc. (formerly, Comverse, Inc.) ("Xura"), being unwilling or unable to provide us with certain indemnities or transition services to which we are entitled;
- risks relating to the adequacy of our existing infrastructure, systems, processes, policies, procedures, and personnel and our ability to successfully implement and maintain adequate systems and internal controls for our current and future operations and reporting needs, including related risks of financial statement omissions, misstatements, restatements, or filing delays; and
- risks associated with changing tax rates, tax laws and regulations, and the continuing availability of expected tax benefits.

These risks, uncertainties, assumptions, and challenges, as well as other factors, are discussed in greater detail in "Risk Factors" under Item 1A of our Annual Report on Form 10-K for the year ended January 31, 2016. 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.

Table of Contents

Part I

Item 1. Financial Statements

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

	Page
Condensed Consolidated Balance Sheets as of October 31, 2016 and January 31, 2016	2
Condensed Consolidated Statements of Operations for the Three and Nine Months Ended October 31, 2016 and 2015	3
Condensed Consolidated Statements of Comprehensive (Loss) Income for the Three and Nine Months Ended October 31, 2016 and 2015	4
Condensed Consolidated Statements of Stockholders’ Equity for the Nine Months Ended October 31, 2016 and 2015	5
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended October 31, 2016 and 2015	6
Notes to Condensed Consolidated Financial Statements	7

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

(in thousands, except share and per share data)	October 31, 2016	January 31, 2016
Assets		
Current Assets:		
Cash and cash equivalents	$295,829	$352,105
Restricted cash and bank time deposits	14,628	11,820
Short-term investments	10,318	55,982
Accounts receivable, net of allowance for doubtful accounts of $1.9 million and $1.2 million, respectively	260,032	256,419
Inventories	20,392	18,312
Deferred cost of revenue	3,233	1,876
Prepaid expenses and other current assets	66,627	57,598
Total current assets	671,059	754,112
Property and equipment, net	77,551	68,904
Goodwill	1,197,557	1,207,176
Intangible assets, net	215,494	246,682
Capitalized software development costs, net	10,219	11,992
Long-term deferred cost of revenue	10,462	13,117
Other assets	79,553	53,752
Total assets	$2,261,895	$2,355,735
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$57,785	$65,447
Accrued expenses and other current liabilities	203,128	209,071
Deferred revenue	144,787	167,912
Total current liabilities	405,700	442,430
Long-term debt	742,067	735,983
Long-term deferred revenue	19,872	20,488
Other liabilities	98,178	88,670
Total liabilities	1,265,817	1,287,571
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock - $0.001 par value; authorized 2,207,000 shares at October 31, 2016 and January 31, 2016, respectively; none issued.	—	—
Common stock - $0.001 par value; authorized 120,000,000 shares. Issued 64,027,000 and 62,614,000 shares; outstanding 62,679,000 and 62,266,000 shares at October 31, 2016 and January 31, 2016, respectively.	64	63
Additional paid-in capital	1,435,928	1,387,955
Treasury stock, at cost - 1,348,000 and 348,000 shares at October 31, 2016 and January 31, 2016, respectively.	(46,147)	(10,251)
Accumulated deficit	(238,834)	(201,436)
Accumulated other comprehensive loss	(165,816)	(116,194)
Total Verint Systems Inc. stockholders' equity	985,195	1,060,137
Noncontrolling interest	10,883	8,027
Total stockholders' equity	996,078	1,068,164

Total liabilities and stockholders' equity	$2,261,895	$2,355,735

See notes to condensed consolidated financial statements.

2

Table of Contents

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
(in thousands, except per share data)	2016	2015	2016	2015
Revenue:				
Product	$88,004	$115,573	$254,172	$340,139
Service and support	170,898	168,481	512,075	509,333
Total revenue	258,902	284,054	766,247	849,472
Cost of revenue:				
Product	29,499	34,982	82,455	111,756
Service and support	64,007	61,475	195,892	188,576
Amortization of acquired technology	9,700	9,060	28,014	26,896
Total cost of revenue	103,206	105,517	306,361	327,228
Gross profit	155,696	178,537	459,886	522,244
Operating expenses:				
Research and development, net	41,028	45,443	128,847	134,741
Selling, general and administrative	98,899	99,870	300,080	314,489
Amortization of other acquired intangible assets	10,244	10,896	32,976	32,366
Total operating expenses	150,171	156,209	461,903	481,596
Operating income (loss)	5,525	22,328	(2,017)	40,648
Other income (expense), net:				
Interest income	229	335	695	992
Interest expense	(8,708)	(8,467)	(25,976)	(25,365)
Other expense, net	(1,121)	(4,175)	(2,660)	(7,715)
Total other expense, net	(9,600)	(12,307)	(27,941)	(32,088)
(Loss) income before provision for income taxes	(4,075)	10,021	(29,958)	8,560
Provision for income taxes	3,359	1,551	4,747	5,119
Net (loss) income	(7,434)	8,470	(34,705)	3,441
Net income attributable to noncontrolling interest	803	836	2,693	3,308
Net (loss) income attributable to Verint Systems Inc.	$(8,237)	$7,634	$(37,398)	$133
Net (loss) income per common share attributable to Verint Systems Inc.:				
Basic	$(0.13)	$0.12	$(0.60)	$0.00
Diluted	$(0.13)	$0.12	$(0.60)	$0.00
Weighted-average common shares outstanding:				
Basic	62,895	62,206	62,602	61,666
Diluted	62,895	62,778	62,602	62,803

See notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
(in thousands)	2016	2015	2016	2015
Net (loss) income	$(7,434)	$8,470	$(34,705)	$3,441
Other comprehensive (loss) income, net of reclassification adjustments:				
Foreign currency translation adjustments	(26,207)	(6,568)	(49,476)	4,854
Net unrealized (losses) gains on available-for-sale securities	—	(156)	110	(112)
Net unrealized (losses) gains on foreign exchange contracts designated as hedges	(1,570)	(686)	1,208	9,343
Net unrealized gain (loss) on interest rate swap designated as a hedge	478	—	(1,146)	—
Benefit (provision) for income taxes on net unrealized (losses) gains on foreign exchange contracts designated as hedges	169	35	(155)	(1,056)
Other comprehensive (loss) income	(27,130)	(7,375)	(49,459)	13,029
Comprehensive (loss) income	(34,564)	1,095	(84,164)	16,470
Comprehensive income attributable to noncontrolling interest	667	468	2,856	2,851
Comprehensive (loss) income attributable to Verint Systems Inc.	$(35,231)	$627	$(87,020)	$13,619

See notes to condensed consolidated financial statements.

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

	Verint Systems Inc. Stockholders' Equity								
	Common Stock								
(in thousands)	Shares	Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Verint Systems Inc. Stockholders' Equity	Non-controlling Interest	Total Stockholders' Equity
Balances at January 31, 2015	60,905	$61	$1,321,455	$(10,251)	$(219,074)	$(94,335)	$997,856	$7,047	$1,004,903
Net income	—	—	—	—	133	—	133	3,308	3,441
Other comprehensive income (loss)	—	—	—	—	—	13,486	13,486	(457)	13,029
Stock-based compensation - equity-classified awards	—	—	43,771	—	—	—	43,771	—	43,771
Exercises of stock options	6	—	229	—	—	—	229	—	229
Common stock issued for stock awards and stock bonuses	1,342	2	7,743	—	—	—	7,745	—	7,745
Tax effects from stock award plans	—	—	577	—	—	—	577	—	577
Balances at October 31, 2015	62,253	$63	$1,373,775	$(10,251)	$(218,941)	$(80,849)	$1,063,797	$9,898	$1,073,695
Balances at January 31, 2016	62,266	$63	$1,387,955	$(10,251)	$(201,436)	$(116,194)	$1,060,137	$8,027	$1,068,164
Net (loss) income	—	—	—	—	(37,398)	—	(37,398)	2,693	(34,705)
Other comprehensive (loss) income	—	—	—	—	—	(49,622)	(49,622)	163	(49,459)
Stock-based compensation - equity-classified awards	—	—	41,610	—	—	—	41,610	—	41,610
Exercises of stock options	—	—	1	—	—	—	1	—	1
Common stock issued for stock awards and stock bonuses	1,413	1	6,952	—	—	—	6,953	—	6,953
Purchases of treasury stock	(1,000)	—	—	(35,896)	—	—	(35,896)	—	(35,896)

Tax effects from stock award plans	—	—	(590)	—	—	—	(590)	—	(590)
Balances at October 31, 2016	62,679	$64	$1,435,928	$(46,147)	$(238,834)	$(165,816)	$985,195	$10,883	$996,078

See notes to condensed consolidated financial statements.

Table of Contents

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

	Nine Months Ended October 31,	
(in thousands)	2016	2015
Cash flows from operating activities:		
Net (loss) income	$(34,705)	$3,441
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	85,411	79,469
Stock-based compensation, excluding cash-settled awards	45,547	50,099
Amortization of discount on convertible notes	7,948	7,542
Non-cash gains (losses) on derivative financial instruments, net	693	(583)
Other non-cash items, net	8,767	11,220
Changes in operating assets and liabilities, net of effects of business combinations:		
Accounts receivable	3,708	6,241
Inventories	(2,823)	(2,138)
Deferred cost of revenue	1,349	4,477
Prepaid expenses and other assets	(6,066)	(5,462)
Accounts payable and accrued expenses	(21,305)	(16,722)
Deferred revenue	(21,749)	(40,130)
Other, net	4,914	(9,883)
Net cash provided by operating activities	71,689	87,571
Cash flows from investing activities:		
Cash paid for business combinations, including adjustments, net of cash acquired	(72,269)	(31,618)
Purchases of property and equipment	(20,611)	(17,012)
Purchases of investments	(34,215)	(90,689)
Maturities and sales of investments	79,930	30,985
Cash paid for capitalized software development costs	(1,730)	(3,453)
Change in restricted cash and bank time deposits, including long-term portion, and other investing activities, net	(31,737)	16,843
Net cash used in investing activities	(80,632)	(94,944)
Cash flows from financing activities:		
Repayments of borrowings and other financing obligations	(1,987)	(260)
Proceeds from exercises of stock options	1	229
Purchases of treasury stock	(35,896)	—
Payments of contingent consideration for business combinations (financing portion)	(3,231)	(4,792)
Other financing activities	(1,076)	(239)
Net cash used in financing activities	(42,189)	(5,062)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(5,144)	(377)
Net decrease in cash and cash equivalents	(56,276)	(12,812)
Cash and cash equivalents, beginning of period	352,105	285,072
Cash and cash equivalents, end of period	$295,829	$272,260

See notes to condensed consolidated financial statements.

Table of Contents

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

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

Verint is a global leader in Actionable Intelligence solutions. Actionable Intelligence is a necessity in a dynamic world of massive information growth because it empowers organizations with crucial insights and enables decision makers to anticipate, respond, and take action. With Verint solutions and value-added services, organizations of all sizes and across many industries can make more timely and effective decisions. Today, more than 10,000 organizations in approximately 180 countries, including over 80 percent of the Fortune 100, use Verint solutions to improve enterprise performance and make the world a safer place. Verint's vision is to create A Smarter World with Actionable Intelligence®.

Our Actionable Intelligence solutions help organizations address three important challenges: Customer Engagement Optimization; Security Intelligence; and Fraud, Risk, and Compliance. We help our customers capture large amounts of information from numerous data types and sources, use analytics to glean insights from the information, and leverage the resulting Actionable Intelligence to help achieve their customer engagement, enhanced security, and risk mitigation goals.

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

Preparation of Condensed Consolidated Financial Statements

The condensed consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and on the same basis as the audited consolidated financial statements included in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") for the year ended January 31, 2016. The condensed consolidated statements of operations, comprehensive (loss) income, stockholders' equity, and cash flows for the periods ended October 31, 2016 and 2015, and the condensed consolidated balance sheet as of October 31, 2016, are not audited but reflect all adjustments that are of a normal recurring nature and that are considered necessary for a fair presentation of the results for the periods shown. The condensed consolidated balance sheet as of January 31, 2016 is derived from the audited consolidated financial statements presented in our Annual Report on Form 10-K for the year ended January 31, 2016. Certain information and disclosures normally included in annual consolidated financial statements have been omitted pursuant to the rules and regulations of the SEC. Because the condensed consolidated interim financial statements do not include all of the information and disclosures required by GAAP for a complete set of financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in our Annual Report on Form 10-K filed with the SEC for the year ended January 31, 2016. The results for interim periods are not necessarily indicative of a full year's results.

Recasting of Prior Period Segment Information

Through July 31, 2016, we were organized and had reported our operating results in three operating segments. In August 2016, we reorganized into two businesses and now report our results in two operating segments, as further discussed in Note 14, "Segment Information". Comparative segment financial information for prior periods appearing in Note 5, "Intangible Assets and Goodwill" and Note 14, "Segment Information", has been recast to conform to this revised segment structure.

Reclassification Within Condensed Consolidated Statements of Cash Flows

Certain amounts within the presentation of net cash provided by operating activities in our condensed consolidated statement of cash flows for the nine months ended October 31, 2015 have been reclassified to conform to the current period's presentation. These reclassifications had no effect on net cash provided by operating activities.

Principles of Consolidation

Table of Contents

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

We include the results of operations of acquired companies from the date of acquisition. All significant intercompany transactions and balances are eliminated.

Investments in companies in which we have less than a 20% ownership interest and can not exercise significant influence are accounted for at cost.

Use of Estimates

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

Accounts Receivable, Net

Accounts receivable, net, includes unbilled accounts receivable on arrangements recognized under contract accounting methods, representing revenue recognized on contracts for which billing will occur in subsequent periods, in accordance with the terms of the contracts. Unbilled accounts receivable on such contracts were $64.5 million and $46.6 million at October 31, 2016 and January 31, 2016, respectively. Under most contracts, unbilled accounts receivable are typically billed and collected within one year of revenue recognition. However, as of October 31, 2016, we have unbilled accounts receivable on certain complex projects with a long-standing customer for which the underlying billing milestones are still in progress and have remained unbilled for periods in excess of one year, and in some cases, for several years. We have no history of uncollectible accounts with this customer and believe that collection of such amounts is still reasonably assured. We expect billing and collection of these unbilled accounts receivable to occur within the next twelve months.

Significant Accounting Policies

Our significant accounting policies are described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended January 31, 2016. There were no material changes to our significant accounting policies during the nine months ended October 31, 2016.

Recent Accounting Pronouncements

New Accounting Pronouncements Not Yet Effective

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and

restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This update also requires an entity to disclose the nature of restrictions on its cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU No. 2016-18 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years with early adoption permitted, including adoption in an interim period. We typically have restrictions on certain amounts of cash and cash equivalents, primarily consisting of amounts used to secure bank guarantees in connection with sales contract performance obligations,
and expect to continue to have similar restrictions in the future. We currently report changes in such restricted amounts as cash flows from investing activities on our condensed consolidated statement of cash flows. This standard will change that presentation. We are currently reviewing this standard to assess other potential impacts on our future condensed consolidated financial statements.

Table of Contents

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which provides guidance with the intent of reducing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU No. 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years with early adoption permitted, including adoption in an interim period. We are currently reviewing this standard to assess the impact on our future condensed consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326). This new standard changes the impairment model for most financial assets and certain other instruments. Entities will be required to use a model that will result in the earlier recognition of allowances for losses for trade and other receivables, held-to-maturity debt securities, loans, and other instruments. For available-for-sale debt securities with unrealized losses, the losses will be recognized as allowances rather than as reductions in the amortized cost of the securities. The new standard is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2019, with early adoption permitted. We are currently reviewing this standard to assess the impact on our future condensed consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718), which amends the accounting for stock-based compensation and requires excess tax benefits and deficiencies to be recognized as a component of income tax expense rather than stockholders' equity. This guidance also requires excess tax benefits to be presented as an operating activity on the statement of cash flows and allows an entity to make an accounting policy election to either estimate expected forfeitures or to account for them as they occur. ASU No. 2016-09 is effective for reporting periods beginning after December 15, 2016, with early adoption permitted. We are currently reviewing this standard to assess the impact on our future condensed consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which will require lessees to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, the new guidance will require both types of leases to be recognized on the balance sheet. The new guidance is effective for all periods beginning after December 15, 2018 and we are currently evaluating the effects that the adoption of ASU No. 2016-02 will have on our condensed consolidated financial statements, but anticipate that the new guidance will significantly impact our condensed consolidated financial statements given our significant number of leases.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific revenue recognition guidance throughout the Industry Topics of the Accounting Standards Codification. Additionally, this update supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. As originally issued, this guidance was effective for interim and annual reporting periods beginning after December 15, 2016, and early adoption was not permitted. In July 2015, the FASB deferred the effective date by one year, to interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, but not before the original effective date of December 15, 2016. Entities may choose from two adoption methods, with certain practical expedients. We are currently reviewing this standard to assess the impact on our future condensed consolidated financial statements and evaluating the available adoption methods.

2. NET (LOSS) INCOME PER COMMON SHARE ATTRIBUTABLE TO VERINT SYSTEMS INC.

The following table summarizes the calculation of basic and diluted net (loss) income per common share attributable to Verint Systems Inc. for the three and nine months ended October 31, 2016 and 2015:

9

Table of Contents

(in thousands, except per share amounts)	Three Months Ended October 31, 2016	2015	Nine Months Ended October 31, 2016	2015
Net (loss) income	$(7,434)	$8,470	$(34,705)	$3,441
Net income attributable to noncontrolling interest	803	836	2,693	3,308
Net (loss) income attributable to Verint Systems Inc.	$(8,237)	$7,634	$(37,398)	$133
Weighted-average shares outstanding:				
Basic	62,895	62,206	62,602	61,666
Dilutive effect of employee equity award plans	—	572	—	1,137
Dilutive effect of 1.50% convertible senior notes	—	—	—	—
Dilutive effect of warrants	—	—	—	—
Diluted	62,895	62,778	62,602	62,803
Net (loss) income per common share attributable to Verint Systems Inc.:				
Basic	$(0.13)	$0.12	$(0.60)	$0.00
Diluted	$(0.13)	$0.12	$(0.60)	$0.00

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

(in thousands)	Three Months Ended October 31, 2016	2015	Nine Months Ended October 31, 2016	2015
Common shares excluded from calculation:				
Stock options and restricted stock-based awards	1,239	1,466	1,060	650
1.50% convertible senior notes	6,205	6,205	6,205	6,205
Warrants	6,205	6,205	6,205	6,205

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

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

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

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

The following tables summarize our cash, cash equivalents, and short-term investments as of October 31, 2016 and January 31, 2016:

Table of Contents

	October 31, 2016			
(in thousands)	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash and bank time deposits	$295,661	$ —	$ —	$295,661
Money market funds	168	—	—	168
Total cash and cash equivalents	$295,829	$ —	$ —	$295,829
Short-term investments:				
Commercial paper and corporate debt securities (available-for-sale)	$2,997	$ —	$ —	$2,997
Bank time deposits	7,321	—	—	7,321
Total short-term investments	$10,318	$ —	$ —	$10,318

	January 31, 2016			
(in thousands)	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash and bank time deposits	$334,938	$ —	$ —	$334,938
Money market funds	12,137	—	—	12,137
Commercial paper and corporate debt securities	5,054	—	(24)	5,030
Total cash and cash equivalents	$352,129	$ —	$ (24)	$352,105
Short-term investments:				
Commercial paper and corporate debt securities (available-for-sale)	$53,018	$ —	$ (86)	$52,932
Bank time deposits	3,050	—	—	3,050
Total short-term investments	$56,068	$ —	$ (86)	$55,982

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

As of October 31, 2016 and January 31, 2016, all of our available-for-sale investments had contractual maturities of less than one year. Gains and losses on sales of available-for-sale securities during the nine months ended October 31, 2016 and 2015 were not significant.

During the nine months ended October 31, 2016 and 2015, proceeds from maturities and sales of available-for-sale securities were $79.9 million and $31.0 million, respectively.

None of our available-for-sale securities had unrealized gains or losses at October 31, 2016.

4. BUSINESS COMBINATIONS

On November 16, 2016, we completed the acquisition of OpinionLab, Inc., a leading software-as-a-service ("SaaS") provider of omnichannel Voice of Customer (“VoC”) feedback solutions which help organizations collect, understand, and leverage customer insights, helping drive smarter, real-time business action.

Please refer to Note 15, "Subsequent Event", for information regarding this business combination.

Nine Months Ended October 31, 2016

Contact Solutions, LLC

11

Table of Contents

On February 19, 2016, we completed the acquisition of Contact Solutions, LLC ("Contact Solutions"), a provider of real-time, contextual self-service solutions, based in Reston, Virginia. The purchase price consisted of $66.9 million of cash paid at closing, and a $2.5 million post-closing purchase price adjustment based upon a determination of Contact Solutions' acquisition-date working capital, which was paid during the three months ended July 31, 2016. The cash paid at closing was funded with cash on hand.

In connection with the purchase price allocation for Contact Solutions, the estimated fair value of undelivered performance obligations under customer contracts assumed in the acquisition was determined utilizing a cost build-up approach. The cost build-up approach calculates fair value by estimating the costs required to fulfill the obligations plus a reasonable profit margin, which approximates the amount that we believe would be required to pay a third party to assume the performance obligations. The estimated costs to fulfill the performance obligations were based on the historical direct costs for delivering similar services. As a result, in allocating the purchase price, we recorded $0.6 million of current and long-term deferred revenue, representing the estimated fair value of undelivered performance obligations for which payment had been received, which will be recognized as revenue as the underlying performance obligations are delivered. For undelivered performance obligations for which payment had not yet been received, we recorded a $2.9 million asset as a component of the purchase price allocation, representing the estimated fair value of these obligations, $1.2 million of which is included within prepaid expenses and other current assets, and $1.7 million of which is included in other assets. We are amortizing this asset over the underlying delivery periods, which adjusts the revenue we recognize for providing these services to its estimated fair value.

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

The purchase price allocation for Contact Solutions has been prepared on a preliminary basis and changes to the allocation may occur as additional information becomes available during the measurement period (up to one year from the acquisition date). Fair values still under review include values assigned to identifiable intangible assets and certain pre-acquisition loss contingencies.

Among the factors contributing to the recognition of goodwill as a component of the Contact Solutions purchase price allocation were synergies in products and technologies, and the addition of a skilled, assembled workforce. This goodwill has been assigned to our Customer Engagement segment and is deductible for income tax purposes.

Transaction and related costs directly related to the acquisition of Contact Solutions, consisting primarily of professional fees and integration expenses, were $0.4 million and $1.0 million for the three and nine months ended October 31, 2016, and were expensed as incurred and are included in selling, general and administrative expenses.

Revenue and (loss) income before provision for income taxes attributable to Contact Solutions included in our condensed consolidated statement of operations for the three and nine months ended October 31, 2016 were not significant.

The following table sets forth the components and the allocation of the purchase price for our acquisition of Contact Solutions.

Table of Contents

(in thousands)	Amount
Components of Purchase Price:	
Cash paid at closing	$66,915
Other purchase price adjustments	2,518
Total purchase price	$69,433

Allocation of Purchase Price:	
Net tangible assets (liabilities):	
Accounts receivable	$8,102
Other current assets, including cash acquired	2,392
Property and equipment, net	7,007
Other assets	1,904
Current and other liabilities	(4,943)
Deferred revenue - current and long-term	(642)
Net tangible assets	13,820
Identifiable intangible assets:	
Customer relationships	18,000
Developed technology	13,100
Trademarks and trade names	2,400
Total identifiable intangible assets	33,500
Goodwill	22,113
Total purchase price allocation	$69,433

The acquired customer relationships, developed technology, and trademarks and trade names were assigned estimated useful lives of ten years, four years, and five years, respectively, the weighted average of which is approximately 7.4 years.

The acquired identifiable intangible assets are being amortized on a straight-line basis, which we believe approximates the pattern in which the assets are utilized, over their estimated useful lives.

The pro forma impact of the acquisition of Contact Solutions was not material to our historical consolidated operating results and is therefore not presented.

Other Business Combination

During the nine months ended October 31, 2016, we completed a transaction that qualified as a business combination in our Customer Engagement segment. This business combination was not material to our condensed consolidated financial statements.

Year Ended January 31, 2016

During the year ended January 31, 2016, we completed three business combinations:

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

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

The combined consideration for these business combinations was approximately $49.5 million, including $33.2 million of combined cash paid at the closings. For one of these business combinations, we also agreed to make potential additional cash payments to the respective former shareholders aggregating up to approximately $30.5 million, contingent upon the achievement of certain performance targets over periods extending through April 2020. The fair value of these contingent consideration obligations was estimated to be $16.2 million at the applicable acquisition date.

Table of Contents

Included among the factors contributing to the recognition of goodwill in these transactions were synergies in products and technologies, and the addition of skilled, assembled workforces. Of the $28.7 million of goodwill associated with these business combinations, $7.7 million and $21.0 million was assigned to our Customer Engagement and Cyber Intelligence segments, respectively. For income tax purposes, $5.1 million of this goodwill is deductible and $23.6 million is not deductible.

Transaction and related costs, consisting primarily of professional fees and integration expenses, directly related to these acquisitions were insignificant for the three and nine months ended October 31, 2016, and $0.3 million and $1.0 million for the three and nine months ended October 31, 2015, respectively. All transaction and related costs were expensed as incurred and are included in selling, general and administrative expenses.
The purchase price allocations for business combinations completed during the year ended January 31, 2016 are final.

The following table sets forth the components and the allocations of the combined purchase prices for the business combinations completed during the year ended January 31, 2016:

(in thousands)	Amount
Components of Purchase Prices:	
Cash	$33,222
Fair value of contingent consideration	16,237
Total purchase prices	$49,459
Allocation of Purchase Prices:	
Net tangible assets (liabilities):	
Accounts receivable	$992
Other current assets, including cash acquired	4,274
Other assets	395
Current and other liabilities	(3,037)
Deferred revenue - current and long-term	(1,872)
Deferred income taxes - current and long-term	(2,922)
Net tangible liabilities	(2,170)
Identifiable intangible assets:	
Customer relationships	1,212
Developed technology	20,300
Trademarks and trade names	300
In-process research and development	1,100
Total identifiable intangible assets	22,912
Goodwill	28,717
Total purchase price allocations	$49,459

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

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

Other Business Combination Information

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

Table of Contents

In connection with an immaterial business combination that closed during the nine months ended October 31, 2016, we recorded a contingent consideration obligation with a fair value of $7.7 million.

For the three and nine months ended October 31, 2016, we recorded $2.2 million and $4.8 million respectively, within selling, general and administrative expenses for changes in the fair values of contingent consideration obligations associated with business combinations. For the three and nine months ended October 31, 2015, we recorded net benefits of $1.0 million and $0.1 million, respectively, within selling, general and administrative expenses for changes in the fair values of contingent consideration obligations associated with business combinations. The aggregate fair value of the remaining contingent consideration obligations associated with business combinations was $31.6 million at October 31, 2016, of which $10.1 million was recorded within accrued expenses and other current liabilities, and $21.5 million was recorded within other liabilities.

Payments of contingent consideration earned under these agreements were $3.3 million for the nine months ended October 31, 2016, and $1.9 million and $4.9 million for the three and nine months ended October 31, 2015, respectively. There were no payments of contingent consideration earned during the three months ended October 31, 2016.

5. INTANGIBLE ASSETS AND GOODWILL

Acquisition-related intangible assets consisted of the following as of October 31, 2016 and January 31, 2016:

	October 31, 2016		
(in thousands)	Cost	Accumulated Amortization	Net
Intangible assets, with finite lives:			
Customer relationships	$378,056	$(233,255)	$144,801
Acquired technology	219,805	(158,571)	61,234
Trade names	20,719	(13,276)	7,443
Non-competition agreements	3,047	(2,409)	638
Distribution network	4,440	(4,162)	278
Total intangible assets with finite lives	626,067	(411,673)	214,394
In-process research and development, with indefinite lives	1,100	—	1,100
Total intangible assets	$627,167	$(411,673)	$215,494

	January 31, 2016		
(in thousands)	Cost	Accumulated Amortization	Net
Intangible assets, with finite lives:			
Customer relationships	$371,722	$(211,824)	$159,898
Acquired technology	211,388	(134,391)	76,997
Trade names	18,457	(11,570)	6,887
Non-competition agreements	3,047	(2,137)	910
Distribution network	4,440	(3,550)	890
Total intangible assets with finite lives	609,054	(363,472)	245,582
In-process research and development, with indefinite lives	1,100	—	1,100
Total intangible assets	$610,154	$(363,472)	$246,682

The following table presents net acquisition-related intangible assets by reportable segment as of October 31, 2016 and January 31, 2016:

(in thousands)	October 31, 2016	January 31, 2016
Customer Engagement	$183,258	$201,503
Cyber Intelligence	32,236	45,179
Total	$215,494	$246,682

Table of Contents

Total amortization expense recorded for acquisition-related intangible assets was $19.9 million and $61.0 million for the three and nine months ended October 31, 2016, respectively, and $20.0 million and $59.3 million for the three and nine months ended October 31, 2015, respectively. The reported amount of net acquisition-related intangible assets can fluctuate from the impact of changes in foreign currency exchange rates on intangible assets not denominated in U.S. dollars.

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

(in thousands)	
Years Ending January 31,	Amount
2017 (remainder of year)	$19,442
2018	61,838
2019	35,028
2020	25,730
2021	19,693
2022 and thereafter	52,663
Total	$214,394

During the nine months ended October 31, 2015, we recorded a $2.3 million impairment of an acquired technology asset, which is included within cost of product revenue. No other impairments of acquired intangible assets were recorded during the nine months ended October 31, 2016 and 2015.
As discussed in Note 14, "Segment Information", effective in August 2016, we reorganized into two businesses and now report our results in two operating segments. We have reallocated $51.8 million of goodwill, net of $25.3 million of accumulated impairment losses, from our former Video Intelligence segment to our Customer Engagement segment, and $22.2 million of goodwill, net of $10.8 million of accumulated impairment losses to our Cyber Intelligence segment using a relative fair value approach. In addition, we completed an assessment for potential impairment of the goodwill previously allocated to our former Video Intelligence segment immediately prior to the reallocation and determined that no impairment existed.

Goodwill activity for the nine months ended October 31, 2016, in total and by reportable segment, was as follows:

		Reportable Segment	
(in thousands)	Total	Customer Engagement	Cyber Intelligence
Year Ended January 31, 2016:			
Goodwill, gross, at January 31, 2016	$1,274,041	$1,131,249	$142,792
Accumulated impairment losses through January 31, 2016	(66,865)	(56,043)	(10,822)
Goodwill, net, at January 31, 2016	1,207,176	1,075,206	131,970
Business combinations	30,725	30,725	—
Foreign currency translation and other	(40,344)	(41,212)	868
Goodwill, net, at October 31, 2016	$1,197,557	$1,064,719	$132,838
Balance at October 31, 2016:			
Goodwill, gross, at October 31, 2016	$1,264,422	$1,120,762	$143,660
Accumulated impairment losses through October 31, 2016	(66,865)	(56,043)	(10,822)
Goodwill, net, at October 31, 2016	$1,197,557	$1,064,719	$132,838

Based upon our November 1, 2015 goodwill impairment reviews, we concluded that the estimated fair values of all of our reporting units, then consisting of Enterprise Intelligence, Cyber Intelligence, and Video Intelligence, significantly exceeded their carrying values.

As a result of the segment reorganization discussed above, we have concluded that we now have three reporting units, consisting of Customer Engagement, Cyber Intelligence (excluding situational intelligence solutions), and the Situational Intelligence business of our former Video Intelligence segment, which is now a component of our Cyber

Table of Contents

Intelligence operating segment. No events or circumstances indicating the potential for goodwill impairment were identified during the nine months ended October 31, 2016.

6. LONG-TERM DEBT

The following table summarizes our long-term debt at October 31, 2016 and January 31, 2016:

(in thousands)	October 31, 2016	January 31, 2016
1.50% Convertible Senior Notes	$400,000	$400,000
February 2014 Term Loans	130,394	130,729
March 2014 Term Loans	279,696	280,413
Other debt	502	—
Less: Unamortized debt discounts and issuance costs	(63,816)	(73,055)
Total debt	746,776	738,087
Less: current maturities	4,709	2,104
Long-term debt	$742,067	$735,983

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

1.50% Convertible Senior Notes

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

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

The Notes have a conversion rate of 15.5129 shares of common stock per $1,000 principal amount of Notes, which represents an effective conversion price of approximately $64.46 per share of common stock and would result in the issuance of approximately 6,205,000 shares if all of the Notes were converted. The conversion rate has not changed since issuance of the Notes, although throughout the term of the Notes, the conversion rate may be adjusted upon the occurrence of certain events.
On or after December 1, 2020 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may surrender their Notes for conversion regardless of whether any of the other specified conditions for conversion have been satisfied.

As of October 31, 2016, the Notes were not convertible.

In accordance with accounting guidance for convertible debt with a cash conversion option, we separately accounted for the debt and equity components of the Notes in a manner that reflected our estimated nonconvertible debt borrowing rate. We estimated the debt and equity components of the Notes to be $319.9 million and $80.1 million, respectively, at the issuance date, assuming a 5.00% non-convertible borrowing rate. The equity component was

recorded as an increase to additional paid-in capital. The excess of the principal amount of the debt component over its carrying amount (the "debt discount") is being amortized as interest expense over the term of the Notes using the effective interest method. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

Issuance costs attributable to the debt component of the Notes were netted against long-term debt and are being amortized as interest expense over the term of the Notes, and issuance costs attributable to the equity component were netted with the equity component in additional paid-in capital. The carrying amount of the equity component, net of issuance costs, was $78.2 million at October 31, 2016.

Table of Contents

As of October 31, 2016, the carrying value of the debt component was $338.7 million, which is net of unamortized debt discount and issuance costs of $56.0 million and $5.3 million, respectively. Including the impact of the debt discount and related deferred debt issuance costs, the effective interest rate on the Notes was approximately 5.29% at October 31, 2016.

Based on the closing market price of our common stock on October 31, 2016, the if-converted value of the Notes was less than the aggregate principal amount of the Notes.

Note Hedges and Warrants

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

Note Hedges

Pursuant to the Note Hedges, we purchased call options on our common stock, under which we have the right to acquire from the counterparties up to approximately 6,205,000 shares of our common stock, subject to customary anti-dilution adjustments, at a price of $64.46, which equals the initial conversion price of the Notes. Our exercise rights under the Note Hedges generally trigger upon conversion of the Notes and the Note Hedges terminate upon maturity of the Notes, or the first day the Notes are no longer outstanding. The Note Hedges may be settled in cash, shares of our common stock, or a combination thereof, at our option, and are intended to reduce our exposure to potential dilution upon conversion of the Notes. We paid $60.8 million for the Note Hedges, which was recorded as a reduction to additional paid-in capital. As of October 31, 2016, we had not purchased any shares of our common stock under the Note Hedges.

Warrants

We sold the Warrants to several counterparties. The Warrants provide the counterparties rights to acquire from us up to approximately 6,205,000 shares of our common stock at a price of $75.00 per share. The Warrants expire incrementally on a series of expiration dates beginning in August 2021. At expiration, if the market price per share of our common stock exceeds the strike price of the Warrants, we will be obligated to issue shares of our common stock having a value equal to such excess. The Warrants could have a dilutive effect on net income per share to the extent that the market value of our common stock exceeds the strike price of the Warrants. Proceeds from the sale of the Warrants were $45.2 million and were recorded as additional paid-in capital. As of October 31, 2016, no Warrants had been exercised and all Warrants remained outstanding.

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

Credit Agreement

In April 2011, we entered into a credit agreement with our lenders, which was amended and restated in March 2013, and further amended in February, March, and June 2014 (the "Credit Agreement"). The Credit Agreement, as amended and restated, provides for senior secured credit facilities, comprised of $943.5 million of term loans, of which $300.0 million was borrowed in February 2014 (the "February 2014 Term Loans") and $643.5 million was borrowed in March 2014 (the "March 2014 Term Loans"), all of which matures in September 2019, and a $300.0

million revolving credit facility maturing in September 2018 (the "Revolving Credit Facility"), subject to increase and reduction from time to time, as described in the Credit Agreement.

The February 2014 Term Loans were borrowed in connection with our February 2014 acquisition of Kana Software, Inc. (“Kana”). The March 2014 Term Loans were borrowed as part of a refinancing of previously outstanding amounts under the Credit Agreement. In June 2014, we utilized the majority of the combined net proceeds from the issuance of the Notes and the concurrent issuance of 5,750,000 shares of common stock to retire $530.0 million of the February 2014 Term Loans and March 2014 Term Loans, and all $106.0 million of then-outstanding borrowings under the Revolving Credit Facility.

The outstanding February 2014 Term Loans and March 2014 Term Loans incur interest at our option at either a base rate plus a spread of 1.75% or an Adjusted LIBOR Rate, as defined in the Credit Agreement, plus a spread of 2.75%. As of October 31, 2016 and January 31, 2016, the interest rate on both the February 2014 Term Loans and the March 2014 Term Loans was 3.50%. Taking into account the impact of original issuance discounts, if any, and related deferred debt

issuance costs, the effective interest rates on the February 2014 Term Loans and March 2014 Term Loans were approximately 4.03% and 3.58%, respectively, at October 31, 2016.
We are required to pay a commitment fee equal to 0.50% per annum of the undrawn portion on the Revolving Credit Facility, payable quarterly, and customary administrative agent and letter of credit fees.
Debt issuance and debt modification costs, as well as original issuance discounts, incurred in connection with the Credit Agreement are deferred and amortized as adjustments to interest expense over the remaining contractual life of the associated borrowing.
The Credit Agreement, contains certain customary affirmative and negative covenants for credit facilities of this type, as well as a financial covenant that currently requires us to maintain a ratio of Consolidated Total Debt to Consolidated EBITDA (each as defined in the Credit Agreement) of no greater than 4.50 to 1. The limitations imposed by the covenants are subject to certain exceptions as detailed in the Credit Agreement.
Future Principal Payments on Term Loans

As of October 31, 2016, future scheduled principal payments on the February 2014 Term Loans and March 2014 Term Loans are presented in the following table:

(in thousands) Years Ending January 31,	February 2014 Term Loans	March 2014 Term Loans
2017 (remainder of year)	$334	$717
2018	1,337	2,869
2019	1,337	2,869
2020	127,386	273,241
Total	$130,394	$279,696

Interest Expense

The following table presents the components of interest expense incurred on the Notes and on borrowings under our Credit Agreement for the three and nine months ended October 31, 2016 and 2015:

	Three Months Ended October 31,		Nine Months Ended October 31,	
(in thousands)	2016	2015	2016	2015
1.50% Convertible Senior Notes:				
Interest expense at 1.50% coupon rate	$1,500	$1,500	$4,500	$4,500
Amortization of debt discount	2,685	2,547	7,949	7,542
Amortization of deferred debt issuance costs	253	240	750	711
Total Interest Expense - 1.50% Convertible Senior Notes	$4,438	$4,287	$13,199	$12,753
Borrowings under Credit Agreement:				
Interest expense at contractual rates	$3,669	$3,677	$10,943	$10,912
Amortization of debt discounts	15	14	44	42
Amortization of deferred debt issuance costs	557	547	1,653	1,616
Total Interest Expense - Borrowings under Credit Agreement	$4,241	$4,238	$12,640	$12,570

7. SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENT INFORMATION

Condensed Consolidated Balance Sheets

Inventories consisted of the following as of October 31, 2016 and January 31, 2016:

Table of Contents

(in thousands)	October 31, 2016	January 31, 2016
Raw materials	$9,891	$7,177
Work-in-process	6,466	6,668
Finished goods	4,035	4,467
Total inventories	$20,392	$18,312

Condensed Consolidated Statements of Operations

Other expense, net consisted of the following for the three and nine months ended October 31, 2016 and 2015:

	Three Months Ended October 31,		Nine Months Ended October 31,	
(in thousands)	2016	2015	2016	2015
Foreign currency (losses) gains, net	$(2,152)	$(2,517)	$1,870	$(5,434)
Gains (losses) on derivative financial instruments, net	1,266	309	(696)	583
Other, net	(235)	(1,967)	(3,834)	(2,864)
Total other expense, net	$(1,121)	$(4,175)	$(2,660)	$(7,715)

Condensed Consolidated Statements of Cash Flows

The following table provides supplemental information regarding our condensed consolidated cash flows for the nine months ended October 31, 2016 and 2015:

	Nine Months Ended October 31,	
(in thousands)	2016	2015
Cash paid for interest	$13,927	$13,949
Cash payments of income taxes, net	$25,023	$13,168
Non-cash investing and financing transactions:		
Accrued but unpaid purchases of property and equipment	$5,169	$4,041
Inventory transfers to property and equipment	$139	$1,084
Liabilities for contingent consideration in business combinations	$7,700	$16,237

8. STOCKHOLDERS' EQUITY

Dividends on Common Stock

We did not declare or pay any dividends on our common stock during the nine months ended October 31, 2016 and 2015. Under the terms of our Credit Agreement, we are subject to certain restrictions on declaring and paying dividends on our common stock.

Share Repurchase Program

On March 29, 2016, we announced that our board of directors had authorized a share repurchase program whereby we may make up to $150.0 million in purchases of our outstanding shares of common stock over the two years following the date of announcement. Under the share repurchase program, purchases can be made from time to time using a

variety of methods, which may include open market purchases. The specific timing, price and size of purchases will depend on prevailing stock prices, general market and economic conditions, and other considerations, including the amount of cash generated in the U.S. and other potential uses of cash, such as acquisitions. Purchases may be made through a Rule 10b5-1 plan pursuant to pre-determined metrics set forth in such plan. The authorization of the share repurchase program does not obligate us to acquire any particular amount of common stock, and the program may be suspended or discontinued at any time.

Treasury Stock

Table of Contents

Repurchased shares of common stock are recorded as treasury stock, at cost. We periodically purchase treasury stock from directors, officers, and other employees to facilitate income tax withholding and payment requirements upon vesting of equity awards.

During the nine months ended October 31, 2016, we acquired 1,000,000 shares of treasury stock at a cost of $35.9 million, including 500,000 shares at a cost $18.7 million during the three months ended October 31, 2016, under the aforementioned share repurchase program. We did not acquire any shares of treasury stock during the nine months ended October 31, 2015.

At October 31, 2016, we held approximately 1,348,000 shares of treasury stock with a cost of $46.1 million. At January 31, 2016, we held approximately 348,000 shares of treasury stock with a cost of $10.3 million.

Accumulated Other Comprehensive Income (Loss)

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

The following table summarizes changes in the components of our accumulated other comprehensive income (loss) by component for the nine months ended October 31, 2016:

(in thousands)	Unrealized (Losses) Gains on Foreign Exchange Contracts Designated as Hedges	Unrealized Loss on Interest Rate Swap Designated as Hedge	Unrealized (Losses) Gains on Available-for-Sale Investments	Foreign Currency Translation Adjustments	Total
Accumulated other comprehensive loss at January 31, 2016	$ (1,871)	$ —	$ (110)	$ (114,213)	$ (116,194)
Other comprehensive income (loss) before reclassifications	1,848	(1,147)	110	(49,639)	(48,828)
Gains reclassified out of accumulated other comprehensive income (loss)	794	—	—	—	794
Net other comprehensive income (loss), current period	1,054	(1,147)	110	(49,639)	(49,622)
Accumulated other comprehensive loss at October 31, 2016	$ (817)	$ (1,147)	$ —	$ (163,852)	$ (165,816)

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

The amounts reclassified out of accumulated other comprehensive income (loss) into the condensed consolidated statement of operations, with presentation location, for the three and nine months ended October 31, 2016 and 2015

were as follows:

Table of Contents

(in thousands)	Three Months Ended October 31, 2016	2015	Nine Months Ended October 31, 2016	2015	Location
Unrealized gains (losses) on derivative financial instruments:					
Foreign currency forward contracts	$57	$(162)	$79	$(703)	Cost of product revenue
	67	(164)	74	(650)	Cost of service and support revenue
	345	(1,029)	470	(4,458)	Research and development, net
	213	(527)	265	(2,136)	Selling, general and administrative
	682	(1,882)	888	(7,947)	Total, before income taxes
	(75)				