

VERINT SYSTEMS INC
Form 10-Q
September 06, 2017

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

(Mark One)

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

For the quarterly period ended July 31, 2017

OR

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

For the transition period from _____ to _____.

Commission File No. 001-34807

Verint 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 No

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 No

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

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

There were 63,734,741 shares of the registrant's common stock outstanding on August 15, 2017.

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Verint Systems Inc. and Subsidiaries

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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 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 privacy, information security, trade compliance, anti-corruption, 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;

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, Comverse, Inc. (now known as Mavenir Inc.), 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 our Annual Report on Form 10-K for the year ended January 31, 2017. 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. Financial Statements

VERINT SYSTEMS INC. AND SUBSIDIARIES

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VERINT SYSTEMS INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

	July 31, 2017	January 31, 2017
(in thousands, except share and per share data)		
Assets		
Current Assets:		
Cash and cash equivalents	\$365,138	\$307,363
Restricted cash and bank time deposits	35,673	9,198
Short-term investments	8,410	3,184
Accounts receivable, net of allowance for doubtful accounts of \$2.1 million and \$1.8 million, respectively	250,592	266,590
Inventories	18,615	17,537
Deferred cost of revenue	3,792	3,621
Prepaid expenses and other current assets	71,368	64,561
Total current assets	753,588	672,054
Property and equipment, net	80,759	77,551
Goodwill	1,294,243	1,264,818
Intangible assets, net	209,896	235,259
Capitalized software development costs, net	8,217	9,509
Long-term deferred cost of revenue	4,157	5,463
Other assets	71,034	98,130
Total assets	\$2,421,894	\$2,362,784
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$65,824	\$62,049
Accrued expenses and other current liabilities	212,910	217,835
Deferred revenue	184,864	182,515
Total current liabilities	463,598	462,399
Long-term debt	763,788	744,260
Long-term deferred revenue	23,738	20,912
Other liabilities	114,675	120,173
Total liabilities	1,365,799	1,347,744
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock - \$0.001 par value; authorized 2,207,000 shares at July 31, 2017 and January 31, 2017, respectively; none issued.	—	—
Common stock - \$0.001 par value; authorized 120,000,000 shares. Issued 65,396,000 and 64,073,000 shares; outstanding 63,735,000 and 62,419,000 shares at July 31, 2017 and January 31, 2017, respectively.	65	64
Additional paid-in capital	1,491,290	1,449,335
Treasury stock, at cost - 1,661,000 and 1,654,000 shares at July 31, 2017 and January 31, 2017, respectively.	(57,425)	(57,147)
Accumulated deficit	(257,898)	(230,816)
Accumulated other comprehensive loss	(132,231)	(154,856)
Total Verint Systems Inc. stockholders' equity	1,043,801	1,006,580
Noncontrolling interests	12,294	8,460
Total stockholders' equity	1,056,095	1,015,040

Total liabilities and stockholders' equity	\$2,421,894	\$2,362,784
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See notes to condensed consolidated financial statements.

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

(in thousands, except per share data)	Three Months Ended July 31,		Six Months Ended July 31,	
	2017	2016	2017	2016
Revenue:				
Product	\$94,412	\$90,456	\$184,229	\$166,168
Service and support	180,365	171,465	351,543	341,177
Total revenue	274,777	261,921	535,772	507,345
Cost of revenue:				
Product	31,944	26,573	65,868	52,956
Service and support	69,200	66,754	136,545	131,885
Amortization of acquired technology	9,530	9,134	19,064	18,314
Total cost of revenue	110,674	102,461	221,477	203,155
Gross profit	164,103	159,460	314,295	304,190
Operating expenses:				
Research and development, net	48,521	43,099	94,754	87,819
Selling, general and administrative	103,494	101,146	205,301	201,181
Amortization of other acquired intangible assets	8,142	11,466	19,679	22,732
Total operating expenses	160,157	155,711	319,734	311,732
Operating income (loss)	3,946	3,749	(5,439)	(7,542)
Other income (expense), net:				
Interest income	809	313	1,139	466
Interest expense	(9,118)	(8,724)	(18,106)	(17,268)
Loss on early retirement of debt	(1,934)	—	(1,934)	—
Other income (expense), net	4,983	(5,358)	3,094	(1,539)
Total other expense, net	(5,260)	(13,769)	(15,807)	(18,341)
Loss before provision for income taxes	(1,314)	(10,020)	(21,246)	(25,883)
Provision for income taxes	4,452	1,058	3,560	1,388
Net loss	(5,766)	(11,078)	(24,806)	(27,271)
Net income attributable to noncontrolling interests	661	627	1,407	1,890
Net loss attributable to Verint Systems Inc.	\$(6,427)	\$(11,705)	\$(26,213)	\$(29,161)
Net loss per common share attributable to Verint Systems Inc.:				
Basic	\$(0.10)	\$(0.19)	\$(0.42)	\$(0.47)
Diluted	\$(0.10)	\$(0.19)	\$(0.42)	\$(0.47)
Weighted-average common shares outstanding:				
Basic	63,185	62,668	62,838	62,463
Diluted	63,185	62,668	62,838	62,463

See notes to condensed consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

(in thousands)	Three Months Ended July 31,		Six Months Ended July 31,	
	2017	2016	2017	2016
Net loss	\$(5,766)	\$(11,078)	\$(24,806)	\$(27,271)
Other comprehensive income (loss), net of reclassification adjustments:				
Foreign currency translation adjustments	11,431	(36,800)	21,104	(23,269)
Net increase from available-for-sale securities	—	5	—	110
Net (decrease) increase from foreign exchange contracts designated as hedges	(149)	(2,010)	3,101	2,778
Net (decrease) from interest rate swap designated as a hedge	(988)	(1,195)	(1,021)	(1,624)
Benefit (provision) for income taxes on net increase (decrease) from foreign exchange contracts and interest rate swap designated as hedges	55	212	(271)	(324)
Other comprehensive income (loss)	10,349	(39,788)	22,913	(22,329)
Comprehensive income (loss)	4,583	(50,866)	(1,893)	(49,600)
Comprehensive income attributable to noncontrolling interests	723	627	1,695	2,189
Comprehensive income (loss) attributable to Verint Systems Inc.	\$3,860	\$(51,493)	\$(3,588)	\$(51,789)

See notes to condensed consolidated financial statements.

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

(in thousands)	Verint Systems Inc. Stockholders' Equity								
	Common Stock Shares	Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive	Total Verint Systems Inc. Stockholders' Equity	Non-control- ling Interests	Total Stockholders' Equity
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	—	—	—	—	(29,161)	—	(29,161)	1,890	(27,271)
Other comprehensive (loss) income	—	—	—	—	—	(22,628)	(22,628)	299	(22,329)
Stock-based compensation - equity-classified awards	—	—	28,489	—	—	—	28,489	—	28,489
Exercises of stock options	—	—	1	—	—	—	1	—	1
Common stock issued for stock awards and stock bonuses	1,372	1	6,952	—	—	—	6,953	—	6,953
Treasury stock acquired	(500)	—	—	(17,162)	—	—	(17,162)	—	(17,162)
Tax effects from stock award plans	—	—	(491)	—	—	—	(491)	—	(491)
Balances at July 31, 2016	63,138	\$64	\$1,422,906	\$(27,413)	\$(230,597)	\$(138,822)	\$1,026,138	\$10,216	\$1,036,354
Balances at January 31, 2017	62,419	\$64	\$1,449,335	\$(57,147)	\$(230,816)	\$(154,856)	\$1,006,580	\$8,460	\$1,015,040
Net (loss) income	—	—	—	—	(26,213)	—	(26,213)	1,407	(24,806)
Other comprehensive income	—	—	—	—	—	22,625	22,625	288	22,913
Stock-based compensation - equity-classified awards	—	—	28,980	—	—	—	28,980	—	28,980
Common stock issued for stock awards and stock bonuses	1,323	1	12,975	—	—	—	12,976	—	12,976
Treasury stock acquired	(7)	—	—	(278)	—	—	(278)	—	(278)

Initial noncontrolling interest related to business combination	—	—	—	—	—	—	—	2,300	2,300
Capital contributions by noncontrolling interest	—	—	—	—	—	—	—	555	555
Dividends to noncontrolling interest	—	—	—	—	—	—	—	(716)	(716)
Cumulative effect of adoption of ASU No. 2016-16	—	—	—	—	(869))	—	(869)	(869)
Balances at July 31, 2017	63,735	\$65	\$1,491,290	\$(57,425)	\$(257,898)	\$(132,231)	\$1,043,801	\$12,294	\$1,056,095

See notes to condensed consolidated financial statements.

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

(in thousands)	Six Months Ended July 31,	
	2017	2016
Cash flows from operating activities:		
Net loss	\$(24,806)	\$(27,271)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	55,416	57,035
Stock-based compensation, excluding cash-settled awards	34,355	31,638
Amortization of discount on convertible notes	5,548	5,264
Non-cash losses on derivative financial instruments, net	542	1,963
Loss on early retirement of debt	1,934	—
Other non-cash items, net	4,809	7,402
Changes in operating assets and liabilities, net of effects of business combinations:		
Accounts receivable	16,638	(21)
Inventories	(958)	(3,142)
Deferred cost of revenue	1,170	1,169
Prepaid expenses and other assets	(2,542)	(2,450)
Accounts payable and accrued expenses	(1,533)	(2,838)
Deferred revenue	3,343	(2,450)
Other, net	4,594	2,997
Net cash provided by operating activities	98,510	69,296
Cash flows from investing activities:		
Cash paid for business combinations, including adjustments, net of cash acquired	(16,867)	(72,269)
Purchases of property and equipment	(16,168)	(15,133)
Purchases of investments	(6,759)	(32,260)
Maturities and sales of investments	1,692	60,942
Cash paid for capitalized software development costs	(302)	(1,338)
Change in restricted cash and bank time deposits, including long-term portion, and other investing activities, net	(3,449)	2,720
Net cash used in investing activities	(41,853)	(57,338)
Cash flows from financing activities:		
Proceeds from borrowings, net of original issuance discount	424,469	—
Repayments of borrowings and other financing obligations	(409,429)	(371)
Payments of debt-related costs	(6,482)	(249)
Purchases of treasury stock	—	(17,162)
Dividends paid to noncontrolling interest	(716)	—
Payments of contingent consideration for business combinations (financing portion)	(7,108)	(3,231)
Other financing activities, net	(345)	(599)
Net cash provided by (used in) financing activities	389	(21,612)
Effect of foreign currency exchange rate changes on cash and cash equivalents	729	(2,335)
Net increase (decrease) in cash and cash equivalents	57,775	(11,989)
Cash and cash equivalents, beginning of period	307,363	352,105
Cash and cash equivalents, end of period	\$365,138	\$340,116

See notes to condensed consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Unless the context otherwise requires, the terms "Verint", "we", "us", and "our" in these notes to 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 informed, timely, and effective decisions. Today, over 10,000 organizations in more than 180 countries, including over 80 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 and Cyber Intelligence Solutions.

We have established leadership positions in Actionable Intelligence by developing highly-scalable, enterprise-class software and services with advanced, integrated analytics for both unstructured and structured 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 800 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.

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, 2017. The condensed consolidated statements of operations, comprehensive (loss) income, stockholders' equity, and cash flows for the periods ended July 31, 2017 and 2016, and the condensed consolidated balance sheet as of July 31, 2017, 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, 2017 is derived from the audited consolidated financial statements presented in our Annual Report on Form 10-K for the year ended January 31, 2017. 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, 2017. 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.

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Principles of Consolidation

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

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 cannot 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 \$62.0 million and \$39.7 million at July 31, 2017 and January 31, 2017, respectively.

Under most contracts, unbilled accounts receivable are typically billed and collected within one year of revenue recognition. However, as of July 31, 2017, 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. Unbilled accounts receivable from this customer have declined significantly over the past year. We have no history of uncollectible accounts with this customer and believe that collection of all unbilled amounts is reasonably assured. We expect billing and collection of all unbilled accounts receivable from this customer 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, 2017. There were no material changes to our significant accounting policies during the six months ended July 31, 2017.

Recent Accounting Pronouncements

New Accounting Pronouncements Recently Adopted

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 consolidated statements 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 was effective for us on February 1, 2017. The adoption did not result in a cumulative-effect adjustment to retained earnings, and in accordance with the new guidance, we recorded certain tax effects from stock-based compensation awards as components of the benefit for income taxes for the three and six months ended July 31, 2017, whereas such tax effects were previously recognized in stockholders' equity. These tax effects were not material for the three and six months ended July 31, 2017. Our accounting for forfeitures of stock-based compensation awards has not changed

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because we have elected to continue our current policy of estimating expected forfeitures. The effects of adopting the other provisions of ASU No. 2016-09 were not material to our condensed consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, which requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The new guidance is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted as of the beginning of an annual reporting period. The new standard must be adopted using a modified retrospective transition method, with the cumulative effect recognized as of the date of initial adoption. We have elected to early adopt this standard as of February 1, 2017, resulting in a \$0.9 million cumulative charge to retained deficit, a \$1.3 million reduction to other current assets, and a \$0.4 million increase in other assets.

New Accounting Pronouncements Not Yet Effective

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815) - Targeted Improvements to Accounting for Hedging Activities. This update better aligns risk management activities and financial reporting for hedging relationships, simplifies hedge accounting requirements, and improves disclosures of hedging arrangements. ASU No. 2017-12 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. We are currently reviewing this standard to assess the impact on our condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, and ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment.

ASU No. 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. While we are still assessing the impact of this standard, we do not believe that the adoption of this guidance will have a material impact on our condensed consolidated financial statements.

ASU No. 2017-04 eliminates Step 2 of the goodwill impairment test and requires a goodwill impairment to be measured as the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of its goodwill. The ASU is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. While we are still assessing the impact of this standard, we do not believe that the adoption of this guidance will have a material impact on our condensed consolidated financial statements.

In November 2016, the FASB issued 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 consolidated statement of cash flows. This

standard will change that presentation. We are currently reviewing this standard to assess other potential impacts on our condensed consolidated financial statements.

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 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

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securities, loans, and other instruments. For available-for-sale debt securities with unrealized losses, the losses will be recognized as allowances rather than as reductions in the amortized cost of the securities. The new standard is effective for annual periods, and for interim periods within those annual periods, beginning after December 15, 2019, with early adoption permitted. We are currently reviewing this standard to assess the impact on our condensed consolidated financial statements.

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 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. The standard allows entities to apply the standard retrospectively to each prior reporting period presented (“full retrospective adoption”) or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application (“modified retrospective adoption”). We currently expect to adopt ASU No. 2014-09 using the modified retrospective option.

We are continuing to review the impacts of adopting ASU No. 2014-09 to our condensed consolidated financial statements. Based upon our preliminary assessments, we currently do not expect the new standard to materially impact the amount or timing of the majority of revenue recognized in our condensed consolidated financial statements. We are still assessing the impact on the timing of revenue recognized under certain contracts under which customized solutions are delivered over extended periods of time.

In addition, the timing of cost of revenue recognition for certain customer contracts requiring significant customization will change, because unlike current guidance, the new guidance precludes the deferral of costs simply to obtain an even profit margin over the contract term. We are also assessing the new standard’s requirement to capitalize costs associated with obtaining customer contracts, including commission payments, which are currently expensed as incurred. Under the new standard, these costs will be deferred on our consolidated balance sheet. We are evaluating the period over which to amortize these capitalized costs. In addition, for sales transactions that have been billed, but for which the recognition of revenue has been deferred and the related account receivable has not been collected, we currently do not recognize deferred revenue or the related accounts receivable on our consolidated balance sheet. Under the new standard, we will record accounts receivable and related contract liabilities for noncancelable contracts with customers when the right to consideration is unconditional, which we currently expect will result in increases in accounts receivable and contract liabilities (currently presented as deferred revenue) on our consolidated balance sheet, compared to our current presentation. Our preliminary assessments of the impacts to our

condensed consolidated financial statements of adopting this new standard are subject to change.

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

The following table summarizes the calculation of basic and diluted net loss per common share attributable to Verint Systems Inc. for the three and six months ended July 31, 2017 and 2016:

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(in thousands, except per share amounts)	Three Months Ended July 31,		Six Months Ended July 31,	
	2017	2016	2017	2016
Net loss	\$(5,766)	\$(11,078)	\$(24,806)	\$(27,271)
Net income attributable to noncontrolling interests	661	627	1,407	1,890
Net loss attributable to Verint Systems Inc.	\$(6,427)	\$(11,705)	\$(26,213)	\$(29,161)
Weighted-average shares outstanding:				
Basic	63,185	62,668	62,838	62,463
Dilutive effect of employee equity award plans	—	—	—	—
Dilutive effect of 1.50% convertible senior notes	—	—	—	—
Dilutive effect of warrants	—	—	—	—
Diluted	63,185	62,668	62,838	62,463
Net loss per common share attributable to Verint Systems Inc.:				
Basic	\$(0.10)	\$(0.19)	\$(0.42)	\$(0.47)
Diluted	\$(0.10)	\$(0.19)	\$(0.42)	\$(0.47)

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

(in thousands)	Three Months Ended July 31,		Six Months Ended July 31,	
	2017	2016	2017	2016
Common shares excluded from calculation:				
Stock options and restricted stock-based awards	1,282	1,035	1,243	1,276
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 July 31, 2017 and January 31, 2017:

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	July 31, 2017			
(in thousands)	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash and bank time deposits	\$ 349,936	\$ —	—\$	—\$ 349,936
Money market funds	209	—	—	209
Commercial paper	14,993	—	—	14,993
Total cash and cash equivalents	\$ 365,138	\$ —	—\$	—\$ 365,138
Short-term investments:				
Corporate debt securities	\$ 1,193	\$ —	—\$	—\$ 1,193
Bank time deposits	7,217	—	—	7,217
Total short-term investments	\$ 8,410	\$ —	—\$	—\$ 8,410
	January 31, 2017			
(in thousands)	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash and bank time deposits	\$ 307,188	\$ —	—\$	—\$ 307,188
Money market funds	175	—	—	175
Total cash and cash equivalents	\$ 307,363	\$ —	—\$	—\$ 307,363
Short-term investments:				
Bank time deposits	\$ 3,184	\$ —	—\$	—\$ 3,184
Total short-term investments	\$ 3,184	\$ —	—\$	—\$ 3,184

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

During the six months ended July 31, 2017 and 2016, proceeds from maturities and sales of short-term investments were \$1.7 million and \$60.9 million, respectively.

4. BUSINESS COMBINATIONS

Six Months Ended July 31, 2017

During the six months ended July 31, 2017, we completed two transactions in our Customer Engagement segment, one of which retained a noncontrolling interest, and one acquisition in our Cyber Intelligence segment, all of which qualified as business combinations. These business combinations were not material to our condensed consolidated financial statements individually or in the aggregate.

Year Ended January 31, 2017

Contact Solutions, LLC

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 for this acquisition was funded with cash on hand.

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

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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.

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.

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 was included within prepaid expenses and other current assets, and \$1.7 million of which was included in other assets. We are amortizing this asset over the underlying delivery periods, which adjusts the revenue we recognize for providing these services to its estimated fair value.

Transaction and related costs directly related to the acquisition of Contact Solutions, consisting primarily of professional fees and integration expenses, were not material for the three and six months ended July 31, 2017, and \$0.3 million and \$0.6 million for the three and six months ended July 31, 2016, respectively, and were expensed as incurred in selling, general, and administrative expenses.

OpinionLab, Inc.

On November 16, 2016, we completed the acquisition of all of the outstanding shares of Chicago, Illinois-based OpinionLab, Inc. ("OpinionLab"), a leading 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.

The purchase price consisted of \$56.4 million of cash paid at the closing, funded from cash on hand, partially offset by \$6.4 million of OpinionLab's cash received in the acquisition, resulting in net cash consideration at closing of \$50.0 million, and we agreed to pay potential additional future cash consideration of up to \$28.0 million, contingent upon the achievement of certain performance targets over the period from closing through January 31, 2021, the acquisition date fair value of which was estimated to be \$15.0 million. The purchase price is subject to customary purchase price adjustments related to the final determination of OpinionLab's cash, net working capital, transaction expenses, and taxes as of November 16, 2016. The acquired business has been integrated into our Customer Engagement operating segment.

The purchase price for OpinionLab 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.

Among the factors contributing to the recognition of goodwill as a component of the OpinionLab 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 not deductible for income tax purposes.

In connection with the purchase price allocation for OpinionLab, 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 \$3.1 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 \$5.4 million asset as a component of the purchase price allocation, representing the estimated fair value of these obligations, \$3.4 million of which was included within prepaid expenses and

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other current assets, and \$2.0 million of which was 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 allocation for OpinionLab 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.

Transaction and related costs directly related to the acquisition of OpinionLab, consisting primarily of professional fees and integration expenses, were and \$0.3 million and \$0.5 million for the three and six months ended July 31, 2017, respectively and were expensed as incurred within selling, general and administrative expenses. Such costs were not material for the three and six months ended July 31, 2016.

The following table sets forth the components and the allocations of the purchase prices for our acquisitions of Contact Solutions and OpinionLab.

(in thousands)	Contact Solutions	OpinionLab
Components of Purchase Price:		
Cash paid at closing	\$ 66,915	\$ 56,355
Fair value of contingent consideration	—	15,000
Other purchase price adjustments	2,518	—
Total purchase price	\$ 69,433	\$ 71,355
Allocation of Purchase Price:		
Net tangible assets (liabilities):		
Accounts receivable	\$ 8,102	\$ 748
Other current assets, including cash acquired	2,392	10,625
Property and equipment, net	7,007	298
Other assets	1,904	2,036
Current and other liabilities	(4,943)	(1,600)
Deferred revenue - current and long-term	(642)	(3,082)
Deferred Income Taxes - current and long-term	—	(9,995)
Net tangible assets (liabilities)	13,820	(970)
Identifiable intangible assets:		
Customer relationships	18,000	19,100
Developed technology	13,100	10,400
Trademarks and trade names	2,400	1,800
Total identifiable intangible assets	33,500	31,300
Goodwill	22,113	41,025
Total purchase price allocation	\$ 69,433	\$ 71,355

For the acquisition of Contact Solutions, 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 7.3 years.

For the acquisition of OpinionLab, the acquired customer relationships, developed technology, and trademarks and trade names were assigned estimated useful lives of ten years, six years, and four years, respectively, the weighted average of which is approximately 8.3 years.

The weighted-average estimated useful life of all finite-lived identifiable intangible assets acquired during the year ended January 31, 2017 is 7.8 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.

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Other Business Combinations

During the year ended January 31, 2017, in addition to the acquisitions of Contact Solutions and OpinionLab, we completed two transactions in our Customer Engagement segment which qualified as business combinations. These business combinations were not material to our condensed consolidated financial statements individually or in the aggregate.

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.

In connection with immaterial business combinations that closed during the six months ended July 31, 2017, we recorded contingent consideration obligations with a combined fair value of \$3.7 million.

For the three months ended July 31, 2017 and 2016, we recorded \$0.6 million and \$1.8 million, respectively, and for the six months ended July 31, 2017 and 2016, we recorded \$2.9 million and \$2.6 million, respectively, within selling, general and administrative expenses for changes in the fair values of contingent consideration obligations associated with business combinations. The aggregate fair values of the remaining contingent consideration obligations associated with business combinations was \$50.1 million at July 31, 2017, of which \$13.2 million was recorded within accrued expenses and other current liabilities, and \$36.9 million was recorded within other liabilities.

Payments of contingent consideration earned under these agreements were \$6.9 million and \$0.4 million for the three months ended July 31, 2017 and 2016, respectively, and \$9.3 million and \$3.3 million for the six months ended July 31, 2017 and 2016, respectively.

5. INTANGIBLE ASSETS AND GOODWILL

Acquisition-related intangible assets consisted of the following as of July 31, 2017 and January 31, 2017:

(in thousands)	July 31, 2017		
	Cost	Accumulated Amortization	Net
Intangible assets, with finite lives:			
Customer relationships	\$416,129	\$(266,010)	\$150,119
Acquired technology	237,065	(187,322)	49,743
Trade names	24,799	(16,232)	8,567
Non-competition agreements	3,047	(2,680)	367
Distribution network	4,440	(4,440)	—
Total intangible assets with finite lives	685,480	(476,684)	208,796
In-process research and development, with indefinite lives			