VERINT SYSTEMS INC
Form 10-K
March 28, 2017

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 31, 2017

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

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

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

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

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

(Do not check if a smaller reporting company)

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

The aggregate market value of common stock held by non-affiliates of the registrant, based on the closing price for the registrant’s common stock on the NASDAQ Global Select Market on the last business day of the registrant’s most recently completed second fiscal quarter (July 29, 2016) was approximately $2,172,714,000.

There were 62,418,926 shares of the registrant’s common stock outstanding on March 15, 2017.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the Annual Meeting of Stockholders to be held in 2017, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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As of and For the Year Ended January 31, 2017

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Cautionary Note on Forward-Looking Statements

This Annual Report on Form 10-K contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, the provisions of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include financial projections, statements of plans and objectives for future operations, statements of future economic performance, and statements of assumptions relating thereto. Forward-looking statements may appear throughout this report, including without limitation, Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and are often identified by future or conditional words such as "will", "plans", "expects", "intends", "believes", "seeks", "estimates", or "anticipates", or by 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 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, 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, 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 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, tax rates, tax laws and regulations, and the continuing availability of expected tax benefits.

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

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PART I

Item 1. Business

Our Company

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

Actionable Intelligence is a necessity in a dynamic world of massive information growth because it empowers organizations with crucial insights and enables decision makers to anticipate, respond, and take action. With Verint solutions and value-added services, organizations of all sizes and across many industries can make more informed, timely, and effective decisions. Today, over 10,000 organizations in more than 180 countries, including over 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 structured and unstructured information. Our innovative solutions are developed by a large research and development (“R&D”) team comprised of approximately 1,400 professionals and backed by more than 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.

Company Background

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

Our Actionable Intelligence solutions initially focused on the capture of unstructured data, mainly speech data. Over time, we added capabilities for video, text, and other data types and sources, including the web, social media, and machine data. As the company has grown and achieved scale, we have built domain expertise in two areas: customer engagement and cyber intelligence. These areas have driven the evolution of our focus on Actionable Intelligence solutions.

The two operating segments we have today are Customer Engagement Solutions (“Customer Engagement”) and Cyber Intelligence Solutions (“Cyber Intelligence”). Each operating segment has dedicated management teams, sales and marketing, customer service, and research and development resources with shared back-office services.

Our two operating segments are described in greater detail below and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under Item 7 of this report. See also Note 16, “Segment, Geographic, and Significant Customer Information” to our consolidated financial statements included under Item 8 of this report for additional information and financial data about each of our operating segments and geographic regions.

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

Our Actionable Intelligence Strategy

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

- Data Capture—Our Actionable Intelligence platform enables the capture of a wide range of data, including both structured and unstructured data, such as operational, transactional, network, and web data. Our platform is designed to support big data applications which depend on the ability to capture, store, and manage very large data sets from multiple data sources.

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

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

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

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

Customer Engagement Solutions

Overview

Verint is a leading provider of Customer Engagement software and services that can be deployed on-premises or in the cloud. Our solutions help customer-centric organizations optimize customer engagement, increase customer loyalty, and maximize revenue opportunities, while generating operational efficiencies, reducing cost, and mitigating risk. We offer solutions that help organizations empower their customers and employees through intelligence that can be shared enterprise-wide. As a result, organizations are better informed and have greater automation and agility to engage with customers in a highly effective, consistent way. Empowered employees can provide customers with the high-quality, contextual experiences they expect, while generating significant operational efficiencies at the same time. We deploy our solutions globally in a wide range of industries and across an organization's contact centers, branch and back-office operations, customer experience teams, and digital marketing initiatives. Our Customer Engagement vision is powered by our Actionable Intelligence platform to generate intelligence from structured and unstructured data.

Trends

We believe the key trends driving demand for solutions that optimize Customer Engagement include:

• Evolving Customer Expectations. Consumers expect a more personalized, contextual, and consistent customer experience across service channels. Customer service has evolved from traditional call centers and in-store visits, to omnichannel contact centers, or customer engagement centers, that include self-service channels, such as web, voice and mobile self-service, and customer communities; a host of digital communications mediums, such as email, chat, and social media; and the traditional telephone. Today, consumers may select a service channel based on a number of factors, including which channels are available, their experiences with those channels, personal preference, and the type of service issue at hand. Often they use multiple channels for the same service-related issue, and alternate between traditional (voice) and digital (web, social, and mobile) channels based on individual preferences. With multiple engagement channels available and consumers having a preference to have their needs addressed in the first contact, we believe a focus on "ease of doing business" with an organization is becoming increasingly important and can be a key competitive differentiator.

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Forward-looking organizations are evolving their customer engagement operations to meet or exceed their customers' expectations, and we believe that Customer Engagement solutions, such as those from Verint, can play an important role in achieving this goal.

- Evolving Employee Expectations. Employee expectations are also evolving. Employees want their voices to be heard and their opinions to be taken into account. They want their skills and preferences to be considered and acted upon, and they want to be able to do the right things for their customers. Studies from the industry analyst community have reinforced the impact and importance of an engaged and empowered workforce, finding that when it comes to serving customers, happier, more empowered employees can have a significant impact not only on the customer experience, but also on a company's financial performance. We believe an engaged and empowered employee base can be a significant differentiator for organizations. Customer Engagement solutions, such as those from Verint, can play an important role in helping empower and develop employees, as well as solicit, analyze, and act on their opinions and feedback.

- Evolving Customer-Centric Organizations. Customer-centric organizations are increasingly looking to aggregate, analyze, and act on information to improve the customer experience, build customer loyalty, and drive profitability. Today's organizations have a significant amount of structured and unstructured data related to their customers, workforce, and other information that is generated from numerous departments and multiple systems across the enterprise. We believe that these organizations are increasingly seeking customer engagement solutions that allow them to collect and analyze intelligence across multiple engagement channels to gain a better understanding of the performance of their workforces, the effectiveness of their service processes, the quality of their interactions, and changing customer behaviors. When captured, analyzed, and acted upon, organizations can use this Actionable Intelligence to help achieve important strategic objectives, such as empowering staff, enhancing loyalty, gaining a holistic view of operations and effectiveness, driving automation, reducing operational costs, increasing revenue, and mitigating risk.

- Evolving Requirements for Authentication, Fraud Detection, Risk Management, and Compliance. Organizations face significant challenges when it comes to safeguarding customers' personal information, investigating fraud, and complying with regulatory and compliance requirements. Many of these risks are fueled by new system vulnerabilities, insider threats, and the rise of sophisticated methods of cyber-attack. For example, in financial services, contact center fraud has driven demand for voice biometrics and predictive analytics solutions that can identify and thwart fraudsters, while quickly authenticating legitimate customers. In financial services, branch and ATM fraud has driven demand for surveillance and analytics tools to support fraud investigations. Financial protection and other regulations—such as the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Payment Card Industry Data Security Standard—also present tremendous challenges, with the risk of significant financial penalties and remediation efforts for non-compliance. While organizations often have detailed processes/procedures for employees to follow, we believe that many are increasingly seeking Actionable Intelligence to anticipate and prevent breaches, effectively authenticate customers and protect personal information, mitigate risk, investigate and prevent fraud, and help ensure compliance.

- Adopting Innovative Technology. We see several trends in the Customer Engagement market resulting from the availability of new technologies. With the evolution of cloud technologies, some customers expect deployment flexibility, such as the ability to deploy solutions on-premises, in the cloud, or in a hybrid fashion. We see greater adoption of cloud solutions in smaller organizations and greater interest in hybrid deployments in larger enterprises. With the evolution of artificial intelligence technologies, we also see interest in greater automation, such as next-generation self-service solutions based on advanced natural language processing and robotic automation. Interest in these solutions is being driven by a desire to reduce the cost of delivering customer service, while at the same time improving customer retention through a faster and high quality self-service experience. Finally, with the evolution of social media, mobile, and other interaction technologies, we see organizations interested in leveraging newer engagement channels to address rapidly-evolving customer preferences.

Strategy

Our strategy is to further enhance our position as a global leader, enabling organizations to partner with Verint to evolve their customer engagement operations based on a holistic approach that includes deep domain expertise and deployment flexibility, as well as a rich portfolio of best-of-breed solutions. Our strategy pillars include:

- Offering the Broadest and Most Innovative Portfolio of Best-of-Breed Customer Engagement Solutions. Verint strives to offer the broadest and most innovative portfolio of purpose-built software and supporting services that enhance operational efficiency, reduce cost, improve the customer experience, and drive revenue for contact centers, branch and back office operations, customer experience, and digital marketing. We continue to invest to further expand our portfolio of Customer Engagement solutions.

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- Offering a Holistic Approach to Customer Engagement with the Flexibility to Start Anywhere. Customer-centric organizations are seeking to evolve their customer engagement operations to address the trends outlined above. Organizations are migrating towards a more holistic approach at different paces, depending on their prior investments, business priorities, and current budgets. Verint's strategy is to offer our broad portfolio in a highly modular fashion that allows customers to preserve their investments in legacy solutions and start anywhere within the Verint portfolio for maximum flexibility. Many of our customers start with the solution that addresses their most urgent needs, and over time, adopt more solutions from our portfolio.

- Offering On-Premises, Cloud, and Hybrid Deployment Models with a Broad Range of Value-Added Services. We believe that customers today are looking for flexible cloud deployment options. To address their varying needs, our Customer Engagement Optimization portfolio has been cloud-enabled, providing customers the ability to deploy our solutions in the way that best meets their objectives, including on-premises, in a private cloud, in a public cloud, or in a hybrid fashion with some solutions deployed on-premises and some in the cloud. In addition, to enable our customers to gain maximum value from our solutions regardless of deployment mode, we offer a broad range of services, including implementation services, consulting services, technical services, and managed services.

- Partnering With Customer-Centric Organizations to Address Evolving Trends. We believe that organizations are looking for strategic partners with a broad portfolio and deep domain expertise to help them evolve their customer engagement operations to achieve strategic business goals. Historically, voice/telephony was the dominating channel. Organizations are now looking to add a variety of digital engagement channels (such as web, social, and mobile), as well as assisted service and self-service capabilities. They are also looking to add analytics, automation, and intelligence to power a consistent, contextual, and personalized customer engagement, while reducing operating cost and increasing revenue. To address this opportunity, Verint's strategy has been to build a broad portfolio of analytics-driven Customer Engagement solutions that enable organizations to implement a holistic approach to customer engagement with greater automation and shared intelligence across applications. We partner with customer-centric organizations to help them protect their legacy investments, while adding new capabilities based on their specific business priorities.

Our Solutions

Verint's Customer Engagement portfolio is comprised of a large number of discrete solutions for customer engagement optimization. We have developed many integration points across the portfolio but have also kept the design modular to allow customers to choose the sequence and pace of the implementation. Our portfolio can be described across five solution sets:

- Voice of the Customer
- Workforce Optimization
- Employee Engagement
- Engagement Channels
- Security, Fraud, and Compliance

Voice of the Customer:
Organizations are looking to measure and improve their customers' experiences, satisfaction, and loyalty, which is why Voice of the Customer (VoC) solutions have become a strategic imperative across contact center, customer experience, marketing, and other departments. We offer a complete portfolio for listening, analyzing, and acting on the VoC across all channels (surveys, digital, voice, text, and social), providing a holistic approach to VoC that spans from recording and analyzing customer interactions ("active listening"), to soliciting and analyzing customer feedback

(“proactive feedback”) across channels. Holistic VoC implementations help amplify the voice of the customer and create shared intelligence that organizations can leverage to take action and achieve business objectives across the enterprise. Our Voice of the Customer solutions include the following:

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Voice of the Customer Solutions	Description
Interaction Analytics	Includes Speech Analytics, Text Analytics, and Social Analytics that proactively identify trends, themes, and the root causes driving customer behavior in order to improve performance, optimize processes, and enhance customer experiences. Provides a fast, smart, accurate solution for automatically categorizing, identifying trends, and performing root cause analysis on voice and text-based communications—including call recordings, survey verbatims, social media posts, email, and customer service chat sessions—according to organizations' unique objectives and challenges.
Enterprise Feedback	Provides an enterprise-class platform to help organizations gain a complete view into the perceptions, opinions, and intentions of their customers and employees through company-initiated surveys delivered via mobile, email, web, IVR, and SMS channels.
Digital Feedback	Features an enterprise solution that captures web and mobile customer-initiated feedback during key moments in the digital customer journey, and empowers organizations to analyze and act in real-time on that feedback to deliver demonstrable business value.

Workforce Optimization:
Workforce Optimization (WFO) drives workforce and operational efficiencies across the contact center, branch, and back-office operations departments, and is a core component of any organization's customer engagement strategy. Key functional domains, outlined in the chart below, facilitate the recording and assessment of employee performance, combined with the ability to plan, forecast, and schedule staff to help ensure operational service-level targets are met. We are a holistic WFO provider that uniquely delivers tight integration and workflow across these functions and tight integrations to other Customer Engagement Optimization solution sets (including VoC, employee engagement, engagement channels, and security, fraud, and compliance). In addition, we embed analytics within our various WFO solutions including real-time speech analytics, analytics-driven quality, and desktop and process analytics, enabling greater performance and generating Actionable Intelligence across the enterprise.

Our Workforce Optimization solutions include the following:

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Workforce Optimization Solutions	Description
Intelligent Recording	Enables full-time, enterprise recording to help ensure compliance, reduce liability, and support customer engagement. Reliably and securely captures, encrypts, indexes, archives, searches, and replays audio, screen, and other methods of interaction from different and mixed recording environments, and couples these capabilities with powerful speech analytics to provide greater value from recorded interactions.
Analytics-Driven Quality	Features sophisticated quality management functionality infused with the power of speech analytics, enabling a more strategic approach to QM and performance evaluations. Enables organizations to drive customer-focused quality initiatives by rapidly surfacing the interactions, intelligence, and issues that are of high business value and relevance.
Coaching/Learning	Provides a forum for consistent, performance-based mentoring of employees by supervisors and the delivery of training right to the employee desktop. Can be scheduled at the best times for minimal impact on service levels, and to enable employees to engage and improve their skills on-demand.
Workforce Management	Enables organizations to efficiently plan, forecast, and schedule employees to meet service level goals. Provides visibility into and a singular management tool for the work, the people, and the processes across customer touchpoints in contact center, branch and back-office operations.
Work Allocation	Helps increase productivity, meet service delivery goals, and enhance customer satisfaction by prioritizing the work of individual employees, helping ensure they focus on the right activities at the right time. Provides a practical approach to managing claims processing, loan production, and other blended and back-office functions by prioritizing work items to meet service level agreements (SLAs) based on available employees with the right skills.
Desktop and Process Analytics	Provides organizations with visibility into how employees use different systems, applications, and processes to perform their functions. Helps identify opportunities to improve business processes, enhance compliance, and heighten the overall efficiency, cost, and quality of customer service.
Robotic Process Automation	Automates repetitive manual processes, allowing employees to focus on more complex and value-added customer-facing activities. Leverages software robots to execute specific tasks or entire multistep processes within a functional area, leading to improved quality and productivity.
Performance Management	Serves as a complete, closed-loop solution to manage individual and departmental performance against goals. Provides a comprehensive view of key performance indicators (KPIs) using performance scorecards to report on customer interactions, customer experience trends, and contact center, branch, and back-office staff performance. Leverages scorecards, along with learning, coaching, and gamification, as part of a broader capability.

Employee Engagement:
Organizations are looking to empower their employees, while satisfying customers. Likewise, employees expect to be engaged in order to effectively execute their companies' strategies. This highlights the importance of having the tools and resources needed to achieve the key components of employee engagement: flexibility, transparency, motivation, mobility, and empowerment. In addition to Workforce Optimization (a subset of Employee Engagement), employees can benefit from knowledge management, advanced desktop tools, and motivational applications, as well as mobile solutions that allow them to leverage their mobile devices for greater productivity. Verint offers a holistic employee engagement portfolio that enables today's organizations to enhance workforce effectiveness and improve employee satisfaction, creating a more engaged and empowered approach to service delivery.

Our Employee Engagement solutions include the following:

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Employee Engagement Solutions	Description
Workforce Optimization	Described above
Knowledge Management	Provides a central repository of up-to-date information to deliver the right knowledge to users in the contact center and to customers through self-service. Provides answers quickly by searching, browsing, or following guided processes, with personalized results tailored to the customer's context, while helping organizations increase first contact resolution, improve the consistency and quality of answers, enhance compliance with regulations and company processes, and reduce employee training time.
Employee Desktop	Unifies the disparate applications on an employee's desktop by presenting on one screen all of the contextual customer information, relevant knowledge, and business process guidance that an employee needs for handling interactions in any channel, without having to toggle among numerous screens and applications.
Case Management	Allows organizations to automate and rapidly adapt business processes in response to changing market and customer requirements. Tracks the progress of customer and internal issues as they are resolved between various parties in the organization, helping deliver end-to-end case lifecycle management using business rules and SLAs.
Internal Communities	Supports employee engagement, collaboration, and enterprise social networking through open and closed micro-communities, peer-to-peer support forums, communications blogs, wikis, activity streams, and online resources. Enables knowledge and best practice sharing in a high-value, low-effort manner, enhancing relationships, productivity, and efficiency.
Gamification	Applies game mechanics to energize employee engagement, communicate personal and organizational goals, measure and acknowledge achievements, inspire collaboration, and motivate teams. Delivers KPI-linked programs to transform the process of acquiring, maintaining, and improving the skills, knowledge, and behaviors necessary for employees to enhance quality, customer engagement, sales, and other expertise.
Mobile Workforce Apps	Comprises a family of mobile applications, offering anytime, anywhere access to important operational and customer information. Allows employees to access and change schedules and view performance information, and enables the convenient collection of in-the-moment feedback through device-friendly survey formats over the web, email, and SMS, as well as on site in retail stores and sporting venues.
Voice of the Employee	Features an enterprise-class platform that enables employees to share their perceptions, opinions, and feedback, while providing organizations with key insights to foster employee engagement, productivity, satisfaction, and retention, as well as optimize the customer experience.

Engagement Channels:
Verint's portfolio supports a wide range of engagement channels, such as digital, social, and mobile, with assisted, as well as self-service, capabilities. Our engagement channel approach is based on open access to data and vendor neutrality. Therefore, our engagement channels can be seamlessly deployed into environments that have a combination of legacy or new on-premises or cloud voice infrastructures. We believe this approach provides organizations looking to modernize their customer operations with maximum flexibility to build their next-generation, multi-channel customer engagement strategy. As part of building a modern and open engagement channel strategy, organizations can leverage intelligence generated from other parts of Verint's portfolio, such as our knowledge management solution, which helps share knowledge across channels and can empower both agents and self-service bots.

Our Engagement Channel solutions include the following:

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Engagement Channel Solutions	Description
Web/Mobile Self-Service	Enables customers to self-serve on the web or via their mobile devices, accommodating the preferences of those that prefer to engage with organizations digitally. Unites knowledge management, case management, process management, and channel escalation to enable personalized web and mobile self-service experiences. Features advanced cross-channel messaging, enabling customers to start a digital interaction on one device and continue it on another, as well as seamlessly transition from self-service to live service within a mobile app, mobile web, or web application.
Voice Self-Service	Provides speech-enabled voice self-service enhanced by real-time, contextual automation and analytics-driven personalization. Leverages business intelligence to analyze and adapt call flow and the pace of interactions based on caller behavior, and to continually improve performance over time.
Customer Communities	Enables organizations to establish and manage online communities on behalf of their customers and partners to support social customer service, digital marketing, and engagement. Fosters self-service, knowledge sharing, collaboration, and networking, through peer-to-peer support forums, communications blogs, and online resources, such as discussion forums, product documentation, and how-to videos. Helps organizations deliver better products faster by sourcing new ideas from customers, partners, and potential buyers.
Email/Secure Messaging	Automates the process of capturing, documenting, interpreting, and routing emails, helping organizations respond to customers quickly and consistently. Routes messages to the most appropriate employee based on skills, entitlements, and availability, providing standard templates and responses, a central knowledge base, and unified customer history across channels. Features a secure web portal for customers to send/receive confidential information as needed.
Web Chat	Enables employees to help online customers when they need it the most, in real-time. Provides customers with a quick, easy way to communicate with customer service employees via a simple text interface, and helps employees rapidly address needs and decrease the abandonment of online transactions. Guides customers through online processes using chat in conjunction with co-browsing.
Co-Browse	Enables employees to strengthen customer relationships by guiding customers to successful completions of their digital journeys. Helps reduce web page abandonment, drive revenue, and deliver better customer experiences by allowing employees to simultaneously browse the same web pages as customers and assist them with completing their transactions.
Mobile Messaging	Provides the ability for customers to start an interaction on one device, such as a website on their laptop, pause for a while, and then pick up right where they left off on a smartphone or tablet, minutes, hours, or even days later. Enables “conversations” to persist across devices, over time, all the way from self-service through live assistance.
Social Engagement	Collects, analyzes, and reports relevant insights derived from posts and content published to social media sites and messaging services. Reveals intelligence and trends related to sentiment, emerging topics and themes, and locations, enabling organizations to understand the voice of the customer, and giving employees the means and insight they need to respond to and address issues and concerns expressed through these channels.

Security, Fraud, and Compliance:

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Whether consumers choose to engage with humans (e.g., contact center agents and branch tellers) or machines (e.g., self-service voice response, or ATM machines), they expect safe, secure interactions. At the same time, organizations are looking to minimize and investigate fraud, heighten security and safety for customers and employees, and comply with applicable rules and regulations.

Verint solutions help fraud mitigation and investigation as part of an organization's customer engagement strategy. For example, banking customers use our video and transaction analytics tools to investigate fraud in branch banking. Our voice biometrics software is used to authenticate customers in the voice channel to mitigate fraud, and our analytics solutions are used to identify fraudulent transactions in self-service channels. Verint solutions also help emergency response centers (e.g., 911) ensure quality and timeliness of response, and effectively dispatch first responders.

We provide many security and compliance capabilities embedded in our Customer Engagement Optimization portfolio. These include the encryption of voice recording for maximum data security, compliance that supports the Payment Card Industry Data Security Standard in the contact center, and voice/data capture and analytics for trading compliance and other mandates. Our Security, Fraud, and Compliance solutions include the following:

Security, Fraud, and Compliance Solutions	Description
Compliance Recording	Reliably and securely captures, encrypts, archives, searches, and replays interactions for compliance and liability protection. Enables organizations and employees to protect credit card data and personal information (data compliance), adhere to rules for recording and telemarketing practices (communications compliance), and proactively address complaints and help prevent identity theft.
Fraud and Identity Analytics	Combines recorder-embedded "passive" voice biometrics technology with multifactor metadata analytics to screen calls against the databases of both customer and known fraudster voiceprints. Offers "upstream fraud detection" functionality to identify suspicious caller behavior within voice self-service interactions, and helps improve experiences by authenticating legitimate customers faster, reducing call handling and fraud-related losses.
Trading Compliance	Helps organizations mitigate risk, ensure compliance, enforce regulations, and proactively identify policy breaches by reliably recording and analyzing 100 percent of the voice and text interactions related to trading activities. Helps ensure adherence to company, industry, and government regulations; reduce operational and reputational risk; and save on the cost, time, and resources required for trade surveillance and audits.
Branch Surveillance and Investigation	Helps financial institutions, retailers, and other organizations identify security threats and vulnerabilities, mitigate risk, ensure operational compliance, and improve fraud investigations. Offers real-time intelligence and protection, helping enhance the customer experience, while safeguarding people, property, and assets. Features video recording and analytics to heighten protection, improve performance, reduce costs, and provide rapid action/response when required.
Public Safety Compliance	Allows emergency services first responders (e.g., police, fire departments, emergency medical services) to rapidly capture, analyze, manage, and act on public safety data. Improves emergency preparedness and response, addresses evolving challenges and threats, reduces liability and risk, and makes the most of budgets and staff. Includes incident investigation, evidence preparation, and compliance audit trail capabilities.

Cyber Intelligence Solutions

Overview

Verint is a leading provider of security and intelligence data mining software. Our solutions are used for a wide range of applications, including predictive intelligence, advanced and complex investigations, security threat analysis, and electronic data and physical assets protection, as well as for generating legal evidence and preventing criminal activity and terrorism. We deploy our solutions, including software, hardware, and services, globally for governments, critical infrastructure providers and

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enterprise customers. Our vision for security and intelligence data mining solutions is powered by our Actionable Intelligence platform to generate intelligence and insights from structured and unstructured data.

Trends

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

- Security Threats Remain Pervasive Globally, and Preventing Crime and Terrorism Is Becoming More Complex. Governments, critical infrastructure providers, and enterprises face ongoing security threats from criminal and terrorist organizations, foreign governments, and other groups and individuals looking to do harm. Increasingly, these security threats come from well-organized and well-funded operations utilizing highly sophisticated methods and technologies. As a result, detecting, investigating, and responding to security threats is becoming more complex. Security and intelligence organizations responsible for addressing these increasingly sophisticated threats are seeking advanced data mining solutions to help them generate Actionable Intelligence. Such solutions often involve collecting, fusing, and analyzing structured and unstructured data from multiple sources, including from cyber space and a variety of other data and communications networks. We believe that the increasing complexity and technological challenges related to preventing crime and terror will drive customer demand for greater intelligence and for data mining solutions such as ours.

- Security Organizations Face Competing Budget Priorities and a Global Shortage of Qualified Intelligence Analysts and Data Scientists. Security organizations are seeking sophisticated technology to help combat crime and terror. While security threats are becoming more complex, security spending competes with other spending priorities. Organizations need to employ a large number of intelligence analysts and data scientists to meet the increasing complexity of an ever-growing number of security threats. Even with adequate budgets, there is a shortage of such qualified personnel globally, leading to elongated investigations and increased risk that security threats are not addressed. We believe that competing budget priorities and the shortage of qualified personnel have made security and intelligence data mining solutions critical, as they provide customers with automation, drive operational efficiencies, and improve the quality and speed of investigations.

- Security Organizations Seek To Partner With Vendors That Can Bring Both Sophisticated Data Mining Software and Deep Domain Expertise. Security operations involve people, processes, and technology, including data mining software. To facilitate the effective deployment of data mining solutions, in many cases security organizations seek to partner with vendors that can also offer relevant domain expertise and can deliver turnkey solutions. We believe that security and intelligence data mining solutions that incorporate domain expertise with advanced analytical technologies better enable customers to achieve their objectives of generating Actionable Intelligence and of accelerating investigations without major budget increases or the need to employ large numbers of data scientists and security analysts. We also believe that customers seek turnkey solutions that address their specific requirements and that are better aligned with their strategic needs and financial constraints, rather than unspecialized data analysis software that often requires expensive customizations and managed services.

Strategy

Our objective is to be the global leader in security and intelligence data mining software. The key elements of our growth strategy include:

- Extending Our Market Leadership and Increasing Our Total Addressable Market ("TAM") by Expanding Our Portfolio of Data Mining Solutions to Address Evolving Security Threats. Verint has a long history of working closely with leading security organizations around the world and has created a strong security and intelligence data mining solution portfolio based on a deep understanding of our customers' needs. We are well positioned to expand existing customer relationships, win new customers, and continue to grow our portfolio to address evolving security threats. Historically, most of our Cyber Intelligence revenue has been generated from government customers. We see an opportunity to increase our TAM over time by leveraging our strong government experience to introduce new security and intelligence data mining solutions and domain expertise to critical infrastructure providers and enterprises that face complex security threats.

- Delivering Advanced Data Mining Solutions with Deep Domain Expertise to Improve the Velocity and Effectiveness of Our Customers' Security Operations. Recognizing that security organizations face many evolving threats, while at the same time experiencing financial constraints and a shortage of intelligence analysts and data scientists, our strategy is to bring to market security and intelligence data mining solutions that can address specific customer needs. The design of our solutions is based on our deep knowledge of customers' operational needs and advanced analytical technologies in the areas of artificial intelligence, machine learning, predictive analytics, and

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visualization, with the goal of automating the intelligence process and reducing dependency on intelligence analysts and data scientists. We believe this approach enables our customers to gain Actionable Intelligence quickly and efficiently with higher quality and a lower total cost of ownership.

- Partnering with our Customers and Offering Flexible Deployment Models. We are a strategic partner to our customers, providing them with security and intelligence data mining solutions to help address security threats and ensure the long-term success of their mission. Our strategy is to offer customers multiple options to deploy our solutions, including working directly with us in a turnkey project or indirectly through systems integrators. Many of our customers choose Verint to deploy turnkey projects that include software, hardware, and services (including from third-party vendors), while other customers choose to implement our security and intelligence data mining software in conjunction with hardware and services provided by others. Regardless of how customers deploy our solutions, we are constantly working to enhance our products and services to help them stay ahead of evolving security threats.

Our Solutions

Verint offers a broad range of security and intelligence data mining solutions, including:

Solutions	Description
National Security	National security agencies are mandated to prevent terrorism, collect intelligence, and investigate national security threats. Verint's National Security data mining solution enables governments around the world to generate Actionable Intelligence by collecting, correlating, and analyzing a wide range of structured and unstructured data from multiple sources to identify and prevent potential threats.
Law Enforcement	Law enforcement agencies are mandated to fight a wide range of criminal activity, such as arson, drug trafficking, homicides, human trafficking, identity theft, kidnapping, anti-poaching, illegal immigration, financial crimes, and other organized crimes. Verint's Law Enforcement evidence collection data mining and investigation solution provides critical intelligence to advance complex investigations for a wide array of crimes.
Cyber Security	Governments, critical infrastructure organizations, and enterprises are facing attacks from sophisticated malware. Due to the increased sophistication of these attacks they are becoming more difficult to detect, prevent, and investigate. Verint's data mining cyber security solution helps organizations collect network, end-point, and other information from multiple sources and apply analytics in order to prioritize responses to attacks, automate part of the investigation process to reduce dependency on cyber analysts and data scientists, and reduce the critical time from detection to remediation.
Critical Infrastructure	Critical infrastructure providers are mandated to protect sensitive assets, such as airports, bridges, electrical grids, pipelines, ports, nuclear power plants, water supplies, and government facilities. Given the large size of these types of assets, critical infrastructure providers seek solutions to help them detect and respond to threats efficiently and across large distances. Verint's Critical Infrastructure security and intelligence data mining solution combines and analyzes data from a range of sensors and other systems to provide Actionable Intelligence to security personal, allowing them to centrally monitor and respond to security threats.
Enterprise Security	Enterprises with significant risk of data loss, intellectual property theft, financial fraud, or other security risks are interested in data mining solutions to help mitigate such risks. For example, Verint's Enterprise Security data mining solution has been deployed by a global pharmaceutical company to mine the open source web for counterfeit drugs that may infringe on their patent-protected pharmaceutical products. Verint's Enterprise Security data mining solution has also been deployed by a large retail company to mine data captured in stores to help investigate and mitigate fraud.

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Telecommunications Lawful Interception Compliance	Telecommunication carriers are mandated to comply with certain government regulations requiring them to assist the government in their evidence and intelligence collection process. This can involve collecting information from a wide range of sources across disparate networks. Verint's Telecommunication Lawful Interception Compliance solution helps telecommunication providers comply efficiently and adequately with these regulations.
Border Control	Governments are mandated to monitor and regulate borders to control the movement of people and goods into and out of a country. Borders can be very large and impossible to monitor with people alone. As a result, border control agencies seek physical security technologies, as well as intelligence gathering technologies, to adequately protect borders. Verint's Border Control solution leverages data mining of machine data, telecommunications, social data, and enterprise systems to identify suspicious behavior, and help investigate and prevent border control incidents.
Correctional Facilities	Correctional agencies are mandated to safely detain criminals in low, medium, and high security facilities. They are also required to ensure that criminals do not continue to conduct illegal activities from inside prisons. Verint's Correctional Facilities solution assists prison monitoring through situational awareness and intelligence gathering capabilities to enhance physical security and help identify illegal activities from inside the prison.

Our data mining solutions for security and intelligence listed above are delivered using a product, or several products implemented together, from our Cyber Intelligence portfolio described below:

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Solutions	Description
Network Intelligence Suite	Verint's Network Intelligence Suite generates insights and intelligence by rapidly uncovering critical information from network traffic. The Network Intelligence suite can address a wide range of communications networks and can scale to capture and analyze massive volumes of communications traffic.
Threat Protection System (TPS)	Verint's TPS integrates multiple advanced detection engines and provides unified workflows for investigation, behavioral analytics, and forensics that analyze cyber-attack paths, enable remediation, and help protect against future attempts. Its orchestration and automation capabilities reduce the need for labor-intensive manual processes and help shorten the period of time between malware detection and remediation.
Situational Awareness Platform	Verint's Situational Intelligence Platform integrates data from multiple systems and sensors, such as access control, video, intrusion, fire, public safety, weather, traffic, first responder, and other mobile device systems. It provides a unified visualization layer and workflow, enabling organizations to fuse, analyze, and report information, and take action on risks, alarms, and incidents across business and security systems. Situational awareness helps identify and mitigate risks, improve response times, increase operational effectiveness, and reduce total cost of ownership.
Intelligence Fusion Center (IFC)	Verint's Intelligence Fusion Center provides organizations with a centralized data mining platform for creating insights, identifying potential threats, and generating predictive intelligence. It enables a cross-source/cross-format single point of access to intelligence data sources to facilitate organization-wide investigation, management, and analysis. In addition to the fusion of data generated by Verint's products, it provides capabilities to connect structured and unstructured data originating from customer-provided databases and other sources.
Web and Social Intelligence	Verint's Web and Social Intelligence solution helps transform large volumes of web and open source content into insights, identify suspicious behavioral patterns, and generate predictive intelligence.

Customer Services

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

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

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

Managed Services
We also offer a range of managed services to help our customers manage their customer service operations. Our managed services are designed to help customers effectively maximize business insights and also enable us to create strong relationships with our customers. Our managed services are recurring in nature and can be delivered in conjunction with Verint's technology or on a standalone basis.

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Maintenance Support

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

Direct and Indirect Sales

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

Each of our solutions is sold by trained, dedicated, regionally-organized direct and indirect sales teams. Our direct sales teams are focused on large and mid-sized customers and, in many cases, co-sell with our other channels and sales agents. Our indirect sales teams are focused on developing and supporting relationships with our indirect channels, which provide us with broader market coverage, including access to their customer bases, integration services, and presence in certain geographies and vertical markets. Our sales teams are supported by business consultants, solutions specialists, and pre-sales engineers who, during the sales process, help determine customer requirements and develop technical responses to those requirements. We sell directly and indirectly in both of our segments. See "Risk Factors—Risks Related to Our Business—Competition, Markets, and Operations—If we are unable to establish and maintain our relationships with third parties that market and sell our products, our business and ability to grow could be materially adversely affected" under Item 1A of this report for a more detailed discussion of certain sales and distribution risks that we face.

Customers

Our solutions are used by over 10,000 organizations in more than 180 countries. In the year ended January 31, 2017, we derived approximately 66% and 34% of our revenue from the sale of our Customer Engagement and Cyber Intelligence solutions, respectively. In the year ended January 31, 2016, we derived approximately 61% and 39% of our revenue from the sale of our Customer Engagement and Cyber Intelligence solutions, respectively. In the year ended January 31, 2015, we derived approximately 63% and 37% of our revenue from the sale of our Customer Engagement and Cyber Intelligence solutions, respectively. We are party to contracts with customers in both of our segments, the loss of which could have a material adverse effect on the segment.

In the year ended January 31, 2017, we derived approximately 54%, 30%, and 16% of our revenue from sales to end users in the Americas, in Europe, the Middle East and Africa ("EMEA"), and in the Asia-Pacific ("APAC") regions, respectively. In the year ended January 31, 2016, we derived approximately 51%, 31%, and 18% of our revenue from sales to end users in the Americas, EMEA, and APAC, respectively. In the year ended January 31, 2015, we derived approximately 52%, 31%, and 17% of our revenue from sales to end users in the Americas, EMEA, and APAC, respectively. See also Note 16, "Segment, Geographic, and Significant Customer Information" to our consolidated financial statements included under Item 8 of this report for additional information and financial data about each of our operating segments and geographic regions.

For the year ended January 31, 2017, approximately one third of our business was generated from contracts with various governments around the world, including local, regional, and national government agencies. Due to the unique nature of the terms and conditions associated with government contracts generally, our government contracts may be subject to renegotiation or termination at the election of the government customer. Some of our customer engagements require us to have security credentials or to participate in projects through an approved legal entity.

Seasonality and Cyclicality

As is typical for many software and technology companies, our business is subject to seasonal and cyclical factors. In most years, our revenue and operating income are typically highest in the fourth quarter and lowest in the first quarter (prior to the impact of unusual or nonrecurring items). Moreover, revenue and operating income in the first quarter of a new year may be lower than in the fourth quarter of the preceding year, in some years, potentially by a significant margin. In addition, we

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

Research and Development

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

To support our research and development efforts, we make significant investments in R&D every year. In the years ended January 31, 2017, 2016, and 2015, we spent approximately $171.1 million, $177.7 million, and $173.7 million, respectively, on R&D, net. We allocate our R&D resources in response to market research and customer demand for additional features and solutions. Our development strategy involves rolling out initial releases of our products and adding features over time. We incorporate product feedback received from our customers into our product development process. While the majority of our products are developed internally, in some cases, we also acquire or license technologies, products, and applications from third parties based on timing and cost considerations. See “Risk Factors—Risks Related to Our Business—Competition, Markets, and Operations—For certain products, components, or services, we rely on third-party suppliers, manufacturers, and partners and if these relationships are interrupted, we may not be able to obtain substitute suppliers, manufacturers, or partners on favorable terms or at all and we may be subject to other adverse effects” under Item 1A of this report.

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

Manufacturing, Suppliers, and Service Providers

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

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suppliers, manufacturers, or partners on favorable terms or at all and we may be subject to other adverse effects" under Item 1A of this report for a discussion of risks associated with our manufacturing operations and suppliers.

Employees

As of January 31, 2017, we employed approximately 5,100 professionals, including certain contractors, with approximately 44%, 21%, 23%, and 12% of our employees and contractors located in the Americas, Israel, EMEA (excluding Israel), and APAC, respectively.

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

Intellectual Property Rights

General

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

Patents

As of January 31, 2017, we had more than 800 patents and patent applications worldwide, including more than 130 patent issuances or allowances during the past year. We have accumulated a significant amount of proprietary know-how and expertise in developing Actionable Intelligence solutions. We regularly review new areas of technology related to our businesses to determine whether they can and should be patented.

Licenses

While we employ many of our innovations exclusively in our products and services, we also engage in outbound and inbound licensing of specific patented technologies. Our licenses are designed to prohibit unauthorized use, copying, and disclosure of our software technology. When we license our software to customers, we require license agreements containing restrictions and confidentiality terms customary in the industry in order to protect our proprietary rights in the software. These agreements generally warrant that the software and propriety hardware will materially comply with written documentation and assert that we own or have sufficient rights in the software we distribute and have not violated the intellectual property rights of others.

We license our products in a format that does not permit users to change the software code. See "Risk Factors—Risks Related to Our Business—Competition, Markets, and Operations—For certain products, components, or services, we rely on third-party suppliers, manufacturers, and partners, and if these relationships are interrupted we may not be able to obtain substitute suppliers, manufacturers, or partners on favorable terms or at all and we may be subject to other adverse effects" under Item 1A of this report.

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

Trademarks and Service Marks

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

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Competition

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

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

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

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

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

Export Regulations

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

Item 1A. Risk Factors

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

Risks Related to Our Business

Competition, Markets, and Operations

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

Our business is subject to risks arising from adverse changes in domestic and global economic conditions. Slowdowns, recessions, economic instability, political unrest, armed conflicts, or natural disasters around the world may cause companies and governments to delay, reduce, or even cancel planned spending. In particular, declines in information technology spending

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and limited or reduced government budgets have affected the markets for our solutions in both the Customer Engagement market and the Cyber Intelligence market in certain periods and in certain regions. For the year ended January 31, 2017, approximately one third of our business was generated from contracts with various governments around the world, including national, regional, and local government agencies. We expect that government contracts will continue to be a significant source of our revenue for the foreseeable future. Customers or partners who are facing business challenges, reduced budgets, or liquidity issues are also more likely to defer purchase decisions or cancel or reduce orders, as well as to delay or default on payments. If customers or partners significantly reduce their spending with us or significantly delay or fail to make payments to us, our business, results of operations, and financial condition would be materially adversely affected.

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

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

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

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

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

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

A key element of our long-term strategy is to continue to invest in, enhance, and secure our business and operations and grow, both organically and through acquisitions. Investments in, among other things, new markets, new products, solutions, and technologies, R&D, infrastructure and systems, geographic expansion, and headcount are critical components in achieving this strategy. However, such investments and efforts may not be successful, especially in new areas or new markets in which we have little or no experience, and even if successful, may negatively impact our short-term profitability. Our success depends on our ability to effectively and efficiently enhance our existing operations and execute on our growth strategy, including our ability to properly allocate limited investment dollars, balance the extent and timing of investments with the associated impact on expenses and profitability, balance our focus between new areas or new markets and the operation and servicing of our legacy businesses and customers, capture efficiencies and economies of scale, and compete in the new areas or new markets and with the new solutions in which we have invested. Moreover, our existing infrastructure, systems, processes, and personnel may not be adequate for our current or future needs. For example, we are currently in the process of upgrading our enterprise resource planning system as well as introducing a new revenue recognition system. These implementations are complex, time-consuming, and expensive and we cannot assure you that we will not experience problems during or following such implementations, including among others, potential disruptions in our ability to report accurate and timely financial results. If we are unable to effectively and efficiently enhance our existing operations, execute on our growth strategy, and properly manage our investments, focus, and expenditures, our results of operations and market share may be materially adversely affected.

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

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

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

- the effect of the acquisition on our financial and strategic positions and our reputation;

- risk that we fail to successfully implement our business plan for the combined business, including plans to accelerate growth;
- risk that we are unable to obtain the anticipated benefits of the acquisition, including synergies or economies of scale;
- risk that the market does not accept the integrated product portfolio;
- challenges in reconciling business practices or in integrating product development activities, logistics, or information technology and other systems;

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- retention risk with respect to key customers, suppliers, and employees and challenges in assimilating and training new employees;

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

- potential impact on our internal controls over financial reporting.

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

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

Sales opportunities and sales processes for sophisticated solutions like ours present significant challenges.

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

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

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

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

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

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

Larger solution sales also require greater expertise in sales execution and transaction implementation than more basic product sales, including in establishing and maintaining appropriate contacts and relationships with customers and partners, product development, project management, staffing, integration, services, and support. Our ability to sell and support larger solutions also generally requires greater investment for us, in terms of personnel and other resources, and increases the risk that our revenue and profitability becomes concentrated in a given period or over time. Additionally, after the completion of a solution sale or the sale of a more sophisticated product in general, our customers or partners may need assistance from us in making full use of the functionality of these solutions or products, in realizing all of their benefits, or in implementation generally. If

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we are unable to assist our customers and partners in realizing the benefits they expect from our solutions and products, demand for our solutions and products may decline and our operating results may suffer.

The extended time frame and uncertainty associated with many of our sales opportunities also makes it difficult for us to accurately forecast our revenues (and attendant budgeting and guidance decisions) and increases the volatility of our operating results from period to period. Our ability to forecast and the volatility of our operating results is also impacted by the fact that pricing, margins, and other deal terms may vary substantially from transaction to transaction, especially across business lines. The terms of our transactions, including with respect to pricing, future deliverables, delivery model (e.g., perpetual license versus SaaS), and post-contract customer support, also impact the timing of our ability to recognize revenue. Because these transaction-specific factors are difficult to predict in advance, this also complicates the forecasting of revenue. The deferral or loss of one or more significant orders or a delay in a large implementation can also materially adversely affect our operating results, especially in a given quarter. As with other software-focused companies, a large amount of our quarterly business tends to come in the last few weeks, or even the last few days, of each quarter. This trend has also complicated the process of accurately predicting revenue and other operating results, particularly on a quarterly basis. Finally, our business is subject to seasonal factors that may also cause our results to fluctuate from quarter to quarter.

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

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

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

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

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

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adversely affect our business.

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

We depend on the continued services of our management and employees to run and grow our business. To remain successful and to grow, we need to retain existing employees and attract new employees who understand and/or have experience with our products, services, and markets, including new markets and growth areas we may enter. As we grow, we must also enhance and expand our management team to execute on new and larger agendas and challenges. The market for qualified personnel is competitive in the geographies in which we operate and may be limited especially in areas of emerging technology, and we may be at a disadvantage to companies with greater brand recognition or financial resources in recruiting. If we are unable to attract and retain qualified personnel, when and where they are needed, our ability to operate and grow our business could be impaired. Moreover, if we are not able to properly balance investment in personnel with growth in our business, our profitability may be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We believe increased regulation is likely with respect to the solicitation, collection, processing or use of personal, financial and consumer information as regulatory authorities around the world are considering a number of legislative and regulatory proposals concerning data protection, privacy and data security. In addition, the interpretation and application of consumer and data protection laws and industry standards in the United States, Europe and elsewhere are often uncertain and in flux. The application of existing laws to cloud-based solutions is particularly uncertain and cloud-based solutions may be subject to

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further regulation, the impact of which cannot be fully understood at this time. Moreover, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data and privacy practices. If so, in addition to the possibility of fines, this could result in an order requiring that we change our data and privacy practices, which could have an adverse effect on our business and results of operations. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

Information / Product Security and Intellectual Property

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

Our products are in some cases used by customers to compile and analyze highly sensitive or confidential information and data, including information or data used in intelligence gathering or law enforcement activities. While our customers' use of our products in no way affords us access to the customer's sensitive or confidential information or data, we or our partners may receive or come into contact with such information or data, including personally identifiable information, when we are asked to perform services or support functions for our customers. We or our partners may also receive or come into contact with such information or data in connection with our SaaS or other hosted or managed services offerings. We have implemented policies and procedures, and use information technology systems, to help ensure the proper handling of such information and data, including background screening of certain services personnel, non-disclosure agreements with employees and partners, access rules, and controls on our information technology systems. Customers are also increasingly focused on the security of our products and services and we continuously work to address these concerns, including through the use of encryption, access rights, and other customary security features, which vary based on the solution in question and customer requirements. However, these measures are designed to mitigate the risks associated with handling or processing sensitive data and cannot safeguard against all risks at all times. The improper handling of sensitive data, or even the perception of such mishandling (whether or not valid), or other security lapses or breaches affecting us, our partners, or our products or services, could reduce demand for our products or services or otherwise expose us to financial or reputational harm or legal liability.

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

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

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

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

Our intellectual property may not be adequately protected.

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

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

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

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

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

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

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

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Risks Related to Our Finances and Capital Structure

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

At March 15, 2017, we had total outstanding indebtedness of approximately $808 million under our Credit Agreement and the Notes, meaning that we are significantly leveraged. In addition, we have the ability to borrow additional amounts under our Credit Agreement, including the revolving credit facility, for a variety of purposes, including, among others, acquisitions and stock repurchases. Our leverage position may, among other things:

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

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

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

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

In addition, because the unhedged portion of our indebtedness under our Credit Agreement bears interest at a variable rate, we are exposed to risk from fluctuations in interest rates in periods where market rates exceed the interest rate floor provided by our Credit Agreement.

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

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

- incur additional indebtedness or liens or issue preferred stock;

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

- engage in transactions with affiliates;

- engage in sale-leaseback transactions;

- sell certain assets;

- change our lines of business;

- make investments, loans, or advances; and

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

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

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

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

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

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

A significant portion of our cash and cash equivalents are held overseas. If we are not able to generate sufficient cash domestically in order to fund our U.S. operations, stock repurchases and strategic opportunities, and to service our debt, we may incur a significant tax liability in order to repatriate the overseas cash balances, or we may need to raise additional capital in the future.

As of January 31, 2017, approximately $336.6 million of our cash, cash equivalents, restricted cash, bank time deposits, and investments were held in foreign countries. These amounts are not freely available for dividend repatriation to the U.S. without triggering significant adverse tax consequences in the U.S. As a result, if the cash generated by our domestic operations is not sufficient to fund our domestic operations, our broader corporate initiatives such as stock repurchases, acquisitions, and other strategic opportunities, and to service our outstanding indebtedness, we may need to raise additional funds through public or private debt or equity financings, or we may need to obtain new credit facilities to the extent we choose not to repatriate our overseas cash. Such additional financing may not be available on terms favorable to us, or at all, and any new equity financings or offerings would dilute our current stockholders' ownership. Furthermore, lenders may not agree to extend us new, additional or continuing credit. If adequate funds are not available, or are not available on acceptable terms, we may be forced to repatriate our foreign sources of liquidity and incur a significant tax expense or we may not be able to take advantage of strategic opportunities, develop new products, respond to competitive pressures, repurchase outstanding stock or repay our outstanding indebtedness. In any such case, our business, operating results or financial condition could be adversely impacted. For further information, please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources."

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

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

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

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

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Our financial results may be significantly impacted by changes in our tax position.
We are subject to taxes in the United States and numerous foreign jurisdictions. Our future effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in valuation allowance on deferred tax assets (including our NOL carryforwards), changes in unrecognized tax benefits or changes in tax laws or their interpretation. Any of these changes could have a material adverse effect on our profitability. In addition, the tax authorities in the jurisdictions in which we operate, including the United States, may from time to time review the pricing arrangements between us and our foreign subsidiaries or among our foreign subsidiaries. An adverse determination by one or more tax authorities in this regard may have a material adverse effect on our financial results.
We have significant deferred tax assets which can provide us with significant future cash tax savings if we are able to use them, including significant NOLs inherited as a result of the CTI Merger. However, the extent to which we will be able to use these NOLs may be impacted, restricted, or eliminated by a number of factors, including changes in tax rates, laws or regulations, whether we generate sufficient future taxable income, and possible adjustments to the tax attributes of CTI or its non-Verint subsidiaries for periods prior to the CTI Merger. To the extent that we are unable to utilize our NOLs or other losses, our results of operations, liquidity, and financial condition could be materially adversely affected. When we cease to have NOLs available to us in a particular tax jurisdiction, either through their expiration, disallowance, or utilization, our cash tax liability will increase in that jurisdiction.

Changes in accounting principles, or interpretations thereof, could adversely impact our financial condition or operating results.

We prepare our Consolidated Financial Statements in accordance with GAAP. These principles are subject to interpretation by the SEC and other organizations that develop and interpret accounting principles. Changes in these principles can have a significant effect on our reported operating results and may even retroactively affect previously reported operating results.

For example, the Financial Accounting Standard Board (“FASB”) has recently issued new, comprehensive accounting standards for revenue recognition and accounting for leases, and may issue other comprehensive accounting standards in the future, implementations of which may significantly impact our reported operating results and financial condition or could increase the volatility of our operating results. In addition, the implementation of new accounting standards may require significant changes to our customer and vendor contracts, business processes, accounting systems, and internal controls over financial reporting. The costs and effects of these changes could adversely impact our operating results.

For additional information regarding new accounting standards, please refer to Note 1, “Summary of Significant Accounting Policies” in the Notes to Consolidated Financial Statements included under Item 8 of this report, under the heading “Recent Accounting Pronouncements”.

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

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

January 31, 2017, we cannot assure you that our internal controls will prevent or detect every misstatement, that material weaknesses or other deficiencies will not occur or be identified in the future, that this or future financial reports will not contain material misstatements or omissions, that future restatements will not be required, or that we will be able to timely comply with our reporting obligations in the future.

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

Because we have historically acquired a significant number of companies, goodwill and other intangible assets have represented a substantial portion of our assets. Goodwill and other intangible assets totaled approximately $1,500 million, or approximately 63% of our total assets, as of January 31, 2017. We test our goodwill for impairment at least annually, or more frequently if an event occurs indicating the potential for impairment, and we assess on an as-needed basis whether there have

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been impairments in our other intangible assets. We make assumptions and estimates in this assessment which are complex and often subjective. These assumptions and estimates can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy or our internal forecasts. To the extent that the factors described above change, we could be required to record additional non-cash impairment charges in the future, which could negatively affect our financial condition and results of operations.

Our international operations subject us to currency exchange risk.

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

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

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

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

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

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

- stock sales by our directors, officers, or other significant holders, or stock repurchases by us;

- hedging or arbitrage trading activity by third parties, including by the counterparties to the note hedge and warrant transactions that we entered into in connection with the issuance of the Notes; and

- dilution that may occur upon any conversion of the Notes.

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

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We lease a total of approximately 1,106,000 square feet of office space covering approximately 66 offices around the world and we own an aggregate of approximately 89,000 square feet of office space at three sites in Scotland, Germany, and Indonesia.

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

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

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

We also occupy approximately 176,000 square feet of space at our main facility in Herzliya, Israel under a lease that we renewed on October 1, 2015 and that expires in 2025. This Herzliya facility is used primarily for manufacturing, storage, development, sales, marketing, and support related to our Cyber Intelligence operations, as well as for product development related to our Customer Engagement Solutions. We also lease approximately 76,000 square feet of space at a second facility in Herzliya under a lease that expires in 2028.

From time to time, we may lease or sublease portions of our owned or leased facilities to third parties based on our operational needs. For additional information regarding our lease obligations, see Note 15, "Commitments and Contingencies" to our consolidated financial statements included under Item 8 of this report.

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

Item 3. Legal Proceedings

On March 26, 2009, legal actions were commenced by Ms. Orit Deutsch, a former employee of our subsidiary, Verint Systems Limited ("VSL"), against VSL in the Tel Aviv Regional Labor Court (Case Number 4186/09) (the “Deutsch Labor Action”) and against CTI in the Tel Aviv District Court (Case Number 1335/09) (the “Deutsch District Action”). In the Deutsch Labor Action, Ms. Deutsch filed a motion to approve a class action lawsuit on the grounds that she purports to represent a class of our employees and former employees who were granted Verint and CTI stock options and were allegedly damaged as a result of the suspension of option exercises during the period from March 2006 through March 2010, during which we did not make periodic filings with the SEC as a result of certain internal and external investigations and reviews of accounting matters discussed in our prior public filings. In the Deutsch District Action, in addition to a small amount of individual damages, Ms. Deutsch is seeking to certify a class of plaintiffs who were allegedly damaged due to their inability to exercise Verint and CTI stock options as a result of alleged negligence by CTI in its financial reporting. The class certification motions do not specify an amount of damages. On February 8, 2010, the Deutsch Labor Action was dismissed for lack of material jurisdiction and was transferred to the Tel Aviv District Court and consolidated with the Deutsch District Action. On March 16, 2009 and March 26, 2009, respectively, legal actions were commenced by Ms. Roni Katriel, a former employee of CTI's former subsidiary, Comverse Limited, against Comverse Limited in the Tel Aviv Regional Labor Court (Case Number 3444/09) (the “Katriel Labor Action”) and against CTI in the Tel Aviv District Court (Case Number 1334/09) (the “Katriel District Action”). In the Katriel Labor Action, Ms. Katriel is seeking to certify a class of plaintiffs who were granted CTI stock options and were allegedly damaged as a result of the suspension of option exercises during an extended filing delay period affecting CTI's periodic reporting discussed in CTI's historical SEC filings. In the Katriel District Action, in addition to a small amount of individual damages, Ms. Katriel is seeking to certify a class of plaintiffs who were allegedly damaged due to their inability to exercise CTI stock options as a result of alleged negligence by CTI in its financial reporting. The class certification motions do not specify an amount of damages. On March 2, 2010, the Katriel Labor Action was transferred to the Tel Aviv District Court, based on an agreed motion filed by the parties requesting such transfer.

On April 4, 2012, Ms. Deutsch and Ms. Katriel filed an uncontested motion to consolidate and amend their claims and on June 7, 2012, the District Court allowed Ms. Deutsch and Ms. Katriel to file the consolidated class certification motion and an amended consolidated complaint against VSL, CTI, and Comverse Limited. Following CTI's announcement of its intention to effect the Comverse Share Distribution, on July 12, 2012, the plaintiffs filed a motion requesting that the District Court order

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CTI to set aside up to $150.0 million in assets to secure any future judgment. The District Court ruled that it would not decide this motion until the Deutsch and Katriel class certification motion was heard. Plaintiffs initially filed a motion to appeal this ruling in August 2012, but subsequently withdrew it in July 2014.

Prior to the consummation of the Comverse Share Distribution, CTI either sold or transferred substantially all of its business operations and assets (other than its equity ownership interests in us and Comverse) to Comverse or unaffiliated third parties. On October 31, 2012, CTI completed the Comverse Share Distribution, in which it distributed all of the outstanding shares of common stock of Comverse to CTI's shareholders. As a result of the Comverse Share Distribution, Comverse became an independent public company and ceased to be a wholly owned subsidiary of CTI, and CTI ceased to have any material assets other than its equity interest in us. On September 9, 2015, Comverse changed its name to Xura, Inc.

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

Following an unsuccessful mediation process, the proceeding before the District Court resumed. On August 28, 2016, the District Court (i) denied the plaintiffs' motion to certify the suit as a class action with respect to all claims relating to Verint stock options and (ii) approved the plaintiffs' motion to certify the suit as a class action with respect to claims of current or former employees of Comverse Limited (now Xura) or VSL who held unexercised CTI stock options at the time CTI suspended option exercises. The court also ruled that the merits of the case and any calculation of damages would be evaluated under New York law.

On December 15, 2016, CTI filed with the Supreme Court a motion for leave to appeal the District Court's August 28, 2016 ruling. The plaintiffs filed their response to the motion on February 26, 2017. The plaintiffs did not file an appeal of the District Court's August 28, 2016 ruling.

On December 13, 2016, the plaintiffs filed a notice with the District Court regarding the appointment of a new representative plaintiff, David Vaknin, for the current or former employees of VSL who held unexercised CTI stock options at the time CTI suspended option exercises. The plaintiffs must now file an amended statement of claims by May 1, 2017.

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

Market Information

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

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

	Low	High
Year Ended January 31, 2016:		
First quarter	$52.79	$64.78
Second quarter	$57.05	$66.45
Third quarter	$40.90	$59.69
Fourth quarter	$35.61	$49.70
Year Ended January 31, 2017:		
First quarter	$29.76	$38.00
Second quarter	$31.43	$37.13
Third quarter	$33.59	$39.68
Fourth quarter	$33.40	$38.95

Holders

There were approximately 2,000 holders of record of our common stock at March 15, 2017. Such record holders include holders who are nominees for an undetermined number of beneficial owners.

Dividends

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

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

Stock Performance Graph

The following table compares the cumulative total stockholder return on our common stock with the cumulative total return on the NASDAQ Composite Index and the NASDAQ Computer & Data Processing Services Index, assuming an investment of $100 on January 31, 2012 through January 31, 2017, and the reinvestment of any dividends. The comparisons in the graph below are based upon the closing sale prices on NASDAQ for our common stock from

January 31, 2012 through January 31, 2017. This data is not indicative of, nor intended to forecast, future performance of our common stock.

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January 31,	2012	2013	2014	2015	2016	2017
Verint Systems Inc.	$100.00	$119.52	$160.68	$188.76	$129.46	$132.07
NASDAQ Composite Index	$100.00	$113.43	$151.83	$173.28	$173.18	$211.73
NASDAQ Computer & Data Processing Index	$100.00	$108.33	$159.33	$166.04	$201.99	$238.65

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

On March 29, 2016, we announced that our board of directors had authorized a share repurchase program whereby we may make up to $150 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 board of directors' 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.

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 a company-imposed trading blackout or lockup periods. There was no such activity during the year ended January 31, 2017.

Share repurchase activity during the three months ended January 31, 2017 was as follows:

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Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)
November 1, 2016 - November 30, 2016	—	—	—	—
December 1, 2016 - December 31, 2016	306,452	$ 35.89	306,452	$ 103,130
January 1, 2017 - January 31, 2017	—	—	—	—
Total	306,452	$ 35.89	306,452	—

(1) Represents the approximate weighted-average price paid per share.

Item 6. Selected Financial Data

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

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

Five-Year Selected Financial Highlights:

Consolidated Statements of Operations Data

	Year Ended January 31,				
(in thousands, except per share data)	2017	2016	2015	2014	2013
Revenue	$1,062,106	$1,130,266	$1,128,436	$907,292	$839,542
Operating income	$17,366	$67,852	$79,111	$122,286	$99,553
Net (loss) income	$(26,246)	$22,228	$36,402	$58,776	$58,804
Net (loss) income attributable to Verint Systems Inc.	$(29,380)	$17,638	$30,931	$53,757	$54,002
Net (loss) income attributable to Verint Systems Inc. common shares	$(29,380)	$17,638	$30,931	$53,583	$38,530
Net (loss) income per share attributable to Verint Systems Inc.:					
Basic	$(0.47)	$0.29	$0.53	$1.01	$0.97
Diluted	$(0.47)	$0.28	$0.52	$0.99	$0.96
Weighted-average shares:					
Basic	62,593	61,813	58,096	52,967	39,748
Diluted	62,593	62,921	59,374	53,878	40,312

We have never declared a cash dividend to common stockholders.

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Consolidated Balance Sheet Data

	January 31,				
(in thousands)	2017	2016	2015	2014	2013
Total assets	$2,362,784	$2,355,735	$2,340,452	$1,768,192	$1,556,553
Long-term debt, including current maturities	$748,871	$738,087	$726,258	$637,670	$568,973
Preferred stock	$—	$—	$—	$—	$285,542
Total stockholders' equity	$1,015,040	$1,068,164	$1,004,903	$633,118	$229,676

During the five-year period ended January 31, 2017, we acquired a number of businesses, the more significant of which are identified in the table below. The operating results of acquired businesses have been included in our consolidated financial statements since their respective acquisition dates.

Our consolidated operating results and consolidated financial condition during the five-year period ended January 31, 2017 included the following notable transactions:

As of and for the year ended January 31,	Description
2017	• Completion of the acquisitions of Contact Solutions LLC in February 2016 and OpinionLab, Inc. in November 2016.
2016	• None
2015	• Completion of the acquisitions of KANA Software, Inc. and its subsidiaries ("KANA") in February 2014 and UTX Technologies Limited ("UTX") in March 2014. • An income tax benefit of $44.4 million resulting from the reduction of a valuation allowance on our deferred income tax assets recorded in connection with the acquisition of KANA; and • Losses on early retirements of debt of $12.5 million, primarily associated with an amendment to our Credit Agreement and the early partial retirement of our term loans.
2014	• Completion of the CTI Merger on February 4, 2013; and • Losses on early retirements of debt of $9.9 million, primarily associated with an amendment to our Credit Agreement.
2013	• Professional fees and related expenses of $16.1 million associated with the CTI Merger.

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

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

Overview

Our Business

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

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including over 80 percent of the Fortune 100, use Verint solutions to optimize customer engagement and make the world a safer place.

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

Through July 31, 2016, we conducted our business in three operating segments—Enterprise Intelligence Solutions ("Enterprise Intelligence"), Cyber Intelligence Solutions ("Cyber Intelligence"), and Video and Situation Intelligence Solutions ("Video Intelligence"), through which we aligned our resources and domain expertise to effectively address Actionable Intelligence market opportunities. Our Enterprise Intelligence solutions served the Customer Engagement market, while our Cyber Intelligence solutions and Video Intelligence solutions served the Security Intelligence market. Solutions from all three operating segments served the Fraud, Risk, and Compliance market.

In August 2016, we reorganized into two businesses, and are now reporting our results in two operating segments, Customer Engagement Solutions ("Customer Engagement") and Cyber Intelligence Solutions ("Cyber Intelligence").

Over time, our Video Intelligence business had evolved to focus on two use cases: the first is fraud mitigation and loss prevention, and the second is situational intelligence and incident response. The fraud and loss prevention use case is applicable to our banking and retail customers, while the situational intelligence and incident response use case is applicable to other verticals, including our public sector and campus customers. As part of this evolution, in August 2016, we separated our Video Intelligence team to create better vertical market alignment and growth opportunities. We transitioned the banking and retail portion of the Video Intelligence team into our Enterprise Intelligence segment, aligning it with our large banking and retail customer presence in our Enterprise Intelligence segment. This combined segment has been named Customer Engagement Solutions. We transitioned the situational intelligence portion of the Video Intelligence team into our Cyber Intelligence segment, reflecting this business's focus on security and public safety. We believe this change creates two strong businesses of scale, well positioned for growth in their respective markets, with dedicated management teams, unique product portfolios, and domain expertise, and aligns with the manner in which our CODM currently receives and uses financial information to allocate resources and evaluate the performance of our Customer Engagement and Cyber Intelligence businesses.

This change in segment reporting is reflected in the consolidated financial statements as of and for the year ended January 31, 2017 included in this report. Comparative segment financial information provided for prior periods has been recast to conform to this revised segment structure.

For the years ended January 31, 2017, 2016, and 2015, our Customer Engagement segment represented approximately 66%, 61%, and 63% of our total revenue, respectively, while for those same years, our Cyber Intelligence segment represented approximately 34%, 39%, and 37% of our total revenue, respectively.

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

Key Trends and Factors That May Impact our Performance

We believe that there are many factors that affect our ability to sustain and increase both revenue and profitability, including:

- Market acceptance of Actionable Intelligence solutions. We compete in markets where the value of aspects of our products and solutions is still in the process of market acceptance. Our future growth depends in part on the continued and

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increasing acceptance and realization of the value of our product offerings. However, we believe that organizations in both the enterprise and security markets want and need Actionable Intelligence solutions to help achieve their customer engagement, enhanced security, and risk mitigation goals.

- Evolving technologies and market potential. Our success depends in part on our ability to keep pace with technological changes, customer challenges, and evolving industry standards in our product offerings, successfully developing, launching, and driving demand for new, innovative, high-quality products and services that meet or exceed customer needs, and identifying, entering, and prioritizing areas of growing market potential, while migrating away from areas of commoditization. For example, in our Cyber Intelligence business, stronger and more frequent use of encryption has created significantly greater challenges for our customers and for our solutions to address. In our Customer Engagement business, we see increased interest in cloud-based solutions, as well as pricing pressure on legacy products.

In the enterprise market, we believe that today's customer-centric organizations are increasingly seeking Customer Engagement Optimization solutions that allow them to collect and analyze intelligence across different service channels to gain a better understanding of the performance of their workforce, the effectiveness of their service processes, the quality of their interactions, and changing customer behaviors, as well as to anticipate and prevent information security breaches, effectively authenticate customers, protect personal information, mitigate risk, prevent fraud, and help ensure compliance with evolving legal, regulatory, and internal requirements.

In the security market, we believe that terrorism, criminal activities, cyber-attacks, and other security threats, combined with new and more complex security challenges, including increasingly frequent and sophisticated cyber-attacks and increasingly complex and secure communication networks, are driving demand for Actionable Intelligence solutions to help anticipate, prepare, and respond to these threats.

- Information technology and government spending. Our growth and results depend in part on general economic conditions and the pace of information technology spending by both commercial and governmental customers. Beginning in the year ended January 31, 2016, we began experiencing extended sales cycles, particularly for large projects, a reduction in deal sizes, and pressure in certain areas of our legacy business. We have made adjustments in response to these market trends and believe that improvements in the economic environment and growing demand for our solutions will drive growth in both of our segments in the year ending January 31, 2018.

In our Customer Engagement segment, we have aligned our sales strategy to engage more closely with our customers on their long-term customer engagement optimization strategy and to focus on their near-term priorities and budget constraints, including by emphasizing the flexible and modular nature of our solution portfolio, in which a customer can make an initial purchase anywhere in our portfolio and then expand into other areas over time, or can make a larger, more transformational suite purchase all at once. We have also continued to increase the flexibility of our deployment model, affording our customers the choice of deploying our solutions on-premises or in the cloud, or a hybrid of both, and we also offer a menu of managed services.

In our Cyber Intelligence segment, we believe that our solutions have proven to be very effective in fighting terrorism and crime, which continues to be a high priority around the world. As a result, we have continued to expand our solutions portfolio to address emerging threats and have designed our solutions to address specific customer needs. We have also provided additional focus on smaller transactions, achieving a better mix of transaction sizes, for both our leading edge and legacy solutions, and have continued to expand our security domain expertise. We believe that global economic spending has stabilized, and with our ongoing investments in our markets, we believe we are well positioned to resume growth.

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

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

Product revenue derived from shipments to resellers and OEMs who purchase our products for resale are generally recognized when such products are shipped (on a "sell-in" basis) since we do not expect our resellers or OEMs to carry inventory of our products. This policy is predicated on our ability to estimate sales returns as well as other criteria regarding these customers. We are also required to evaluate whether our resellers and OEMs have the ability to honor their commitment to make fixed or determinable payments regardless of whether they collect payment from their customers. In this regard, we assess whether our resellers and OEMs are new, poorly capitalized, or experiencing financial difficulty, and whether they have a pattern of not paying as amounts become due on previous arrangements or seeking payment terms longer than those provided to end customers. If we were to change any of these assumptions or judgments, it could cause a material change to the revenue reported in a particular period. We have historically experienced insignificant product returns from resellers and OEMs, and our payment terms for these customers are similar to those granted to our end-users. Our policy also presumes that we have no significant performance obligations in connection with the sale of our products by our resellers and OEMs to their customers. If a reseller or OEM develops a pattern of payment delinquency, or seeks payment terms longer than generally granted to our resellers or OEMs, we defer the recognition of revenue from transactions with that reseller or OEM until the receipt of cash.

Allowance for Doubtful Accounts

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We estimate the collectability of our accounts receivable balances each accounting period and adjust our allowance for doubtful accounts accordingly. We exercise a considerable amount of judgment in assessing the collectability of accounts receivable, including consideration of the creditworthiness of each customer, their collection history, and the related aging of past due accounts receivable balances. We evaluate specific accounts when we learn that a customer may be experiencing a deterioration of its financial condition due to lower credit ratings, bankruptcy, or other factors that may affect its ability to render payment.

Accounting for Business Combinations

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

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

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

- future expected cash flows from software license sales, support agreements, consulting contracts, other customer contracts, and acquired developed technologies;
- expected costs to develop in-process research and development into commercially viable products and estimated cash flows from the projects when completed;
- the acquired company’s brand and competitive position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company’s product portfolio;
- cost of capital and discount rates; and
- estimating the useful lives of acquired assets as well as the pattern or manner in which the assets will amortize.

In connection with the purchase price allocations for applicable acquisitions, we estimate the fair value of the contractual support obligations we are assuming from the acquired business. The estimated fair value of the support obligations is determined utilizing a cost build-up approach, which determines fair value by estimating the costs related to fulfilling the obligations plus a reasonable profit margin. The estimated costs to fulfill the support obligations are based on the historical direct costs related to providing the support services. The sum of these costs and operating profit represents an approximation of the amount that we would be required to pay a third party to assume the support obligations.

Impairment of Goodwill and Other Intangible Assets

We test goodwill for impairment at the reporting unit level, which can be an operating segment or one level below an operating segment, on an annual basis as of November 1, or more frequently if changes in facts and circumstances indicate that impairment in the value of goodwill may exist. As of January 31, 2017, our reporting units are 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 Intelligence operating segment.

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

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

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

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

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

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

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

Based upon our November 1, 2016 goodwill impairment reviews, we concluded that the estimated fair values of our Customer Engagement, Cyber Intelligence, and Situational Intelligence reporting units significantly exceeded their carrying values.
Our Customer Engagement, Cyber Intelligence, and Situational Intelligence reporting units carried goodwill of $1.1 billion, $121.6 million, and $11.3 million, respectively, at January 31, 2017.

We did not record any impairments of goodwill for the years ended January 31, 2017, 2016, or 2015.

Income Taxes

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

We are subject to income taxes in the United States and numerous foreign jurisdictions. The calculation of our tax provision involves the application of complex tax laws and requires significant judgment and estimates.

We evaluate the realizability of our deferred tax assets for each jurisdiction in which we operate at each reporting date, and we establish a valuation allowance when it is more likely than not that all or a portion of our deferred tax assets will not be

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

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

Contingencies

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

Accounting for Stock-Based Compensation

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

During the three-year period ended January 31, 2017, restricted stock units were our predominant stock-based payment award. The fair value of these awards is equivalent to the market value of our common stock on the grant date. In the past, we have also awarded stock options, the fair value of which is estimated on the date of grant using an option-pricing model. We use the Black-Scholes option-pricing model for this purpose, which requires the input of significant assumptions including an estimate of the average period of time employees will retain stock options before exercising them, the estimated volatility of our common stock price over the expected term, the number of options that will ultimately be forfeited before completing vesting requirements, and the risk-free interest rate.

We periodically award restricted stock units that vest upon the achievement of specified performance goals. Our estimate of the fair value of these performance-based awards requires an assessment of the probability that the specified performance criteria will be achieved. At each reporting date, we update our assessment of the probability that the specified performance criteria will be achieved and adjust our estimate of the fair value of the award, if necessary.

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

Cost of Revenue

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

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

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commissions, as incurred, with the exception of certain sales referral fees in our Cyber Intelligence segment which are capitalized and amortized ratably over the revenue recognition period.

Results of Operations

Seasonality and Cyclicality

As is typical for many software and technology companies, our business is subject to seasonal and cyclical factors. In most years, our revenue and operating income are typically highest in the fourth quarter and lowest in the first quarter (prior to the impact of unusual or nonrecurring items). Moreover, revenue and operating income in the first quarter of a new year may be lower than in the fourth quarter of the preceding year, in some years, by a significant margin. In addition, we generally receive a higher volume of orders in the last month of a quarter, with orders concentrated in the later part of that month. We believe that these seasonal and cyclical factors primarily reflect customer spending patterns and budget cycles, as well as the impact of incentive compensation plans for our sales personnel. While seasonal and cyclical factors such as these are common in the software and technology industry, this pattern should not be considered a reliable indicator of our future revenue or financial performance. Many other factors, including general economic conditions, may also have an impact on our business and financial results.

Overview of Operating Results

The following table sets forth a summary of certain key financial information for the years ended January 31, 2017, 2016, and 2015:

	Year Ended January 31,		
(in thousands, except per share data)	2017	2016	2015
Revenue	$1,062,106	$1,130,266	$1,128,436
Operating income	$17,366	$67,852	$79,111
Net (loss) income attributable to Verint Systems Inc.	$(29,380)	$17,638	$30,931
Net (loss) income per common share attributable to Verint Systems Inc.:			
Basic	$(0.47)	$0.29	$0.53
Diluted	$(0.47)	$0.28	$0.52

Year Ended January 31, 2017 compared to Year Ended January 31, 2016. Our revenue decreased approximately $68.2 million to $1,062.1 million in the year ended January 31, 2017 from $1,130.3 million in the year ended January 31, 2016. The decrease consisted of a $76.9 million decrease in product revenue, partially offset by a $8.7 million increase in service and support revenue. In our Cyber Intelligence segment, revenue decreased approximately $79.2 million, or 18%, from $435.4 million in the year ended January 31, 2016 to $356.2 million in the year ended January 31, 2017. The decrease consisted of a $55.8 million decrease in product revenue and a $23.4 million decrease in service and support revenue. In our Customer Engagement segment, revenue increased approximately $11.0 million, or 2%, to $705.9 million in the year ended January 31, 2017 from $694.9 million in the year ended January 31, 2016. The increase consisted of a $32.1 million increase in service and support revenue, partially offset by a $21.1 million decrease in product revenue. For additional details on our revenue by segment, see "—Revenue by Operating Segment". Revenue in the Americas, EMEA, and APAC represented approximately 54%, 30%, and 16% of our total revenue, respectively, in the year ended January 31, 2017, compared to approximately 51%, 31%, and 18%, respectively, in the year ended January 31, 2016. Further details of changes in revenue are provided below.

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

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

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

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

Year Ended January 31, 2016 compared to Year Ended January 31, 2015. Our revenue increased approximately $1.9 million to $1,130.3 million in the year ended January 31, 2016 from $1,128.4 million in the year ended January 31, 2015. The increase consisted of a $34.1 million increase in service and support revenue, partially offset by a $32.2 million decrease in product revenue. In our Cyber Intelligence segment, revenue increased approximately $20.5 million, or 5%, from $414.9 million in the year ended January 31, 2015 to $435.4 million in the year ended January 31, 2016. The increase consisted of a $31.8 million increase in service and support revenue, partially offset by an $11.3 million decrease in product revenue. In our Customer Engagement segment, revenue decreased approximately $18.6 million, or 3%, to $694.9 million in the year ended January 31, 2016 from $713.5 million in the year ended January 31, 2015 due to a decrease in product revenue. For additional details on our revenue by segment, see "—Revenue by Operating Segment". Revenue in the Americas, EMEA, and APAC represented approximately 51%, 31%, and 18% of our total revenue, respectively, in the year ended January 31, 2016, compared to approximately 52%, 31%, and 17%, respectively, in the year ended January 31, 2015. Further details of changes in revenue are provided below.

Operating income was $67.9 million in the year ended January 31, 2016 compared to $79.1 million in the year ended January 31, 2015. This decrease in operating income was primarily due to an $11.9 million decrease in gross profit primarily due to decreased gross profit in our Customer Engagement segment and a $0.7 million decrease in operating expenses, which consisted of a $2.6 million decrease in selling, general and administrative expenses and a $2.1 million decrease in amortization of other acquired intangible assets, partially offset by a $4.0 million increase in net research and development expenses. Further details of changes in operating income are provided below.

Net income attributable to Verint Systems Inc. was $17.6 million, and diluted net income per common share was $0.28, in the year ended January 31, 2016 compared to net income attributable to Verint Systems Inc. of $30.9 million, and diluted net income per common share of $0.52, in the year ended January 31, 2015. The decrease in net income attributable to Verint Systems Inc. and diluted net income per common share in the year ended January 31, 2016 was primarily due to a $16.0 million decrease in our benefit for income taxes, from a benefit of $15.0 million in the year ended January 31, 2015 to an expense of $1.0 million in the year ended January 31, 2016, and decreased operating income, as described above. These decreases to net income attributable to Verint Systems Inc. common shares were partially offset by a $13.0 million decrease in other expense, net, primarily due to losses upon early retirement of debt recorded during the year ended January 31, 2015, with no comparable losses during the year ended January 31, 2016. Further details of changes in total other expense, net, are provided below.

When comparing average exchange rates for the year ended January 31, 2016 to average exchange rates for the year ended January 31, 2015, the U.S. dollar strengthened relative to the British pound sterling, euro, Israeli shekel (both hedged and unhedged), Australian dollar, Brazilian real, and Singapore dollar, resulting in an overall decrease in our revenue (primarily in our Customer Engagement and Cyber Intelligence segments), cost of revenue, and operating expenses on a U.S. dollar-denominated basis. For the year ended January 31, 2016, had foreign exchange rates remained unchanged from rates in effect for the year ended January 31, 2015, our revenue would have been approximately $40.0 million higher and our cost of revenue and operating expenses on a combined basis would have been approximately $44.6 million higher, which would have resulted in a $4.6 million decrease in operating income.

As of January 31, 2016, we employed approximately 5,000 employees, including part-time employees and certain contractors, as compared to approximately 4,800 at January 31, 2015.

Revenue by Operating Segment

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The following table sets forth revenue for each of our two operating segments for the years ended January 31, 2017, 2016, and 2015:

	Year Ended January 31,			% Change	
(in thousands)	2017	2016	2015	2017 - 2016	2016 -