UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2023

OR

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

For the transition period from ______________ to _________________.

Commission File No. 001-34807

Verint Systems Inc.

(Exact Name of Registrant as Specified in its Charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

There were 64,271,128 shares of the registrant's common stock outstanding on August 15, 2023.

Verint Systems Inc. and Subsidiaries
Index to Form 10-Q
As of and For the Period Ended July 31, 2023

Cautionary Note on Forward-Looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, the provisions of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements include, but are not limited to, financial projections, statements of plans and objectives for future operations, statements of future economic performance, and statements of assumptions relating thereto. Forward-looking statements may appear throughout this report, including without limitation, in Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, and are often identified by future or conditional words such as “will”, “plans”, “expects”, “intends”, “believes”, “seeks”, “estimates”, or “anticipates”, or by variations of such words or by similar expressions. There can be no assurance that forward-looking statements will be achieved. By their very nature, forward-looking statements involve known and unknown risks, uncertainties, assumptions, and other important factors that could cause our actual results or conditions to differ materially from those expressed or implied by such forward-looking statements. Important risks, uncertainties, assumptions, and other factors that could cause our actual results or conditions to differ materially from our forward-looking statements include, among others:

- uncertainties regarding the impact of changes in macroeconomic and/or global conditions, including as a result of slowdowns, recessions, economic instability, rising interest rates, tightening credit markets, inflation, instability in the banking sector, political unrest, armed conflicts (such as the Russian invasion of Ukraine), actual or threatened trade wars, natural disasters, or outbreaks of disease (such as the COVID-19 pandemic), as well as the resulting impact on spending by customers or partners, on our business;
- risks that our customers or partners delay, downsize, cancel, or refrain from placing orders, or renewing subscriptions or contracts, or are unable to honor contractual commitments or payment obligations due to challenges or uncertainties in their budgets, liquidity, or businesses;
- risks associated with our ability to keep pace with technological advances and challenges and evolving industry standards, including achieving and maintaining the competitive differentiation of our solution platform; 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 and services that meet or exceed customer challenges and needs, while simultaneously preserving our legacy businesses and migrating away from areas of commoditization;
- risks due to aggressive competition in all of our markets and our ability to keep pace with competitors, some of whom may be able to grow faster than us or have greater resources than us, including in areas such as sales and marketing, branding, technological innovation and development, and recruiting and retention;
- risks associated with our ability to properly execute on our SaaS transition, including successfully transitioning customers to our cloud platform and the increased importance of subscription renewal rates, and risk of increased variability in our period-to-period results based on the mix, terms, and timing of our transactions;
- risks relating to our ability to properly identify and execute on growth or strategic initiatives, manage investments in our business and operations, and enhance our existing operations and infrastructure, including the proper prioritization and allocation of limited financial and other resources;
- risks associated with our ability to or costs to retain, recruit, and train qualified personnel and management in regions in which we operate either physically or remotely, including in new markets and growth areas we may enter, due to competition for talent, increased labor costs, applicable regulatory requirements, or otherwise;
- challenges associated with selling sophisticated solutions and cloud-based solutions, which may incorporate newer technologies whose adoption and use-cases are still emerging, including with respect to longer sales cycles, more complex sales processes and customer approval processes, more complex contractual and information security requirements, and assisting customers in understanding and realizing the benefits of our solutions and technologies, as well as with developing, offering, implementing, and maintaining an enterprise-class, broad solution portfolio;
- risks that we may be unable to maintain, expand, and enable our relationships with partners as part of our growth strategy while avoiding excessive concentration with any one partner;
- risks associated with our reliance on third-party suppliers, partners, or original equipment manufacturers (“OEMs”) for certain services, products, or components, including companies that may compete with us or work with our competitors;

- risks associated with our significant international operations, including exposure to regions subject to political or economic instability, fluctuations in foreign exchange rates, inflation, increased financial accounting and reporting burdens and complexities, and challenges associated with a significant portion of our cash being held overseas;
- risks associated with a significant part of our business coming from government contracts and associated procurement processes and regulatory requirements;
- risks associated with our ability to identify suitable targets for acquisition or investment or successfully compete for, consummate, and implement mergers and acquisitions, including risks associated with valuations, legacy liabilities, reputational considerations, capital constraints, costs and expenses, maintaining profitability levels, expansion into new areas, management distraction, post-acquisition integration activities, and potential asset impairments;
- risks associated with complex and changing domestic and foreign regulatory environments, including, among others, with respect to data privacy, artificial intelligence, cyber / information security, government contracts, anti-corruption, trade compliance, climate change or other environmental, social and governance matters, tax, and labor matters, relating to our own operations, the products and services we offer, and/or the use of our solutions by our customers;
- risks associated with the mishandling or perceived mishandling of sensitive or confidential information and data, including personally identifiable information or other information that may belong to our customers or other third parties, including in connection with our software as a service ("SaaS") or other hosted or managed services offerings or when we are asked to perform service or support;
- risks associated with our reliance on third parties to provide certain cloud hosting or other cloud-based services to us or our customers, including the risk of service disruptions, data breaches, or data loss or corruption;
- risks that our solutions or services, or those of third-party suppliers, partners, or OEMs which we use in or with our offerings or otherwise rely on, including third-party hosting platforms, may contain defects, vulnerabilities, or develop operational problems;
- risk that we or our solutions may be subject to security vulnerabilities or lapses, including cyber-attacks, information technology system breaches, failures, or disruptions;
- risks that our intellectual property rights may not be adequate to protect our business or assets or that others may make claims on our intellectual property, claim infringement on their intellectual property rights, or claim a violation of their license rights, including relative to free or open source components we may use;
- risks 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 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 arising as a result of contingent or other obligations or liabilities assumed in our acquisition of our former parent company, Comverse Technology, Inc. ("CTI"), or associated with formerly being consolidated with, and part of a consolidated tax group with, CTI, or as a result of the successor to CTI's business operations, Mavenir Inc. ("Mavenir"), being unwilling or unable to provide us with certain indemnities to which we are entitled;
- risks associated with changing accounting principles or standards, tax laws and regulations, tax rates, and the continuing availability of expected tax benefits;
- risks relating to the adequacy of our existing infrastructure, systems, processes, policies, procedures, internal controls, and personnel, and our ability to successfully implement and maintain enhancements to the foregoing, for our current and future operations and reporting needs, including related risks of financial statement omissions, misstatements, restatements, or filing delays;
- risks associated with market volatility in the prices of our common stock and convertible notes based on our performance, third-party publications or speculation, or other factors, and risks associated with actions of activist stockholders;
- risks associated with Apax Partners' significant ownership position and potential that its interests will not be aligned with those of our common stockholders; and

- risks associated with the February 1, 2021 spin-off of our former Cyber Intelligence Solutions business, including the possibility that the spin-off transaction does not achieve the benefits anticipated, does not qualify as a tax-free transaction, or exposes us to unexpected claims or liabilities.

These risks, uncertainties, assumptions, and challenges, as well as other factors, are discussed in greater detail in “Risk Factors” under Item 1A of our Annual Report on Form 10-K for the year ended January 31, 2023. You are cautioned not to place undue reliance on forward-looking statements, which reflect our management’s view only as of the date of this report. We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances after the date any such statement is made, except as otherwise required under the federal securities laws. If we were in any particular instance to update or correct a forward-looking statement, investors and others should not conclude that we would make additional updates or corrections thereafter except as otherwise required under the federal securities laws.

Part I

Item 1. Financial Statements

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

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

(in thousands, except share and per share data)	July 31, 2023	January 31, 2023
Assets		
Current Assets:		
Cash and cash equivalents	$ 231,296	$ 282,099
Short-term investments	1,452	697
Accounts receivable, net of allowance for credit losses of $1.4 million and $1.3 million, respectively	140,031	188,414
Contract assets, net	57,690	60,444
Inventories	15,755	12,628
Prepaid expenses and other current assets	70,637	75,374
Total current assets	**516,861**	**619,656**
Property and equipment, net	49,003	64,810
Operating lease right-of-use assets	29,523	37,649
Goodwill	1,362,227	1,347,213
Intangible assets, net	69,812	85,272
Other assets	153,927	159,001
Total assets	**$ 2,181,353**	**$ 2,313,601**
Liabilities, Temporary Equity, and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 35,365	$ 43,631
Accrued expenses and other current liabilities	119,169	155,944
Contract liabilities	238,738	271,476
Total current liabilities	**393,272**	**471,051**
Long-term debt	409,958	408,908
Long-term contract liabilities	12,327	18,047
Operating lease liabilities	33,009	40,744
Other liabilities	70,418	80,381
Total liabilities	**918,984**	**1,019,131**
Commitments and Contingencies		
Temporary Equity:		
Preferred Stock — $0.001 par value; authorized 2,207,000 shares		
Series A Preferred Stock; 200,000 shares issued and outstanding at July 31, 2023 and January 31, 2023, respectively; aggregate liquidation preference and redemption value of $200,867 and $206,067 at July 31, 2023 and January 31, 2023, respectively.	200,628	200,628
Series B Preferred Stock; 200,000 shares issued and outstanding at July 31, 2023 and January 31, 2023, respectively; aggregate liquidation preference and redemption value of $200,867 and $206,067 at July 31, 2023 and January 31, 2023, respectively.	235,693	235,693
Total temporary equity	**436,321**	**436,321**
Stockholders' Equity:		
Common stock — $0.001 par value; authorized 240,000,000 shares; issued 64,271,000 and 65,404,000 shares; outstanding 64,271,000 and 65,404,000 shares at July 31, 2023 and January 31, 2023, respectively.	64	65
Additional paid-in capital	1,009,269	1,055,157
Accumulated deficit	(48,038)	(45,333)
Accumulated other comprehensive loss	(137,667)	(154,099)
Total Verint Systems Inc. stockholders' equity	**823,628**	**855,790**
Noncontrolling interest	2,420	2,359
Total stockholders' equity	**826,048**	**858,149**
Total liabilities, temporary equity, and stockholders' equity	**$ 2,181,353**	**$ 2,313,601**

See notes to condensed consolidated financial statements.

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

	Three Months Ended July 31,		Six Months Ended July 31,	
(in thousands, except per share data)	**2023**	**2022**	**2023**	**2022**
Revenue:				
Recurring	$ 160,999	$ 166,440	$ 327,438	$ 325,807
Nonrecurring	49,166	56,459	99,293	114,998
Total revenue	**210,165**	**222,899**	**426,731**	**440,805**
Cost of revenue:				
Recurring	39,567	40,852	79,210	81,880
Nonrecurring	27,372	30,700	54,167	62,768
Amortization of acquired technology	1,937	3,553	3,902	7,192
Total cost of revenue	**68,876**	**75,105**	**137,279**	**151,840**
Gross profit	**141,289**	**147,794**	**289,452**	**288,965**
Operating expenses:				
Research and development, net	34,057	33,956	65,839	64,903
Selling, general and administrative	108,374	105,705	209,653	208,587
Amortization of other acquired intangible assets	6,370	6,623	12,700	13,467
Total operating expenses	**148,801**	**146,284**	**288,192**	**286,957**
Operating (loss) income	**(7,512)**	**1,510**	**1,260**	**2,008**
Other income (expense), net:				
Interest income	1,808	498	3,790	697
Interest expense	(2,604)	(1,863)	(5,385)	(3,364)
Other (expense) income, net	(24)	467	—	2,141
Total other expense, net	**(820)**	**(898)**	**(1,595)**	**(526)**
(Loss) income before (benefit from) provision for income taxes	**(8,332)**	**612**	**(335)**	**1,482**
(Benefit from) provision for income taxes	(2,544)	2,848	1,819	3,144
Net loss	**(5,788)**	**(2,236)**	**(2,154)**	**(1,662)**
Net income attributable to noncontrolling interests	212	176	551	464
Net loss attributable to Verint Systems Inc.	**(6,000)**	**(2,412)**	**(2,705)**	**(2,126)**
Dividends on preferred stock	(5,200)	(5,200)	(10,400)	(10,400)
Net loss attributable to Verint Systems Inc. common shares	**$ (11,200)**	**$ (7,612)**	**$ (13,105)**	**$ (12,526)**
Net loss per common share attributable to Verint Systems Inc.:				
Basic	**$ (0.17)**	**$ (0.12)**	**$ (0.20)**	**$ (0.19)**
Diluted	**$ (0.17)**	**$ (0.12)**	**$ (0.20)**	**$ (0.19)**
Weighted-average common shares outstanding:				
Basic	**64,294**	**64,958**	**64,603**	**64,948**
Diluted	**64,294**	**64,958**	**64,603**	**64,948**

See notes to condensed consolidated financial statements.

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

	Three Months Ended July 31,		Six Months Ended July 31,	
(in thousands)	**2023**	**2022**	**2023**	**2022**
Net loss	**$ (5,788)**	**$ (2,236)**	**$ (2,154)**	**$ (1,662)**
Other comprehensive income (loss), net of reclassification adjustments:				
Foreign currency translation adjustments	7,845	(13,783)	16,457	(43,673)
Net increase (decrease) from foreign exchange contracts designated as hedges	93	43	(30)	(145)
(Provision for) benefit from income taxes on net increase (decrease) from foreign exchange contracts designated as hedges	(16)	(7)	5	26
Other comprehensive income (loss)	**7,922**	**(13,747)**	**16,432**	**(43,792)**
Comprehensive income (loss)	**2,134**	**(15,983)**	**14,278**	**(45,454)**
Comprehensive income attributable to noncontrolling interests	212	176	551	464
Comprehensive income (loss) attributable to Verint Systems Inc.	**$ 1,922**	**$ (16,159)**	**$ 13,727**	**$ (45,918)**

See notes to condensed consolidated financial statements.

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

	Verint Systems Inc. Stockholders' Equity								
	Common Stock								
(in thousands)	Shares	Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Verint Systems Inc. Stockholders' Equity	Non-controlling Interests	Total Stockholders' Equity
Balances as of January 31, 2023	**65,404**	**$ 65**	**$ 1,055,157**	**$ —**	**$ (45,333)**	**$ (154,099)**	**$ 855,790**	**$ 2,359**	**$ 858,149**
Net income	—	—	—	—	3,295	—	3,295	339	**3,634**
Other comprehensive income	—	—	—	—	—	8,510	8,510	—	**8,510**
Stock-based compensation — equity-classified awards	—	—	13,436	—	—	—	13,436	—	**13,436**
Common stock issued for stock awards and stock bonuses	475	—	—	—	—	—	—	—	**—**
Common stock repurchased and retired	(1,593)	(1)	(60,095)	—	—	—	(60,096)	—	**(60,096)**
Distribution to noncontrolling interest	—	—	—	—	—	—	—	(245)	**(245)**
Balances as of April 30, 2023	**64,286**	**64**	**1,008,498**	**—**	**(42,038)**	**(145,589)**	**820,935**	**2,453**	**823,388**
Net (loss) income	—	—	—	—	(6,000)	—	(6,000)	212	**(5,788)**
Other comprehensive income	—	—	—	—	—	7,922	7,922	—	**7,922**
Stock-based compensation — equity-classified awards	—	—	17,404	—	—	—	17,404	—	**17,404**
Common stock issued for stock awards and stock bonuses	388	—	7,735	—	—	—	7,735	—	**7,735**
Common stock repurchased and retired	(403)	—	(13,968)	—	—	—	(13,968)	—	**(13,968)**
Preferred stock dividends	—	—	(10,400)	—	—	—	(10,400)	—	**(10,400)**
Distribution to noncontrolling interest	—	—	—	—	—	—	—	(245)	**(245)**
Balances as of July 31, 2023	**64,271**	**$ 64**	**$ 1,009,269**	**$ —**	**$ (48,038)**	**$ (137,667)**	**$ 823,628**	**$ 2,420**	**$ 826,048**
Balances as of January 31, 2022	**66,211**	**$ 66**	**$ 1,125,152**	**$ —**	**$ (54,509)**	**$ (118,515)**	**$ 952,194**	**$ 2,385**	**$ 954,579**
Net income	—	—	—	—	286	—	286	288	**574**
Other comprehensive loss	—	—	—	—	—	(30,045)	(30,045)	—	**(30,045)**
Stock-based compensation — equity-classified awards	—	—	16,011	—	—	—	16,011	—	**16,011**
Common stock issued for stock awards and stock bonuses	466	1	(1)	—	—	—	—	—	**—**
Treasury stock acquired	(2,000)	—	—	(105,666)	—	—	(105,666)	—	**(105,666)**
Balances as of April 30, 2022	**64,677**	**67**	**1,141,162**	**(105,666)**	**(54,223)**	**(148,560)**	**832,780**	**2,673**	**835,453**
Net (loss) income	—	—	—	—	(2,412)	—	(2,412)	176	**(2,236)**
Other comprehensive loss	—	—	—	—	—	(13,747)	(13,747)	—	**(13,747)**
Stock-based compensation — equity-classified awards	—	—	23,362	—	—	—	23,362	—	**23,362**
Common stock issued for stock awards and stock bonuses	531	—	6,427	—	—	—	6,427	—	**6,427**
Treasury stock acquired	—	—	—	(14)	—	—	(14)	—	**(14)**
Treasury stock retired	—	(2)	(105,678)	105,680	—	—	—	—	**—**
Preferred stock dividends	—	—	(10,400)	—	—	—	(10,400)	—	**(10,400)**
Distribution to noncontrolling interest	—	—	—	—	—	—	—	(490)	**(490)**
Balances as of July 31, 2022	**65,208**	**$ 65**	**$ 1,054,873**	**$ —**	**$ (56,635)**	**$ (162,307)**	**$ 835,996**	**$ 2,359**	**$ 838,355**

See notes to condensed consolidated financial statements.

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

	Six Months Ended July 31,	
(in thousands)	2023	2022
Cash flows from operating activities:		
Net loss	$ (2,154)	$ (1,662)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	42,792	35,348
Stock-based compensation, excluding cash-settled awards	34,156	44,053
Losses on early retirements of debt	237	—
Other, net	4,500	7,631
Changes in operating assets and liabilities, net of effects of business combinations and divestitures:		
Accounts receivable	49,006	41,641
Contract assets	3,230	(1,600)
Inventories	(3,166)	(1,344)
Prepaid expenses and other assets	13,668	(28,580)
Accounts payable and accrued expenses	(29,506)	(6,289)
Contract liabilities	(40,697)	(38,626)
Deferred income taxes	204	(301)
Other, net	(8,938)	(3,591)
Net cash provided by operating activities	**63,332**	**46,680**
Cash flows from investing activities:		
Cash paid for asset acquisitions and business combinations, including adjustments, net of cash acquired	(916)	—
Purchases of property and equipment	(8,548)	(10,160)
Maturities and sales of investments	2,422	250
Purchases of investments	(3,180)	(250)
Cash paid for capitalized software development costs	(4,388)	(3,816)
Change in restricted bank time deposits, and other investing activities, net	(1,211)	22
Net cash used in investing activities	**(15,821)**	**(13,954)**
Cash flows from financing activities:		
Proceeds from borrowings	100,000	—
Repayments of borrowings and other financing obligations	(101,191)	(1,675)
Payments of debt-related costs	(232)	(224)
Purchases of treasury stock and common stock for retirement	(74,266)	(105,666)
Preferred stock dividend payments	(20,800)	(20,800)
Distributions paid to noncontrolling interest	(490)	(490)
Payments of contingent consideration for business combinations (financing portion), and other financing activities	(2,591)	(3,582)
Net cash used in financing activities	**(99,570)**	**(132,437)**
Foreign currency effects on cash, cash equivalents, restricted cash, and restricted cash equivalents	1,257	(2,575)
Net decrease in cash, cash equivalents, restricted cash, and restricted cash equivalents	**(50,802)**	**(102,286)**
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	**282,161**	**358,868**
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	**$ 231,359**	**$ 256,582**
Reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period to the condensed consolidated balance sheets:		
Cash and cash equivalents	$ 231,296	$ 256,502
Restricted cash and cash equivalents included in prepaid expenses and other current assets	5	23
Restricted cash and cash equivalents included in other assets	58	57
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	**$ 231,359**	**$ 256,582**

See notes to condensed consolidated financial statements.

VERINT SYSTEMS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

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

Verint helps the world’s most iconic brands continuously elevate the customer experience (“CX”) and reduce operating costs. More than 10,000 organizations in 175 countries – including over 85 of the Fortune 100 companies – rely on Verint’s open customer engagement platform to harness the power of data and artificial intelligence (“AI”) to maximize CX automation.

Through the Verint Customer Engagement Cloud Platform, we offer our customers and partners solutions that are based on AI and are developed specifically for customer engagement. These solutions automate workflows across enterprise silos to optimize the workforce expense and at the same time drive an elevated consumer experience. Our customers, which span a diverse set of verticals, including financial services, healthcare, utilities, technology, and government, include large enterprises with thousands of employees, as well as small to medium sized business organizations.

Verint is headquartered in Melville, New York, and has approximately 16 offices worldwide, in addition to a number of on-demand, flexible coworking spaces. We have approximately 4,100 passionate employees plus a few hundred contractors around the globe exclusively focused on helping brands provide Boundless Customer Engagement™.

Spin-Off of Cognyte Software Ltd.

On February 1, 2021, we completed the spin-off (the “Spin-Off”) of Cognyte Software Ltd. (“Cognyte”), a company limited by shares incorporated under the laws of the State of Israel whose business and operations consist of our former Cyber Intelligence Solutions business. The Spin-Off of Cognyte was completed by way of a pro rata distribution in which holders of Verint’s common stock, par value $0.001 per share, received one ordinary share of Cognyte, no par value, for every share of common stock of Verint held of record as of the close of business on January 25, 2021. After the distribution, we do not beneficially own any ordinary shares of Cognyte and no longer consolidate Cognyte into our financial results for periods ending after January 31, 2021. The Spin-Off was intended to be generally tax-free to our stockholders for U.S. federal income tax purposes.

Apax Convertible Preferred Stock Investment

On December 4, 2019, we announced that an affiliate (the “Apax Investor”) of Apax Partners (“Apax”) would make an investment in us in an amount of up to $400.0 million. Under the terms of the Investment Agreement, dated as of December 4, 2019 (the “Investment Agreement”), on May 7, 2020, the Apax Investor purchased $200.0 million of our Series A convertible preferred stock (“Series A Preferred Stock”). In connection with the completion of the Spin-Off, on April 6, 2021, the Apax Investor purchased $200.0 million of our Series B convertible preferred stock (the “Series B Preferred Stock” and together with the Series A Preferred Stock, the “Preferred Stock”). As of July 31, 2023, Apax’s ownership in us on an as-converted basis was approximately 12.9%. Please refer to Note 9, “Convertible Preferred Stock” for a more detailed discussion of the Apax investment.

Preparation of Condensed Consolidated Financial Statements

The condensed consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and on the same basis as the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended January 31, 2023 filed with the U.S. Securities and Exchange Commission (“SEC”), except for the recently adopted accounting pronouncements described below. The condensed consolidated statements of operations, comprehensive income (loss), stockholders’ equity, and cash flows for the periods ended July 31, 2023 and 2022, and the condensed consolidated balance sheet as of July 31, 2023, are not audited but reflect all adjustments that, in the opinion of management, are of a normal recurring nature and that are considered necessary for a fair presentation of the results for the periods shown. The condensed consolidated balance sheet as of January 31, 2023 is derived from the audited consolidated financial statements presented in our Annual Report on Form 10-K for the year ended January 31, 2023. Certain information and disclosures normally included in annual consolidated financial statements have been omitted pursuant to the rules and regulations of the SEC. Because the condensed consolidated interim financial statements do not include all of the information and disclosures required by GAAP for a complete set of financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended January 31, 2023 filed with the SEC. The results for interim periods are not necessarily indicative of a full year's results.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Verint Systems Inc., and our wholly owned or otherwise controlled subsidiaries. Noncontrolling interests in less than wholly owned subsidiaries are reflected within stockholders' equity on our condensed consolidated balance sheet, but separately from our stockholders' equity.

Equity investments in companies in which we have less than a 20% ownership interest and cannot exercise significant influence, and which do not have readily determinable fair values, are accounted for at cost, adjusted for changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer, less any impairment.

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

Use of Estimates

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

Significant Accounting Policies

There have been no material changes in our significant accounting policies during the six months ended July 31, 2023, as compared to the significant accounting policies described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended January 31, 2023.

Recently Adopted Accounting Pronouncements

In October 2021, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, which adds contract assets and contract liabilities to the list of exceptions to the recognition and measurement principles that apply to business combinations and requires that an acquirer recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with revenue recognition guidance. We adopted this standard on a prospective basis for the annual and interim periods beginning February 1, 2023. The adoption of this standard did not have any impact on our condensed consolidated financial statements as the ultimate impact is dependent on the size and frequency of future acquisitions and does not affect contract assets or contract liabilities related to acquisitions completed prior to the adoption date.

In August 2022, the Inflation Reduction Act (the "IRA") was signed into law. The IRA establishes a new book minimum tax of 15% on consolidated adjusted GAAP pre-tax earnings for corporations with average income in excess of $1 billion and is effective for us in tax years beginning after December 31, 2022. We do not expect to be subject to the corporate minimum tax. In addition, the IRA also introduced a nondeductible 1% excise tax on the fair market value of stock repurchases made by covered corporations after December 31, 2022. The total taxable value of shares repurchased is reduced by the fair market value of any newly issued shares during the taxable year. During the six months ended July 31, 2023, the calculated excise tax was $0.4 million and was recognized as part of the cost basis of shares acquired in our consolidated statement of stockholders' equity. We do not expect taxes due on future repurchases of our shares to have a material effect on our business.

In December 2022, the FASB issued ASU No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, which extends the period of time entities can utilize the reference rate reform relief guidance under ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* from December 31, 2022 to December 31, 2024. We expect to elect various optional expedients for contract modifications related to financial instruments affected by the reference rate reform through the effective date of December 31, 2024, as extended by ASU 2022-06. The application of this guidance did not have any impact on our consolidated financial statements.

New Accounting Pronouncements Not Yet Effective

There are no new accounting pronouncements not yet adopted or effective that are expected to have a material impact on our condensed consolidated financial statements and related disclosures.

2. REVENUE RECOGNITION

We derive our revenue primarily from providing customers the right to access our cloud-based solutions, the right to use our software for an indefinite or specified period of time, and related services and support based on when access or control of the software passes to our customers or the services are provided, in an amount that reflects the consideration we expect to be entitled to in exchange for such goods or services. Revenue is reported net of applicable sales and use tax, value-added tax and other transaction taxes imposed on the related transactions, including mandatory government charges that are passed through to our customers.

We determine revenue recognition through the following five steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, performance obligations are satisfied

We account for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable.

Disaggregation of Revenue

The following table provides a disaggregation of our recurring and nonrecurring revenue. Recurring revenue is the portion of our revenue that we believe is likely to be renewed in the future. The recurrence of these revenue streams in future periods depends on a number of factors including contractual periods and customers' renewal decisions.

- Recurring revenue primarily consists of:
    - Software as a service (“SaaS”) revenue, which consists predominately of bundled SaaS (software access rights with standard managed services) and unbundled SaaS (software licensing rights accounted for as term-based licenses whereby customers have a license to our software with related support for a specific period).
        - Bundled SaaS revenue is recognized over time.
        - Unbundled SaaS revenue is recognized at a point in time, except for the related support which is recognized over time. Unbundled SaaS contracts are eligible for renewal after the initial fixed term, which in most cases is between a one- and three-year time frame. Unbundled SaaS can be deployed in the cloud, either by us or a cloud partner.
    - Optional managed services revenue.
    - Support revenue, which consists of initial and renewal support.
- Nonrecurring revenue primarily consists of our perpetual licenses, hardware, installation services, business advisory consulting and training services, and patent license royalties.

(in thousands)	Three Months Ended July 31, 2023	Three Months Ended July 31, 2022	Six Months Ended July 31, 2023	Six Months Ended July 31, 2022
Recurring revenue:				
Bundled SaaS revenue	$ 62,066	$ 54,679	$ 121,519	$ 103,964
Unbundled SaaS revenue	51,375	47,875	109,070	93,320
Total SaaS revenue	**113,441**	**102,554**	**230,589**	**197,284**
Optional managed services revenue	12,165	15,778	25,030	31,691
Support revenue	35,393	48,108	71,819	96,832
Total recurring revenue	**160,999**	**166,440**	**327,438**	**325,807**
Nonrecurring revenue:				
Perpetual revenue	25,212	30,790	49,546	64,048
Professional services revenue	23,954	25,669	49,747	50,950
Total nonrecurring revenue	**49,166**	**56,459**	**99,293**	**114,998**
Total revenue	**$ 210,165**	**$ 222,899**	**$ 426,731**	**$ 440,805**

Contract Balances

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

(in thousands)	July 31, 2023	January 31, 2023
Accounts receivable, net	$ 140,031	$ 188,414
Contract assets, net	$ 57,690	$ 60,444
Long-term contract assets, net (included in other assets)	$ 34,014	$ 37,950
Contract liabilities	$ 238,738	$ 271,476
Long-term contract liabilities	$ 12,327	$ 18,047

We receive payments from customers based upon contractual billing schedules, and accounts receivable are recorded when the right to consideration becomes unconditional. Contract assets are rights to consideration in exchange for goods or services that we have transferred to a customer when that right is conditional on something other than the passage of time. The majority of our contract assets represent unbilled amounts related to multi-year unbundled SaaS contracts and arrangements where our right to consideration is subject to the contractually agreed upon billing schedule. We expect billing and collection of a majority of our contract assets to occur within the next twelve months and asset impairment charges related to contract assets were immaterial in the six months ended July 31, 2023 and 2022. As of July 31, 2023, two partners, both authorized global resellers of our solutions, accounted for more than 10% of our aggregated accounts receivable and contract assets; Partner A was approximately 16% and Partner B was approximately 15%. As of January 31, 2023, Partner A and Partner B each accounted for approximately 15% of our aggregated accounts receivable and contract assets. Credit losses relating to these customers have historically been immaterial.

Contract liabilities represent consideration received or consideration which is unconditionally due from customers prior to transferring goods or services to the customer under the terms of the contract. Revenue recognized during the six months ended July 31, 2023 and 2022 from amounts included in contract liabilities at the beginning of each period was $174.9 million and $170.5 million, respectively.

Remaining Performance Obligations

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

We elected to exclude amounts of variable consideration attributable to sales- or usage-based royalties in exchange for a license of our IP from the remaining performance obligations. The timing and amount of revenue recognition for our remaining performance obligations is influenced by several factors, including seasonality, the timing of renewals, the timing of delivery of software licenses, the average length of the contract terms, and foreign currency exchange rates.

The following table provides information about when we expect to recognize our remaining performance obligations:

(in thousands)	July 31, 2023	January 31, 2023
Remaining performance obligations:		
Expected to be recognized within 1 year	$ 426,906	$ 464,346
Expected to be recognized in more than 1 year	254,336	262,695
Total remaining performance obligations	**$ 681,242**	**$ 727,041**

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

The following table summarizes the calculation of basic and diluted net loss per common share attributable to Verint Systems Inc. for the three and six months ended July 31, 2023 and 2022:

	Three Months Ended July 31,		Six Months Ended July 31,	
(in thousands, except per share amounts)	2023	2022	2023	2022
Net loss	$ (5,788)	$ (2,236)	$ (2,154)	$ (1,662)
Net income attributable to noncontrolling interests	212	176	551	464
Net loss attributable to Verint Systems Inc.	**(6,000)**	**(2,412)**	**(2,705)**	**(2,126)**
Dividends on preferred stock	(5,200)	(5,200)	(10,400)	(10,400)
Net loss attributable to Verint Systems Inc. for basic net loss per common share	**(11,200)**	**(7,612)**	**(13,105)**	**(12,526)**
Dilutive effect of dividends on preferred stock	—	—	—	—
Net loss attributable to Verint Systems Inc. for diluted net loss per common share	**$ (11,200)**	**$ (7,612)**	**$ (13,105)**	**$ (12,526)**
Weighted-average shares outstanding:				
Basic	**64,294**	**64,958**	**64,603**	**64,948**
Dilutive effect of employee equity award plans	—	—	—	—
Dilutive effect of 2021 Notes	—	—	—	—
Dilutive effect of assumed conversion of preferred stock	—	—	—	—
Diluted	**64,294**	**64,958**	**64,603**	**64,948**
Net loss per common share attributable to Verint Systems Inc.:				
Basic	**$ (0.17)**	**$ (0.12)**	**$ (0.20)**	**$ (0.19)**
Diluted	**$ (0.17)**	**$ (0.12)**	**$ (0.20)**	**$ (0.19)**

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

	Three Months Ended July 31,		Six Months Ended July 31,	
(in thousands)	2023	2022	2023	2022
Common shares excluded from calculation:				
Restricted stock-based awards	1,477	2,580	1,779	2,075
Series A Preferred Stock	5,498	5,498	5,498	5,498
Series B Preferred Stock	3,980	3,980	3,980	3,980

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

For the three and six months ended July 31, 2023, the average price of our common stock did not exceed the $62.08 per share conversion price of our 2021 Notes (as defined in Note 7, "Long-Term Debt"), and other requirements for the 2021 Notes to be convertible were not met. The 2021 Notes will have a dilutive impact on net income per common share at any time when the average market price of our common stock for a quarterly reporting period exceeds the conversion price.

The Capped Calls (as defined in Note 7, "Long-Term Debt") do not impact our diluted earnings per common share calculations as their effect would be anti-dilutive. The Capped Calls are generally intended to reduce the potential dilution to our common stock upon any conversion of the 2021 Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted 2021 Notes, in the event that at the time of conversion our common stock price exceeds the $62.08 conversion price, with such reduction and/or offset subject to a cap of $100.00.

Further details regarding the 2021 Notes and Capped Calls appear in Note 7, "Long-Term Debt".

The weighted-average common shares underlying the assumed conversion of the Preferred Stock, on an as-converted basis, were excluded from the calculations of diluted net loss per common share for the three and six months ended July 31, 2023 and 2022, as their effect would have been anti-dilutive. Further details regarding the Preferred Stock investment appear in Note 9, "Convertible Preferred Stock".

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

The following tables summarize our cash, cash equivalents, and short-term investments as of July 31, 2023 and January 31, 2023:

	July 31, 2023			
(in thousands)	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash and bank time deposits	$ 138,124	$ —	$ —	$ 138,124
Money market funds	57,816	—	—	57,816
Commercial paper	34,858	—	—	34,858
U.S. Treasury bills	498	—	—	498
Total cash and cash equivalents	**$ 231,296**	**$ —**	**$ —**	**$ 231,296**
Short-term investments:				
Bank time deposits	$ 1,452	$ —	$ —	$ 1,452
Total short-term investments	**$ 1,452**	**$ —**	**$ —**	**$ 1,452**

	January 31, 2023			
(in thousands)	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash and cash equivalents:				
Cash and bank time deposits	$ 134,289	$ —	$ —	$ 134,289
Money market funds	96,941	—	—	96,941
Commercial paper	50,869	—	—	50,869
Total cash and cash equivalents	**$ 282,099**	**$ —**	**$ —**	**$ 282,099**
Short-term investments:				
Bank time deposits	$ 697	$ —	$ —	$ 697
Total short-term investments	**$ 697**	**$ —**	**$ —**	**$ 697**

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

During the six months ended July 31, 2023 and 2022, proceeds from maturities and sales of short-term investments were $2.4 million and $0.3 million, respectively.

5. *BUSINESS COMBINATIONS, ASSET ACQUISITIONS, AND DIVESTITURES*

Six Months Ended July 31, 2023

We did not complete any business combinations during the six months ended July 31, 2023.

Year Ended January 31, 2023

During the year ended January 31, 2023, we completed two business combinations:

- In August 2022, we completed the acquisition of a company with conversational AI technology including six employees.
- In January 2023, we completed the acquisition of a provider of appointment scheduling solutions including approximately 20 employees.

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

The combined consideration for these business combinations was approximately $38.4 million, including $26.1 million of combined cash paid at the closings, contingent consideration with an estimated fair value of $12.2 million, and purchase price adjustments of $0.1 million. The combined consideration was partially offset by $4.2 million of combined cash received in the acquisitions. The contingent consideration had a maximum payout amount of approximately $21.4 million as of the respective acquisition dates, and is contingent upon the achievement of certain performance targets over periods extending through January 2026. Cash paid for these business combinations was funded by cash on hand.

The combined purchase prices were allocated to intangible assets, including the recognition of $6.0 million of developed technology, $4.2 million of customer relationships, and $0.1 million of trade names. The acquisitions resulted in the recognition of $25.6 million of goodwill, of which $5.1 million is deductible for income tax purposes and $20.5 million is not deductible. Included among the factors contributing to the recognition of goodwill in these transactions were synergies in products and technologies, and the addition of skilled, assembled workforces.

The combined transaction and related costs, consisting primarily of professional fees and integration expenses were $0.2 million and $0.4 million for the three and six months ended July 31, 2023, respectively. All transaction and related costs were expensed as incurred and are included in selling, general and administrative expenses.

Revenue and net income (loss) attributable to these acquisitions for the three and six months ended July 31, 2023 were not material.

Other Business Combination Information

For the three months ended July 31, 2023, we recorded a benefit of $2.4 million, and for the six months ended July 31, 2023 and 2022, we recorded a benefit of $2.2 million and $0.2 million, respectively, within selling, general and administrative expenses for changes in the fair values of contingent consideration obligations associated with business combinations, which was based on our historical business combinations achieving certain objectives and milestones. There were no changes in the fair values of our contingent consideration obligations for the three months ended July 31, 2022. The aggregate fair values of the remaining contingent consideration obligations associated with business combinations was $7.9 million at July 31, 2023, of which $5.2 million was recorded within accrued expenses and other current liabilities, and $2.7 million was recorded within other liabilities.

Payments of contingent consideration earned under these agreements were $2.8 million and $4.8 million for the three months ended July 31, 2023 and 2022, respectively, and $3.1 million and $7.5 million for the six months ended July 31, 2023 and 2022, respectively.

Asset Acquisition

In July 2023, we entered into an agreement to acquire source code that qualifies as an asset acquisition and made an initial deposit payment of $1.0 million upon the execution of the contract and incurred direct transaction costs related to such asset acquisition of $0.2 million. The purchase deposit payment and direct transaction costs were capitalized as other assets in our condensed consolidated balance sheets as of July 31, 2023. The acquisition agreement stipulates the establishment of additional milestone payments totaling $3.0 million. These milestone payments are contingent upon the successful delivery of the source code and the attainment of specific developmental objectives within the upcoming twelve months and will be reduced by any amounts paid under a separate transition services agreement, which the parties have also entered into. During August 2023, $2.0 million of these milestone payments was paid into a third-party escrow account in accordance with the transaction agreement, and $1.0 million was paid to the seller upon satisfaction of the source code delivery milestone.

The transaction also provides for additional consideration contingent upon achieving certain performance targets for the years ending January 31, 2025 and 2026 of up to $5.0 million, with a minimum of $2.0 million guaranteed over the period, plus the opportunity to receive additional payments from us based on any revenue we receive from sales of products based on the acquired technology in adjacent markets. Contingent consideration is not recorded in an asset acquisition until the contingency is resolved (when the contingent consideration is paid or becomes payable) or when probable and reasonably estimable.

Divestiture

In March 2023, we completed the sale of an insignificant product line that we inherited as part of a legacy acquisition and did not fit with our current business priorities or strategic direction. The total consideration for the sale was $0.7 million, which is payable to us in three equal installments through March 2025, the first installment of which was received in July 2023. The transaction reduced goodwill by $0.3 million and intangible assets by $0.2 million and resulted in a gain of approximately $0.2 million, which was recorded within other (expense) income, net in our condensed consolidated statement of operations.

6. INTANGIBLE ASSETS AND GOODWILL

Acquisition-related intangible assets, excluding certain intangible assets previously acquired that were fully amortized and removed from our condensed consolidated balance sheets, consisted of the following as of July 31, 2023 and January 31, 2023:

	July 31, 2023		
(in thousands)	Cost	Accumulated Amortization	Net
Intangible assets with finite lives:			
Customer relationships	$ 461,273	$ (405,376)	$ 55,897
Acquired technology	228,829	(215,007)	13,822
Trade names	4,495	(4,402)	93
Distribution network	2,440	(2,440)	—
Total intangible assets	**$ 697,037**	**$ (627,225)**	**$ 69,812**

	January 31, 2023		
(in thousands)	Cost	Accumulated Amortization	Net
Intangible assets with finite lives:			
Customer relationships	$ 458,013	$ (390,113)	$ 67,900
Acquired technology	229,317	(212,065)	17,252
Trade names	4,479	(4,359)	120
Distribution network	2,440	(2,440)	—
Total intangible assets	**$ 694,249**	**$ (608,977)**	**$ 85,272**

Total amortization expense recorded for acquisition-related intangible assets was $8.3 million and $10.2 million for the three months ended July 31, 2023 and 2022, respectively, and $16.6 million and $20.7 million for the six months ended July 31, 2023 and 2022, respectively. The reported amount of net acquisition-related intangible assets can fluctuate from the impact of changes in foreign currency exchange rates on intangible assets not denominated in U.S. dollars.

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

(in thousands) **Years Ending January 31,**		**Amount**
2024 (remainder of year)	$	15,928
2025		16,878
2026		15,474
2027		11,684
2028		6,967
2029 and thereafter		2,881
Total	**$**	**69,812**

There were no impairments of acquired intangible assets during the six months ended July 31, 2023 and 2022.

Goodwill activity for the six months ended July 31, 2023 was as follows:

(in thousands)		**Amount**
Six Months Ended July 31, 2023:		
Goodwill, gross, at January 31, 2023	$	1,403,256
Accumulated impairment losses through January 31, 2023		(56,043)
Goodwill, net, at January 31, 2023		1,347,213
Foreign currency translation and other		14,874
Business combinations, including adjustments to prior period acquisitions		140
Goodwill, net, at July 31, 2023	**$**	**1,362,227**
Balance at July 31, 2023		
Goodwill, gross, at July 31, 2023	$	1,418,270
Accumulated impairment losses through July 31, 2023		(56,043)
Goodwill, net, at July 31, 2023	**$**	**1,362,227**

No events or circumstances indicating the potential for goodwill impairment were identified during the six months ended July 31, 2023.

7. LONG-TERM DEBT

The following table summarizes our long-term debt at July 31, 2023 and January 31, 2023:

(in thousands)		**July 31, 2023**		**January 31, 2023**
2021 Notes	$	315,000	$	315,000
Term Loan		—		100,000
Revolving Credit Facility		100,000		—
Less: unamortized debt discounts and issuance costs		(5,042)		(6,092)
Total debt		**409,958**		**408,908**
Less: current maturities		—		—
Long-term debt	**$**	**409,958**	**$**	**408,908**

2021 Notes

On April 9, 2021, we issued $315.0 million in aggregate principal amount of 0.25% convertible senior notes due April 15, 2026 (the “2021 Notes”), unless earlier converted by the holders pursuant to their terms. The 2021 Notes are unsecured and pay interest in cash semiannually in arrears at a rate of 0.25% per annum.

We used a portion of the net proceeds from the issuance of the 2021 Notes to pay the costs of the Capped Calls described below. We also used a portion of the net proceeds from the issuance of the 2021 Notes, together with the net proceeds from the April 6, 2021 issuance of $200.0 million of Series B Preferred Stock, to repay a portion of the outstanding indebtedness under our Credit Agreement described below, to terminate an interest rate swap, and to repurchase shares of our common stock. The remainder is being used for working capital and other general corporate purposes.

The 2021 Notes are convertible into shares of our common stock at an initial conversion rate of 16.1092 shares per $1,000 principal amount of 2021 Notes, which represents an initial conversion price of approximately $62.08 per share, subject to adjustment upon the occurrence of certain events, and subject to customary anti-dilution adjustments. Prior to January 15, 2026, the 2021 Notes will be convertible only upon the occurrence of certain events and during certain periods, and will be convertible thereafter at any time until the close of business on the second scheduled trading day immediately preceding the maturity date of the 2021 Notes. Upon conversion of the 2021 Notes, holders will receive cash up to the aggregate principal amount, with any remainder to be settled with cash or common stock, or a combination thereof, at our election. As of July 31, 2023, the 2021 Notes were not convertible.

We incurred approximately $8.9 million of issuance costs in connection with the 2021 Notes, which were deferred and are presented as a reduction of long-term debt, and which are being amortized as interest expense over the term of the 2021 Notes. Including the impact of the deferred debt issuance costs, the effective interest rate on the 2021 Notes was approximately 0.83% at July 31, 2023.

Based on the closing market price of our common stock on July 31, 2023, the if-converted value of the 2021 Notes was less than their aggregate principal amount.

Capped Calls

In connection with the issuance of the 2021 Notes, on April 6, 2021 and April 8, 2021, we entered into capped call transactions (the "Capped Calls") with certain counterparties. The Capped Calls are generally intended to reduce the potential dilution to our common stock upon any conversion of the 2021 Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted 2021 Notes, in the event that at the time of conversion our common stock price exceeds the conversion price, with such reduction and/or offset subject to a cap.

The Capped Calls exercise price is equal to the $62.08 initial conversion price of each of the 2021 Notes, and the cap price is $100.00, each subject to certain adjustments under the terms of the Capped Calls. Our exercise rights under the Capped Calls generally trigger upon conversion of the 2021 Notes, and the Capped Calls terminate upon maturity of the 2021 Notes, or the first day the 2021 Notes are no longer outstanding. As of July 31, 2023, no Capped Calls have been exercised.

Pursuant to their terms, the Capped Calls qualify for classification within stockholders' equity, and their fair value is not remeasured and adjusted as long as they continue to qualify for stockholders' equity classification. We paid approximately $41.1 million for the Capped Calls, including applicable transaction costs, which was recorded as a reduction to additional paid-in capital.

Credit Agreement

On June 29, 2017, we entered into a credit agreement with certain lenders and terminated a prior credit agreement. The credit agreement was amended in 2018, 2020, 2021, and 2023, as further described below (as amended, the "Credit Agreement").

The Credit Agreement provides for $725.0 million of senior secured credit facilities, comprised of a $425.0 million term loan originally set to mature on June 29, 2024 (the "Term Loan"), and a $300.0 million revolving credit facility maturing on April 9, 2026 (the "Revolving Credit Facility"). The Revolving Credit Facility replaced our prior $300.0 million revolving credit facility (the "Prior Revolving Credit Facility") and is subject to increase and reduction from time to time according to the terms of the Credit Agreement. The majority of the proceeds from the Term Loan were used to repay all outstanding term loans under our prior credit agreement.

Optional prepayments of loans under the Credit Agreement are generally permitted without premium or penalty. During the three months ended April 30, 2021, in addition to our regular quarterly $1.1 million principal payment, we repaid $309.0 million of our Term Loan, reducing the outstanding principal balance to $100.0 million. On April 27, 2023, we repaid the remaining $100.0 million outstanding principal balance on our Term Loan utilizing proceeds from borrowings under our Revolving Credit Facility, along with $0.5 million of accrued interest thereon. As a result, $0.2 million of combined deferred debt issuance costs and unamortized discount associated with the Term Loan were written off and are included within interest expense on our condensed consolidated statement of operations for the six months ended July 31, 2023.

Interest rates on loans under the Credit Agreement are periodically reset, at our option, originally at either a Eurodollar Rate (which was derived from LIBOR) or an ABR Rate (each as defined in the Credit Agreement), plus in each case a margin.

On May 10, 2023, we entered into an amendment to the Credit Agreement (the “Fourth Amendment”) related to the planned phase-out of LIBOR by the UK Financial Conduct Authority. Effective July 1, 2023, borrowings under the Credit Agreement will bear interest, at our option, at either: (i) the alternate base rate (as defined in the Credit Agreement), plus the applicable margin therefor (as defined in the Credit Agreement) or (ii) the adjusted Term Secured Overnight Financing Rate published by the CME Term SOFR Administrator (as more fully defined and set forth in the Credit Agreement, “Adjusted Term SOFR”), plus the applicable margin therefor. The applicable margin in each case is determined based on our Leverage Ratio (as defined below) and ranges from 0.25% to 1.25% for borrowings bearing interest at the alternate base rate and from 1.25% to 2.25% for borrowings bearing interest based on Adjusted Term SOFR.

Borrowings outstanding under the Revolving Credit Facility were $100.0 million at July 31, 2023, which is included in long-term debt on our condensed consolidated balance sheet. For borrowings under the Revolving Credit Facility, the margin is determined by reference to our Consolidated Total Debt to Consolidated EBITDA (each as defined in the Credit Agreement) leverage ratio (the "Leverage Ratio"). As of July 31, 2023, the interest rate on our revolving credit facility borrowings was 6.93%. In addition, we are required to pay a commitment fee with respect to unused availability under the Revolving Credit Facility at rates per annum determined by reference to our Leverage Ratio. The proceeds of borrowings under the Revolving Credit Facility may be used for our working capital and general corporate purposes, including for permitted acquisitions and permitted stock repurchases, and the repayment of term loans, if any.

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

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

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

Deferred debt issuance costs associated with the Term Loan were amortized using the effective interest rate method, and deferred debt issuance costs associated with the Revolving Credit Facility are being amortized on a straight-line basis.

Interest Expense

The following table presents the components of interest expense incurred on the 2021 Notes and on borrowings under our Credit Agreement, for the three and six months ended July 31, 2023 and 2022:

	Three Months Ended July 31,		Six Months Ended July 31,	
(in thousands)	**2023**	**2022**	**2023**	**2022**
2021 Notes:				
Interest expense at 0.25% coupon rate	$ 197	$ 197	$ 394	$ 392
Amortization of deferred debt issuance costs	443	440	886	879
Total Interest Expense — 2021 Notes	**$ 640**	**$ 637**	**$ 1,280**	**$ 1,271**
Borrowings under Credit Agreement:				
Interest expense at contractual rates	$ 1,697	$ 813	$ 3,347	$ 1,373
Amortization of debt discounts	—	4	5	9
Amortization of deferred debt issuance costs	183	217	387	428
Losses on early retirements of debt	—	—	237	—
Total Interest Expense — Borrowings under Credit Agreement	**$ 1,880**	**$ 1,034**	**$ 3,976**	**$ 1,810**

8. *SUPPLEMENTAL CONDENSED CONSOLIDATED FINANCIAL STATEMENT INFORMATION*

Condensed Consolidated Balance Sheets

Inventories consisted of the following as of July 31, 2023 and January 31, 2023:

(in thousands)	July 31, 2023	January 31, 2023
Raw materials	$ 4,075	$ 3,325
Work-in-process	225	40
Finished goods	11,455	9,263
Total inventories	**$ 15,755**	**$ 12,628**

Other liabilities consisted of the following as of July 31, 2023 and January 31, 2023:

(in thousands)	July 31, 2023	January 31, 2023
Unrecognized tax benefits, including interest and penalties	$ 53,517	$ 52,887
Other	16,901	27,494
Total other liabilities	**$ 70,418**	**$ 80,381**

Condensed Consolidated Statements of Operations

Other (expense) income, net consisted of the following for the three and six months ended July 31, 2023 and 2022:

	Three Months Ended July 31,		Six Months Ended July 31, 2023	
(in thousands)	2023	2022	2023	2022
Foreign currency (losses) gains, net	$ (64)	$ 547	$ 173	$ 2,260
Other, net	40	(80)	(173)	(119)
Total other (expense) income, net	**$ (24)**	**$ 467**	**$ —**	**$ 2,141**

Condensed Consolidated Statements of Cash Flows

The following table provides supplemental information regarding our condensed consolidated cash flows for the six months ended July 31, 2023 and 2022:

	Six Months Ended July 31,	
(in thousands)	2023	2022
Cash paid for interest	$ 4,211	$ 1,693
Cash payments of income taxes, net	$ 9,922	$ 5,403
Cash payments for operating leases	$ 10,175	$ 18,656
Non-cash investing and financing transactions:		
Finance leases of property and equipment	$ 272	$ 189
Accrued but unpaid purchases of property and equipment	$ 806	$ 2,035
Retirement of treasury stock	$ —	$ 105,680
Excise tax on share repurchases	$ 414	$ —

9. *CONVERTIBLE PREFERRED STOCK*

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

- On May 7, 2020, we issued a total of 200,000 shares of our Series A Preferred Stock for an aggregate purchase price of $200.0 million, or $1,000 per share, to the Apax Investor. In connection therewith, we incurred direct and incremental costs of $2.7 million, including financial advisory fees, closing costs, legal fees, and other offering-related costs. These direct and incremental costs reduced the carrying amount of the Series A Preferred Stock.

- In connection with the completion of the Spin-Off, on April 6, 2021, we issued a total of 200,000 shares of our Series B Preferred Stock for an aggregate purchase price of $200.0 million, or $1,000 per share, to the Apax Investor. In connection therewith, we incurred direct and incremental costs of $1.3 million, including financial advisory fees, closing costs, legal fees, and other offering-related costs. These direct and incremental costs reduced the carrying amount of the Series B Preferred Stock.

Each of the rights, preferences, and privileges of the Series A Preferred Stock and Series B Preferred Stock are set forth in separate certificates of designation filed with the Secretary of State of the State of Delaware on the applicable issuance date.

Voting Rights

Holders of the Preferred Stock have the right to vote on matters submitted to a vote of the holders of our common stock, on an as-converted basis; however, in no event will the holders of Preferred Stock have the right to vote shares of the Preferred Stock on an as-converted basis in excess of 19.9% of the voting power of the common stock outstanding immediately prior to December 4, 2019.

Dividends and Liquidation Rights

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

Each series of Preferred Stock pays dividends at an annual rate of 5.2% until May 7, 2024, and thereafter at a rate of 4.0%, subject to adjustment under certain circumstances. Dividends on the Preferred Stock are cumulative and payable semi-annually in arrears in cash. All dividends that are not paid in cash will remain accumulated dividends with respect to each share of Preferred Stock. The dividend rate is subject to increase (i) to 6.0% per annum in the event the number of shares of common stock into which the Preferred Stock could be converted exceeds 19.9% of the voting power of outstanding common stock on December 4, 2019 (unless we obtain shareholder approval of the issuance of common stock upon conversion of the Preferred Stock) and (ii) by 1.0% each year, up to a maximum dividend rate of 10.0% per annum, in the event we fail to satisfy our obligations to redeem the Preferred Stock in specified circumstances.

For the three and six months ended July 31, 2023, we paid $10.4 million and $20.8 million of preferred stock dividends, respectively, $10.4 million of which was accrued as of January 31, 2023, and there were $1.7 million of cumulative undeclared and unpaid preferred stock dividends at July 31, 2023. There were no accrued dividends as of July 31, 2023. We reflected $5.2 million and $10.4 million of preferred stock dividends in our condensed consolidated results of operations, for purposes of computing net loss attributable to Verint Systems Inc. common shares, for the three and six months ended July 31, 2023 and 2022, respectively.

Conversion

The Series A Preferred Stock was initially convertible into common stock at the election of the holder, subject to certain conditions, at an initial conversion price of $53.50 per share. The initial conversion price represented a conversion premium of 17.1% over the volume-weighted average price per share of our common stock over the 45 consecutive trading days immediately prior to December 4, 2019. In accordance with the Investment Agreement, the Series A Preferred Stock did not participate in the Spin-Off distribution of the Cognyte shares, which occurred on February 1, 2021, and the Series A Preferred Stock conversion price was instead adjusted to $36.38 per share based on the ratio of the relative trading prices of Verint and Cognyte following the Spin-Off. The Series B Preferred Stock is convertible at a conversion price of $50.25, based in part on our trading price over the 20 day trading period following the Spin-Off. As of July 31, 2023, the maximum number of shares of common stock that could be required to be issued upon conversion of the outstanding shares of Preferred Stock was approximately 9.5 million shares and Apax's ownership in us on an as-converted basis was approximately 12.9%.

Beginning May 7, 2023, in the case of the Series A Preferred Stock, and April 6, 2024, in the case of the Series B Preferred Stock, we have the option to require that all (but not less than all) of the then-outstanding shares of Preferred Stock of the series convert into common stock if the volume-weighted average price per share of the common stock for at least 30 trading days in any 45 consecutive trading day period exceeds 175% of the then-applicable conversion price of such series (a “Mandatory Conversion”). As of July 31, 2023, the volume-weighted average price per share of common stock has not exceeded 175% of the $36.38 conversion price of the Series A Preferred Stock.

We may redeem any or all of the Preferred Stock of a series for cash at any time after May 7, 2026, in the case of the Series A Preferred Stock, and April 6, 2027, in the case of the Series B Preferred Stock, at a redemption price equal to 100% of the liquidation preference of the shares of the Preferred Stock, plus any accrued and unpaid dividends to, but excluding, the redemption date, plus a make-whole amount designed to allow the Apax Investor to earn a total 8.0% internal rate of return on such shares.

The Preferred Stock may not be sold or transferred without our prior written consent. The common stock issuable upon conversion of the Preferred Stock is not subject to this restriction. The restriction on the sale or transfer of the Preferred Stock does not apply to certain transfers to one or more permitted co-investors or transfers or pledges of the Preferred Stock pursuant to the terms of specified margin loans entered into by the Apax Investor as well as transfers effected pursuant to a merger, consolidation, or similar transaction consummated by us and transfers that are approved by our board of directors.

At any time after November 7, 2028, in the case of the Series A Preferred Stock, and October 6, 2029, in the case of the Series B Preferred Stock, or upon the occurrence of a change of control triggering event (as defined in the certificates of designation), the holders of the applicable series of Preferred Stock will have the right to cause us to redeem all of the outstanding shares of Preferred Stock for cash at a redemption price equal to 100% of the liquidation preference of the shares of such series, plus any accrued and unpaid dividends to, but excluding, the redemption date. Therefore, the Preferred Stock has been classified as temporary equity on our condensed consolidated balance sheets as of July 31, 2023 and January 31, 2023, separate from permanent equity, as the potential required repurchase of the Preferred Stock, however remote in likelihood, is not solely under our control.

As of July 31, 2023, the Preferred Stock was not redeemable, and we have concluded that it is currently not probable of becoming redeemable, including from the occurrence of a change in control triggering event. The holders’ redemption rights which occur at November 7, 2028, in the case of the Series A Preferred Stock, and October 6, 2029, in the case of the Series B Preferred Stock, are not considered probable because there is a more than remote likelihood that the Mandatory Conversion may occur prior to such redemption rights. We therefore did not adjust the carrying amount of the Preferred Stock to its current redemption amount, which was its liquidation preference at July 31, 2023 plus accrued and unpaid dividends. As of July 31, 2023, the stated value of the liquidation preference for each series of Preferred Stock was $200.0 million and cumulative, unpaid dividends on each series of Preferred Stock was $0.9 million.

Future Tranche Right

We determined that our obligation to issue and the Apax Investor’s obligation to purchase 200,000 shares of the Series B Preferred Stock in connection with the completion of the Spin-Off and the satisfaction of other customary closing conditions (the “Future Tranche Right”) met the definition of a freestanding financial instrument as the Future Tranche Right is legally detachable and separately exercisable from the Series A Preferred Stock. At issuance, we allocated a portion of the proceeds from the issuance of the Series A Preferred Stock to the Future Tranche Right based upon its fair value at such time, with the remaining proceeds being allocated to the Series A Preferred Stock. The Future Tranche Right was remeasured at fair value each reporting period until the settlement of the right (at the time of the issuance of the Series B Preferred Stock), and changes in its fair value were recognized as a non-cash charge or benefit within other income (expense), net on the condensed consolidated statement of operations.

Upon issuance of the Series A Preferred Stock on May 7, 2020, the Future Tranche Right was recorded as an asset of $3.4 million, as the purchase price of the Series B Preferred Stock was greater than its estimated fair value at the expected settlement date. This resulted in a $203.4 million carrying value, before direct and incremental issuance costs, for the Series A Preferred Stock.

Immediately prior to the issuance of the Series B Preferred Stock, the Future Tranche Right was remeasured and upon the issuance of the Series B Preferred Stock in April 2021, the Future Tranche Right was settled, resulting in a reclassification of the $37.0 million fair value of the Future Tranche Right liability at that time to the carrying value of the Series B Preferred Stock. This resulted in a $237.0 million carrying value, before direct and incremental issuance costs, for the Series B Preferred

Stock. As a result of the issuance of the Series B Preferred Stock, we no longer recognize changes in the fair value of the Future Tranche Right in our condensed consolidated statements of operations.

10. STOCKHOLDERS' EQUITY

Common Stock Dividends

We did not declare or pay any cash dividends on our common stock during the six months ended July 31, 2023 and 2022. Under the terms of our Credit Agreement, we are subject to certain restrictions on declaring and paying cash dividends on our common stock.

Treasury Stock

From time to time, our board of directors has approved limited programs to repurchase shares of our common stock from our directors or officers in connection with the vesting of restricted stock or restricted stock units to facilitate required income tax withholding by us or the payment of required income taxes by such holders. In addition, the terms of some of our equity award agreements with all grantees provide for automatic repurchases by us for the same purpose if a vesting-related or delivery-related tax event occurs at a time when the holder is not permitted to sell shares in the market. Our stock bonus program contains similar terms. Any such repurchases of common stock occur at prevailing market prices and are recorded as treasury stock.

We periodically purchase common stock from our directors, officers, and other employees to facilitate income tax withholding by us or the payment of required income taxes by such holders in connection with the vesting of equity awards occurring during a Company-imposed trading blackout or lockup period. When treasury shares are reissued, they are recorded at the average cost of the treasury shares acquired.

No treasury stock remained outstanding at July 31, 2023 and January 31, 2023, respectively.

Stock Repurchase Programs

On December 7, 2022, we announced that our board of directors had authorized a stock repurchase program for the period from December 12, 2022 until January 31, 2025, whereby we may repurchase shares of common stock in an amount not to exceed, in the aggregate, $200.0 million during the repurchase period.

During the year ended January 31, 2023, we repurchased approximately 649,000 shares of our common stock for a cost of $23.5 million under the current stock repurchase program. During the six months ended July 31, 2023, we repurchased approximately 1,996,000 shares of our common stock for a cost of $74.1 million, including excise tax of $0.4 million, under the current stock repurchase program. During the six months ended July 31, 2023, we retired all 1,996,000 shares, which was recorded as a reduction of common stock and additional paid-in capital. These shares were returned to the status of authorized and unissued shares. Our share repurchases in excess of issuances are subject to a 1% excise tax enacted by the IRA. The excise tax of $0.4 million was recognized as part of the cost basis of shares acquired in the condensed consolidated statements of stockholders' equity during the six months ended July 31, 2023.

During the six months ended July 31, 2022, we repurchased and retired 2,000,000 shares of our common stock for a cost of $105.7 million under a prior stock repurchase program as well as an insignificant number of shares to facilitate income tax withholding or payments as described above.

Issuance of Convertible Preferred Stock

On December 4, 2019, in conjunction with the planned Spin-Off, we announced that an affiliate of Apax Partners would invest up to $400.0 million in us, in the form of convertible preferred stock. Under the terms of the Investment Agreement, the Apax Investor purchased $200.0 million of our Series A Preferred Stock, which closed on May 7, 2020. In connection with the completion of the Spin-Off, the Apax Investor purchased $200.0 million of our Series B Preferred Stock, which closed on April 6, 2021. As of July 31, 2023, Apax's ownership in us on an as-converted basis was approximately 12.9%. Please refer to Note 9, "Convertible Preferred Stock" for a more detailed discussion of the Apax investment.

Accumulated Other Comprehensive Loss

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

The following table summarizes changes in the components of our accumulated other comprehensive loss for the six months ended July 31, 2023:

(in thousands)	Unrealized Losses on Foreign Exchange Contracts Designated as Hedges	Foreign Currency Translation Adjustments	Total
Accumulated other comprehensive loss at January 31, 2023	**$ (87)**	**$ (154,012)**	**$ (154,099)**
Other comprehensive (loss) income before reclassifications	(374)	16,457	16,083
Amounts reclassified out of accumulated other comprehensive loss	(349)	—	(349)
Net other comprehensive (loss) income	(25)	16,457	16,432
Accumulated other comprehensive loss at July 31, 2023	**$ (112)**	**$ (137,555)**	**$ (137,667)**

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

The amounts reclassified out of accumulated other comprehensive loss into the condensed consolidated statements of operations, with presentation location, for the three and six months ended July 31, 2023 and 2022 were as follows:

	Three Months Ended July 31,		Six Months Ended July 31,		
(in thousands)	2023	2022	2023	2022	Financial Statement Location
Unrealized losses on derivative financial instruments:					
Foreign currency forward contracts	$ (2)	$ —	$ (4)	$ —	Cost of recurring revenue
	(17)	(22)	(37)	(31)	Cost of nonrecurring revenue
	(122)	(138)	(262)	(187)	Research and development, net
	(55)	(73)	(120)	(97)	Selling, general and administrative
	(196)	**(233)**	**(423)**	**(315)**	**Total, before income taxes**
	35	41	74	55	Benefit from income taxes
	$ (161)	**$ (192)**	**$ (349)**	**$ (260)**	**Total, net of income taxes**

11. INCOME TAXES

Our interim provision for income taxes is measured using an estimated annual effective income tax rate, adjusted for discrete items that occur within the periods presented.

For the three months ended July 31, 2023, we recorded an income tax benefit of $2.5 million on a pretax loss of $8.3 million, which represented an effective income tax rate of 30.5%. The effective tax rate differs from the U.S. federal statutory rate of 21% primarily due to the U.S. taxation of certain foreign activities, offset by lower statutory rates in certain foreign jurisdictions.

For the three months ended July 31, 2022, we recorded an income tax provision of $2.8 million on pretax income of $0.6 million, which represented an effective income tax rate of 465.4%. The effective tax rate differs from the U.S. federal statutory rate of 21% primarily due to a discrete income tax provision of $2.1 million attributable to the recording of a valuation allowance against a deferred tax asset related to an asset held for sale in a foreign jurisdiction and the U.S. taxation of certain foreign activities, offset by lower statutory rates in certain foreign jurisdictions. Excluding the discrete income tax provision attributable to the foreign jurisdiction valuation allowance, the result was an income tax provision of $0.7 million on pre-tax income of $0.6 million resulting in an effective tax rate of 124.8%.

For the six months ended July 31, 2023, we recorded an income tax provision of $1.8 million on a pretax loss of $0.3 million, which represented a negative effective income tax rate of 543.0%. The effective tax rate varies significantly from the U.S. federal statutory rate of 21% due to the impact of recurring discrete income tax adjustments against the near break-even pretax loss. In addition, the effective tax rate differs from the U.S. federal statutory rate of 21% due to the U.S. taxation of certain foreign activities, offset by lower statutory rates in certain foreign jurisdictions.

For the six months ended July 31, 2022, we recorded an income tax provision of $3.1 million on pretax income of $1.5 million, which represented an effective income tax rate of 212.1%. The effective tax rate differs from the U.S. federal statutory rate of 21% primarily due to a discrete income tax provision of $2.1 million attributable to the recording of a valuation allowance against a deferred tax asset related to an asset held for sale in a foreign jurisdiction and the U.S. taxation of certain foreign activities, offset by lower statutory rates in certain foreign jurisdictions. Excluding the discrete income tax provision attributable to the foreign jurisdiction valuation allowance, the result was an income tax provision of $1.0 million on pre-tax income of $1.5 million resulting in an effective tax rate of 71.5%.

As required by the authoritative guidance on accounting for income taxes, we evaluate the realizability of deferred income tax assets on a jurisdictional basis at each reporting date. Accounting for income taxes guidance requires that a valuation allowance be established when it is more-likely-than-not that all or a portion of the deferred income tax assets will not be realized. In circumstances where there is sufficient negative evidence indicating that the deferred income tax assets are not more-likely-than-not realizable, we establish a valuation allowance. We determined that there is sufficient negative evidence to maintain the valuation allowances against certain state and foreign deferred income tax assets as a result of historical losses in the most recent three-year period in certain state and foreign jurisdictions. We intend to maintain valuation allowances until sufficient positive evidence exists to support a reversal.

We had unrecognized income tax benefits of $87.7 million and $87.9 million (excluding interest and penalties) as of July 31, 2023 and January 31, 2023, respectively, that if recognized, would impact our effective income tax rate. The accrued liability for interest and penalties was $6.0 million and $5.2 million at July 31, 2023 and January 31, 2023, respectively. Interest and penalties are recorded as a component of the provision for income taxes in our condensed consolidated statements of operations. We regularly assess the adequacy of our provisions for income tax contingencies in accordance with the applicable authoritative guidance on accounting for income taxes. As a result, we may adjust the reserves for unrecognized income tax benefits for the impact of new facts and developments, such as changes to interpretations of relevant tax law, assessments from taxing authorities, settlements with taxing authorities, and lapses of statutes of limitation. Further, we believe that it is reasonably possible that the total amount of unrecognized income tax benefits at July 31, 2023 could decrease by approximately $7.0 million in the next twelve months as a result of settlement of certain tax audits or lapses of statutes of limitation. Such decreases may involve the payment of additional income taxes, the adjustment of deferred income taxes including the need for additional valuation allowances, and the recognition of income tax benefits. Our income tax returns are subject to ongoing tax examinations in several jurisdictions in which we operate. We also believe that it is reasonably possible that new issues may be raised by tax authorities or developments in tax audits may occur, which would require increases or decreases to the balance of reserves for unrecognized income tax benefits; however, an estimate of such changes cannot reasonably be made.

The Organization for Economic Co-operation and Development ("OECD") Pillar 2 guidelines address the increasing digitalization of the global economy, re-allocating taxing rights among countries. The European Union and many other member states have committed to adopting Pillar 2 which calls for a global minimum tax of 15% to be effective for tax years beginning in 2024. The OECD guidelines published to date include transition and safe harbor rules around the implementation of the Pillar 2 global minimum tax. We are monitoring developments and evaluating the impacts these new rules will have on our tax rate, including eligibility to qualify for these safe harbor rules.

12. FAIR VALUE MEASUREMENTS

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Our assets and liabilities measured at fair value on a recurring basis consisted of the following as of July 31, 2023 and January 31, 2023:

(in thousands)	July 31, 2023 Fair Value Hierarchy Category Level 1	Level 2	Level 3
Assets:			
Money market funds	$ 57,816	$ —	$ —
U.S. Treasury bills, classified as cash and cash equivalents	498	—	—
Commercial paper, classified as cash and cash equivalents	—	34,858	—
Foreign currency forward contracts	—	12	—
Total assets	**$ 58,314**	**$ 34,870**	**$ —**
Liabilities:			
Foreign currency forward contracts	$ —	$ 147	$ —
Contingent consideration — business combinations	—	—	7,878
Total liabilities	**$ —**	**$ 147**	**$ 7,878**

(in thousands)	January 31, 2023 Fair Value Hierarchy Category Level 1	Level 2	Level 3
Assets:			
Money market funds	$ 96,941	$ —	$ —
Commercial paper, classified as cash and cash equivalents	—	50,869	—
Foreign currency forward contracts	—	19	—
Contingent consideration receivable	—	8	—
Total assets	**$ 96,941**	**$ 50,896**	**$ —**
Liabilities:			
Foreign currency forward contracts	$ —	$ 124	$ —
Contingent consideration — business combinations	—	—	12,717
Total liabilities	**$ —**	**$ 124**	**$ 12,717**

The following table presents the changes in the estimated fair values of our liabilities for contingent consideration measured using significant unobservable inputs (Level 3) for the six months ended July 31, 2023:

(in thousands)	Six Months Ended July 31, 2023
Fair value measurement at beginning of period	$ 12,717
Changes in fair values, recorded in operating expenses	(2,178)
Payments of contingent consideration	(3,064)
Foreign currency translation and other	403
Fair value measurement at end of period	**$ 7,878**

Our estimated liability for contingent consideration represents potential payments of additional consideration for business combinations, payable if certain defined performance goals are achieved. Changes in fair value of contingent consideration are recorded in the condensed consolidated statements of operations within selling, general and administrative expenses. There were no liabilities for contingent consideration measured using significant unobservable inputs (Level 3) for the six months ended July 31, 2022.

There were no transfers between levels of the fair value measurement hierarchy during the six months ended July 31, 2023 and 2022.

Fair Value Measurements

Money Market Funds and U.S. Treasury Bills - We value our money market funds and U.S. treasury bills using quoted active market prices for such instruments.

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

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

Contingent Consideration Assets and Liabilities - Business Combinations and Divestitures - The fair value of the contingent consideration related to business combinations and divestitures is estimated using a probability-adjusted discounted cash flow model. These fair value measurements are based on significant inputs not observable in the market. The key internally developed assumptions used in these models are discount rates and the probabilities assigned to the milestones to be achieved. We remeasure the fair value of the contingent consideration at each reporting period, and any changes in fair value resulting from either the passage of time or events occurring after the acquisition date, such as changes in discount rates, or in the expectations of achieving the performance targets, are recorded within selling, general, and administrative expenses. Increases or decreases in discount rates would have inverse impacts on the related fair value measurements, while favorable or unfavorable changes in expectations of achieving performance targets would result in corresponding increases or decreases in the related fair value measurements. We utilized discount rates ranging from 7.6% to 8.1%, with a weighted average discount rate of 7.9% in our calculation of the estimated fair values of our contingent consideration liabilities as of July 31, 2023. We utilized discount rates ranging from 6.6% to 7.6%, with a weighted average discount rate of 6.9% in our calculations of the estimated fair values of our contingent consideration liabilities as of January 31, 2023. The contingent consideration receivable was fully paid as of July 31, 2023.

Other Financial Instruments

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

The estimated fair value of our Revolving Credit Facility borrowing was approximately $99.0 million at July 31, 2023. The estimated fair value of our Term Loan borrowing was approximately $100 million at January 31, 2023. On April 27, 2023, we repaid in full the remaining $100 million outstanding balance on our Term Loan utilizing proceeds from borrowings under our Revolving Credit Facility. We had no borrowings under our Revolving Credit Facility at January 31, 2023. The estimated fair values of the Term Loan borrowings were based upon indicative bid and ask prices as determined by the agent responsible for the syndication of our term loans. We considered these inputs to be within Level 3 of the fair value hierarchy because we cannot reasonably observe activity in the limited market in which participation in our Term Loan traded. The estimated fair value of borrowings under our Revolving Credit Facility is based upon indicative market values provided by one of our lenders. The indicative prices provided to us at July 31, 2023 and January 31, 2023 did not significantly differ from par value.

The estimated fair values of our 2021 Notes were approximately $283.0 million and $282.0 million at July 31, 2023 and January 31, 2023, respectively. The estimated fair values of the 2021 Notes were determined based on quoted bid and ask prices in the over-the-counter market in which the 2021 Notes traded. We consider these inputs to be within Level 2 of the fair value hierarchy.

Assets and Liabilities Not Measured at Fair Value on a Recurring Basis

In addition to assets and liabilities that are measured at fair value on a recurring basis, we also measure certain assets and liabilities at fair value on a nonrecurring basis. Our non-financial assets, including goodwill, intangible assets, operating lease right-of-use assets, and property, plant and equipment, are measured at fair value when there is an indication of impairment and the carrying amount exceeds the asset’s projected undiscounted cash flows. These assets are recorded at fair value only when an impairment charge is recognized.

Investments

In March 2023, we invested approximately $1.1 million in a privately-held company via a simple agreement for future equity (“SAFE”). In July 2023, we made a second SAFE investment of $0.5 million for a total investment of approximately

$1.6 million. The SAFE provides that, upon the completion by such company of a qualified equity financing, we will automatically receive the number of shares of capital stock of such company equal to the SAFE purchase amount divided by the Discount Price (as such term is defined in the SAFE). If there is a liquidity event affecting such company, such as a change in control or initial public offering, we will receive a cash payment equal to the greater of (a) the SAFE purchase amount or (b) the amount payable on the number of shares of common stock of such company equal to the SAFE purchase amount divided by the Liquidity Price (as such term is defined in the SAFE). Our investment is carried at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer and is included within other assets on the condensed consolidated balance sheets as of July 31, 2023.

The carrying amount of our noncontrolling equity investments in privately-held companies without readily determinable fair values was $5.1 million as of July 31, 2023 and January 31, 2023. These investments were included within other assets on the condensed consolidated balance sheets as of July 31, 2023 and January 31, 2023. There were no observable price changes in our investments in privately-held companies during the six months ended July 31, 2023 and 2022. We did not recognize any impairments during the three and six months ended July 31, 2023 and 2022.

13. DERIVATIVE FINANCIAL INSTRUMENTS

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

Foreign Currency Forward Contracts

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

We held outstanding foreign currency forward contracts with notional amounts of $6.5 million and $6.8 million as of July 31, 2023 and January 31, 2023, respectively.

Fair Values of Derivative Financial Instruments

The fair values of our derivative financial instruments and their classifications in our condensed consolidated balance sheets as of July 31, 2023 and January 31, 2023 were as follows:

		Fair Value at	
(in thousands)	**Balance Sheet Classification**	**July 31, 2023**	**January 31, 2023**
Derivative assets:			
Foreign currency forward contracts:			
Designated as cash flow hedges	Prepaid expenses and other current assets	$ 12	$ 19
Total derivative assets		**$ 12**	**$ 19**
Derivative liabilities:			
Foreign currency forward contracts:			
Designated as cash flow hedges	Accrued expenses and other current liabilities	$ 147	$ 124
Total derivative liabilities		**$ 147**	**$ 124**

Derivative Financial Instruments in Cash Flow Hedging Relationships

The effects of derivative financial instruments designated as cash flow hedges on accumulated other comprehensive loss ("AOCL") and on the condensed consolidated statement of operations for the three and six months ended July 31, 2023 and 2022 were as follows:

	Three Months Ended July 31,		Six Months Ended July 31,	
(in thousands)	2023	2022	2023	2022
Net losses recognized in AOCL:				
Foreign currency forward contracts	$ (103)	$ (190)	$ (453)	$ (460)
Net losses reclassified from AOCL to the condensed consolidated statements of operations:				
Foreign currency forward contracts	$ (196)	$ (233)	$ (423)	$ (315)

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

All of the foreign currency forward contracts underlying the net unrealized losses recorded in our accumulated other comprehensive loss at July 31, 2023 mature within twelve months, and therefore we expect all such losses to be reclassified into earnings within the next twelve months.

14. STOCK-BASED COMPENSATION

Stock-Based Compensation Plan

On June 22, 2023, our stockholders approved the Verint Systems Inc. 2023 Long-Term Stock Incentive Plan (the "2023 Plan"). Upon approval of the 2023 Plan, new awards were no longer permitted under our prior stock-based compensation plan (the "2019 Plan"). Awards outstanding at June 22, 2023 under the 2019 Plan or other previous stock-based compensation plans were not impacted by the approval of the 2023 Plan. Collectively, our stock-based compensation plans are referred to herein as the "Plans".

The 2023 Plan authorizes our board of directors to provide equity-based compensation in the form of stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs"), performance awards, other stock-based awards, and performance compensation awards. Subject to adjustment as provided in the 2023 Plan, up to an aggregate of (i) 9,000,000 shares of our common stock plus (ii) the number of shares of our common stock available for issuance under the 2019 Plan as of June 22, 2023, plus (iii) the number of shares of our common stock that become available for issuance as a result of awards made under the 2019 Plan or the 2023 Plan that are forfeited, cancelled, exchanged, or that terminate or expire, may be issued or transferred in connection with awards under the 2023 Plan. Each stock option or stock-settled stock appreciation right granted under the 2023 Plan will reduce the available plan capacity by one share and each other award denominated in shares that is granted under the 2023 Plan will reduce the available plan capacity by 1.90 shares.

Stock-Based Compensation Expense

We recognized stock-based compensation expense in the following line items on the condensed consolidated statements of operations for the three and six months ended July 31, 2023 and 2022:

	Three Months Ended July 31,		Six Months Ended July 31,	
(in thousands)	2023	2022	2023	2022
Cost of revenue — recurring	$ 686	$ 933	$ 982	$ 1,458
Cost of revenue — nonrecurring	690	818	830	1,458
Research and development, net	3,466	4,419	5,793	6,838
Selling, general and administrative	14,279	19,524	26,495	34,309
Total stock-based compensation expense	**$ 19,121**	**$ 25,694**	**$ 34,100**	**$ 44,063**

The following table summarizes stock-based compensation expense by type of award for the three and six months ended July 31, 2023 and 2022:

	Three Months Ended July 31,		Six Months Ended July 31,	
(in thousands)	2023	2022	2023	2022
Restricted stock units and restricted stock awards	$ 17,404	$ 23,362	$ 30,840	$ 39,373
Stock bonus program and bonus share program	1,938	2,328	3,316	4,680
Total equity-settled awards	**19,342**	**25,690**	**34,156**	**44,053**
Phantom stock units (cash-settled awards)	(221)	4	(56)	10
Total stock-based compensation expense	**$ 19,121**	**$ 25,694**	**$ 34,100**	**$ 44,063**

Awards are generally subject to multi-year vesting periods. We recognize compensation expense for awards on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods, reduced by estimated forfeitures.

Awards under our stock bonus and bonus share programs are accounted for as liability-classified awards, because the obligations are based predominantly on fixed monetary amounts that are generally known at inception of the obligation, to be settled with a variable number of shares of our common stock, which for awards under our stock bonus program is determined using a discounted average price of our common stock.

Restricted Stock Units and Performance Stock Units

We periodically award RSUs to our directors, officers, and other employees. These awards contain various vesting conditions and are subject to certain restrictions and forfeiture provisions prior to vesting. Some of these awards to executive officers and certain employees vest upon the achievement of specified performance goals or market conditions (performance stock units or "PSUs").

The following table ("Award Activity Table") summarizes activity for RSUs, PSUs, and other stock awards that reduce available Plan capacity under the Plans for the six months ended July 31, 2023 and 2022:

	Six Months Ended July 31,			
	2023		2022	
(in thousands, except per share data)	Shares or Units	Weighted-Average Grant Date Fair Value	Shares or Units	Weighted-Average Grant Date Fair Value
Beginning balance	2,230	$ 52.42	2,454	$ 42.99
Granted	1,859	$ 37.20	1,600	$ 56.14
Released	(836)	$ 46.44	(878)	$ 43.15
Forfeited	(104)	$ 45.05	(94)	$ 45.73
Ending balance	**3,149**	**$ 45.27**	**3,082**	**$ 49.69**

With respect to our stock bonus program, the activity presented in the table above only includes shares earned and released in consideration of the discount provided under that program. Consistent with the provisions of the Plans under which such shares are issued, other shares issued under the stock bonus program are not included in the table above because they do not reduce available plan capacity (since such shares are deemed to be purchased by the grantee at fair value in lieu of receiving an earned cash bonus). Activity presented in the table above includes all shares awarded and released under the bonus share program. Further details appear below under "Stock Bonus Program and Bonus Share Program".

Our RSU and PSU awards may include a provision which allows the awards to be settled with cash payments upon vesting, rather than with delivery of common stock, at the discretion of our board of directors. As of July 31, 2023, for such awards that are outstanding, settlement with cash payments was not considered probable, and therefore these awards have been accounted for as equity-classified awards and are included in the table above.

The following table summarizes PSU activity in isolation under the Plans for the six months ended July 31, 2023 and 2022 (these amounts are also included in the Award Activity Table above for 2023 and 2022):

(in thousands)	Six Months Ended July 31, 2023	Six Months Ended July 31, 2022
Beginning balance	532	547
Granted	277	278
Released	(230)	(89)
Forfeited	(14)	—
Ending balance	**565**	**736**

Excluding PSUs, we granted 1,582,000 RSUs during the six months ended July 31, 2023.

As of July 31, 2023, there was approximately $101.9 million of total unrecognized compensation expense, net of estimated forfeitures, related to unvested restricted stock units, which is expected to be recognized over a weighted-average period of 2.0 years.

Stock Bonus Program and Bonus Share Program

Our stock bonus program permits eligible employees to receive a portion of their earned bonuses, otherwise payable in cash, in the form of discounted shares of our common stock. Executive officers are eligible to participate in this program to the extent that capacity remains available under the program following the enrollment of all other participants. Shares awarded to executive officers with respect to the discount feature of the program are subject to a one-year vesting period. This program is subject to annual funding approval by our board of directors and an annual cap on the number of shares that can be issued. Subject to these limitations, the number of shares to be issued under the program for a given year is determined using a five-day trailing average price of our common stock when the awards are calculated, reduced by a discount determined by the board of directors each year (the "discount"). To the extent that this program is not funded in a given year or the number of shares of common stock needed to fully satisfy employee enrollment exceeds the annual cap, the applicable portion of the employee bonuses will generally revert to being paid in cash.

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

For bonuses in respect of the year ended January 31, 2023, our board of directors approved the use of up to 300,000 shares of common stock in the aggregate for awards under these two programs, with up to 200,000 shares of common stock, and a discount of 15% approved for awards under our stock bonus program. During the three months ended July 31, 2023, we issued approximately 27,000 shares under the stock bonus program and 178,000 shares under the bonus share program, in respect of the year ended January 31, 2023.

The following table summarizes activity under the stock bonus program during the six months ended July 31, 2023 and 2022 in isolation. As noted above, shares issued in respect of the discount feature under the program reduce available plan capacity and are included in the Award Activity Table above. Other shares issued under the program do not reduce available plan capacity and are therefore excluded from the Award Activity Table above.

(in thousands)	Six Months Ended July 31, 2023	Six Months Ended July 31, 2022
Shares in lieu of cash bonus — granted and released (not included in Award Activity Table above)	27	131
Shares in respect of discount (included in Award Activity Table above):		
Granted	0	25
Released	2	23

In March 2023, our board of directors approved the use of up to 300,000 shares of common stock in the aggregate under these two programs, with up to 200,000 shares of common stock, and a discount of 15%, for awards under our stock bonus program for the performance period ending January 31, 2024. Any shares earned under these programs will be issued during the year ended January 31, 2025.

The combined accrued liabilities for these two programs were $3.5 million and $7.9 million at July 31, 2023 and January 31, 2023, respectively.

15. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

CTI Litigation

In March 2009, one of our former employees, Ms. Orit Deutsch, commenced legal actions in Israel against our former primary Israeli subsidiary, Cognyte Technologies Ltd. (formerly known as Verint Systems Limited or "VSL") (Case Number 4186/09) and against our former affiliate CTI (Case Number 1335/09). Also, in March 2009, a former employee of Comverse Limited (CTI's primary Israeli subsidiary at the time), Ms. Roni Katriel, commenced similar legal actions in Israel against Comverse Limited (Case Number 3444/09). In these actions, the plaintiffs generally sought to certify class action suits against the defendants on behalf of current and former employees of VSL and Comverse Limited who had been granted stock options in Verint and/or CTI and who were allegedly damaged as a result of a suspension on option exercises during an extended filing delay period that is discussed in our and CTI's historical public filings. On June 7, 2012, the Tel Aviv District Court, where the cases had been filed or transferred, allowed the plaintiffs to consolidate and amend their complaints against the three defendants: VSL, CTI, and Comverse Limited.

On October 31, 2012, CTI distributed all of the outstanding shares of common stock of Comverse, Inc., its principal operating subsidiary and parent company of Comverse Limited, to CTI's shareholders (the "Comverse Share Distribution"). In the period leading up to the Comverse Share Distribution, CTI either sold or transferred substantially all of its business operations and assets (other than its equity ownership interests in Verint and in its then-subsidiary, Comverse, Inc.) to Comverse, Inc. or to unaffiliated third parties. As the result of these transactions, Comverse, Inc. became an independent company and ceased to be affiliated with CTI, and CTI ceased to have any material assets other than its equity interests in Verint. Prior to the completion of the Comverse Share Distribution, the plaintiffs sought to compel CTI to set aside up to $150.0 million in assets to secure any future judgment, but the District Court did not rule on this motion. In February 2017, Mavenir Inc. became successor-in-interest to Comverse, Inc.

On February 4, 2013, Verint acquired the remaining CTI shell company in a merger transaction (the "CTI Merger"). As a result of the CTI Merger, Verint assumed certain rights and liabilities of CTI, including any liability of CTI arising out of the foregoing legal actions. However, under the terms of a Distribution Agreement entered into in connection with the Comverse Share Distribution, we, as successor to CTI, are entitled to indemnification from Comverse, Inc. (now Mavenir) for any losses we may suffer in our capacity as successor to CTI related to the foregoing legal actions.

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

As a result of this ruling (which excluded claims related to Verint stock options from the case), one of the original plaintiffs in the case, Ms. Deutsch, was replaced by a new representative plaintiff, Mr. David Vaaknin. CTI appealed portions of the District Court's ruling to the Israeli Supreme Court. On August 8, 2017, the Israeli Supreme Court partially allowed CTI's appeal and ordered the case to be returned to the District Court to determine whether a cause of action exists under New York law based on the parties' expert opinions.

Following two unsuccessful rounds of mediation in mid to late 2018 and in mid-2019, the proceedings resumed. On April 16, 2020, the District Court accepted the plaintiffs' application to amend the motion to certify a class action and set deadlines for filing amended pleadings by the parties. CTI submitted a motion to appeal the District Court's decision to the Israeli Supreme Court, as well as a motion to stay the proceedings in the District Court pending the resolution of the appeal. On July 6, 2020, the Israeli Supreme Court granted the motion for a stay. On July 27, 2020, the plaintiffs filed their response on the merits of the motion for leave to appeal. On December 15, 2021, the Israeli Supreme Court rejected CTI's motion to appeal and the proceedings in the District Court resumed.

At the recommendation of the District Court, in June 2022, the parties conducted another round of mediation in New York. On July 10, 2022, the parties reached an agreement to settle the matter on terms set forth in a settlement agreement that was executed by all parties and submitted a motion for approval of the settlement agreement to the District Court. Under the terms of the settlement agreement, subject to full and final waiver, Mavenir Inc. and/or Comverse, Inc. and/or Mavenir Ltd. agreed to pay a total of $16.0 million (such amount to be paid in three phases as set forth in the settlement agreement) as compensation to the plaintiffs and members of the class. The compensation amount is comprehensive, final and absolute and includes within it all the amounts and expenses to be paid in connection with the settlement agreement. Under the terms of an associated guaranty agreement, Verint has guaranteed the payment of the compensation amount in the event it is not paid by the primary obligors. On February 7, 2023, the District Court approved the settlement without material changes. As of July 31, 2023, the first installment of the compensation amount had been paid by Mavenir, leaving two installments of approximately $4.7 million each, one of which was paid in September 2023 with the final installment to be paid in April 2024.

Under the terms of the Separation and Distribution Agreement entered into between Verint and Cognyte, Cognyte has agreed to indemnify Verint for Cognyte's share of any losses that Verint may suffer related to the foregoing legal actions either in its capacity as successor to CTI, to the extent not indemnified by Mavenir, or due to its former ownership of Cognyte and VSL.

As of July 31, 2023, we had a remaining liability of $9.5 million, which is included within accrued expenses and other current liabilities, and an offsetting indemnification receivable of $9.5 million, which is included in prepaid expenses and other current assets. There was no impact to our condensed consolidated statement of operations.

Unfair Competition Litigation and Related Investigation

As previously disclosed, Verint Americas Inc., as successor to ForeSee Results, Inc. (“ForeSee”), was the defendant in two Eastern District of Michigan cases captioned ACSI LLC v. ForeSee Results, Inc., and CFI Group USA LLC v. Verint Americas Inc. The former case was filed on October 24, 2018 against ForeSee Results, Inc. by American Customer Satisfaction Index, LLC (“ACSI LLC”) (Case No. 2:18-cv-13319) and alleged infringement of two federally registered trademarks and common law unfair competition under federal and state law. The latter case was filed on September 5, 2019 against Verint Americas Inc. (as successor in interest to ForeSee) by CFI Group USA LLC (“CFI”) (Case No. 2:19-cv-12602) and alleged unfair competition and false advertising under federal and state law, as well as tortious interference with contract. We believe that the claims asserted by the plaintiffs in these matters were without merit. Following the filing of the Eastern District of Michigan litigation, ForeSee filed affirmative litigation in the U.S. District Court for the District of Delaware (Case No. 1:21-cv-00674, Complaint filed on May 7, 2021) against ACSI LLC, CFI, Claes Fornell, and CFI Software LLC (the “Fornell Group”) asserting fraud and other claims against ACSI LLC, CFI, Fornell, and CFI Software for, among other things, their breach of a “Joinder and Waiver Agreement” entered into in connection with the December 2013 sale of ForeSee to its previous owner and misrepresentations in the associated deal documents. Verint acquired ForeSee in December 2018.

In April 2023, the parties reached an agreement in principle to settle these actions, and on June 1, 2023, the parties signed a definitive settlement agreement. Under the terms of the settlement agreement, Verint paid $9.0 million to the Fornell Group in July 2023 and the parties have agreed to certain restrictive covenants with respect to the future business activities of both ForeSee and the Fornell Group. The agreement provides that the settlement does not constitute a ruling on the merits, an admission as to any issue of fact or principle of law, or an admission of liability or wrongdoing by either ForeSee or Verint. Following the execution of the settlement agreement, the two cases in Michigan against us have been dismissed, and the case in Delaware filed by us has been dismissed.

The U.S. Attorney's Office for the Eastern District of Michigan's Civil Division (“USAO”) also conducted a False Claims Act investigation concerning allegations ForeSee and/or Verint failed to provide the federal government the services described in certain government contracts related to ForeSee's products inherited by Verint in the ForeSee acquisition. Verint received a Civil Investigation Demand (“CID”) in connection with this investigation and provided responses. The False Claims Act contains provisions that allow for private persons (“relators”) to initiate actions by filing claims under seal. We believed and subsequently confirmed that this investigation was initiated by ACSI LLC and CFI in coordination with the Eastern District of Michigan litigation discussed above.

In March 2023, Verint and the Assistant U.S. Attorney overseeing the USAO investigation reached an agreement in principle to resolve the USAO matter. The definitive settlement agreement, which provides that it is not an admission of liability by us, was signed in July 2023 including by the USAO and the relators. Under the settlement agreement, Verint paid $7.0 million to the government in August 2023 (a portion of which is payable by the government to the relators) in exchange for a release of the asserted claims, and an associated civil action brought by the relators has been dismissed.

As of January 31, 2023, we recognized a $7.0 million legal settlement liability in respect of the USAO matter and a $3.5 million legal settlement liability in respect of the ACSI and CFI matters within accrued expenses and other current liabilities, and a corresponding insurance recovery receivable in prepaid expenses and other current assets on our consolidated balance sheets. These loss accruals and insurance recoveries were offset within selling, general and administrative expenses in our consolidated statements of operations for the year ended January 31, 2023, resulting in no impact on our consolidated statements of operations.

As of July 31, 2023, we had accrued a $7.0 million legal settlement liability in respect of the USAO matter within accrued expenses and other current liabilities, which was paid in August 2023. The incremental settlement costs of $5.5 million related to the ACSI and CFI matters as a result of the settlement described above is included within selling, general and administrative expenses in our condensed consolidated statement of operations for the six months ended July 31, 2023. We reached a final settlement with one of our insurance carriers for a total cumulative insurance recovery of $14.5 million for the losses we incurred related to these actions, which offset settlement and legal expenses during the year ended January 31, 2023. We collected $2.0 million during the year ended January 31, 2023 and $12.5 million was collected in April 2023.

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

16. SUBSEQUENT EVENTS

In August 2023, we paid a $7.0 million legal settlement liability in respect of the USAO matter. Please refer to Note 15, “Commitments and Contingencies” for additional information.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following management's discussion and analysis is provided to assist readers in understanding our financial condition, results of operations, and cash flows. This discussion should be read in conjunction with our audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended January 31, 2023 and our unaudited condensed consolidated financial statements and notes thereto contained in this report. This discussion contains a number of forward-looking statements, all of which are based on our current expectations and all of which could be affected by uncertainties and risks. Our actual results may differ materially from the results contemplated in these forward-looking statements as a result of many factors including, but not limited to, those described under "Cautionary Note on Forward-Looking Statements".

Overview

Macroeconomic Conditions

During the three and six months ended July 31, 2023, global macroeconomic conditions were, and continue to be, influenced by a number of factors, including, but not limited to, the impacts of the COVID-19 pandemic, the ongoing Russia-Ukraine war, labor shortages, supply chain disruptions, inflation, instability in the global banking industry, and changes to monetary and fiscal policies by central banks and governments around the world. These items are described further below. We believe that these conditions are increasing the length of our sales cycles, impacting customer and partner spending decisions and have resulted in decreased demand, increased costs, and reduced margins.

Russia-Ukraine War

We continue to monitor events associated with the Russian invasion of Ukraine and its global impacts, including applicable trade compliance or other legal requirements regarding permissible activities in the region. Based on the current situation, we do not believe the Russia-Ukraine conflict has had or will have a material impact on our business and results of operations. However, if the Russia-Ukraine conflict worsens or expands, leading to greater global economic disruptions and uncertainty, our business and results of operations could be materially impacted. Our operations and customers in Russia, Belarus, and Ukraine represented immaterial portions of our net assets as of July 31, 2023 and January 31, 2023, and total revenue for the six months ended July 31, 2023 and 2022.

COVID-19 Pandemic and Workplace Modifications

As a result of the impact of the COVID-19 pandemic, we have adopted a hybrid work model under which the majority of our employees now work from home on a full or part-time basis. As part of our hybrid model, we have also re-opened some of our offices and have contracted for co-working space in certain locations for employees to use as needed, subject to applicable government regulations. Beginning in the year ended January 31, 2022 and continuing into the six months ended July 31, 2023, we decided to exit or reduce our space under certain office leases. We recognized $5.7 million and $6.0 million of accelerated lease expense, including losses on terminations, and other asset impairments, which were reflected within selling, general, and administrative expenses in our condensed consolidated statement of operations for the three and six months ended July 31, 2023, respectively. We recognized $4.9 million and $12.5 million of accelerated lease expense, including losses on terminations, and other asset impairments, which were reflected within selling, general, and administrative expenses in our condensed consolidated statement of operations for the three and six months ended July 31, 2022, respectively.

We are in the process of migrating to a new cloud-based IT infrastructure to support the shift to a hybrid work environment and enable us to operate more efficiently. IT charges associated with modifying the workplace, including consolidating and/or migrating data centers and labs to the cloud, simplifying the corporate network, and one-time costs for implementing collaboration tools to enable our hybrid work environment, as well as asset impairment charges and IT facility exit costs were $12.1 million and $0.9 million during the three months ended July 31, 2023 and 2022, respectively, and $14.9 million and $2.4 million during the six months ended July 31, 2023 and 2022, respectively, which were reflected within selling, general, and administrative expenses in our condensed consolidated statement of operations. We also recognized $1.1 million of asset impairment charges related to software licenses that were previously used in research and development as a result of the migration to the cloud and $0.5 million of other costs related to the migration to a new cloud-based IT infrastructure. These charges were reflected within research and development, net expenses in our condensed consolidated statement of operations for the three and six months ended July 31, 2023.

Our Business

Verint helps the world's most iconic brands continuously elevate the customer experience ("CX") and reduce operating costs. More than 10,000 organizations in 175 countries – including over 85 of the Fortune 100 companies – rely on Verint's open customer engagement platform to harness the power of data and artificial intelligence ("AI") to maximize CX automation.

Verint is uniquely positioned to help organizations close the Engagement Capacity Gap™ with our differentiated Verint Customer Engagement Cloud Platform. Brands today are challenged by new workforce dynamics, ever-expanding customer engagement channels and exponentially more consumer interactions – often while facing limited budgets and resources. As a result, brands are finding it more challenging to deliver the desired customer experience. This creates a capacity gap, which is widening as the digital transformation continues. Organizations are increasingly seeking technology to close this gap with solutions that are based on AI and are developed specifically for customer engagement. These solutions automate workflows across enterprise silos to optimize the workforce expense and at the same time drive an elevated consumer experience.

Verint is headquartered in Melville, New York, and has approximately 16 offices worldwide, in addition to a number of on-demand, flexible coworking spaces. We have approximately 4,100 passionate employees plus a few hundred contractors around the globe exclusively focused on helping brands provide Boundless Customer Engagement™.

Key Trends

We believe there are three key market trends that are benefiting Verint today: the acceleration of digital transformation, a changing workforce, and elevated customer expectations.

- **Acceleration of Digital Transformation:** Digital transformation is accelerating, and it is driving significant change in customer engagement for contact centers and across the enterprise. Long gone are the days when customer journeys were limited to phone calls into a contact center. Today, customer journeys take place across many touchpoints in the enterprise and across many communication and collaboration platforms, including in contact centers, back-office and branch operations, e-commerce, digital marketing, self-service, and customer experience departments, with digital leading the way. Leading brands understand that as digital rises in importance and telephony becomes more commoditized, organizations need to change business processes and put their primary focus on application capabilities when making customer engagement technology decisions. We believe that the breadth of customer touchpoints across the enterprise and the rapid growth in digital interactions benefit Verint as these trends create demand for new solutions that can increase automation and connect organizational silos to increase efficiency and elevate the customer experience.

- **A Changing Workforce:** Brands are facing unprecedented challenges when it comes to how they manage their changing workforce. Increasingly, brands are managing employees that may work from anywhere. Providing flexibility for where employees work creates greater challenges in managing and coaching employee teams. And because of the limited resources that are available, brands must drive greater workforce efficiency. They need to find ways to use technology, like AI-powered bots, to augment their workforce. Brands recognize the need to leverage data and automation to achieve greater efficiency. In addition, the importance of employee experience continues to grow, and brands must quickly evolve how they recruit, onboard, and retain employees. We believe that these trends benefit Verint as they create demand for new solutions that can shape the future of work, with a workforce of people and bots working together, increased automation, greater employee flexibility, and a greater focus on the voice of the employees.

- **Elevated Customer Expectations:** Customer expectations for faster, more consistent, and contextual responses continue to rise and meeting those expectations is becoming increasingly difficult with legacy technology. The proliferation in customer channels and the desire of customers to seamlessly shift between channels creates a more complex customer journey for brands to manage and support. Customers also expect brands to have a deep understanding of the customer's relationship with that brand — an understanding that is unified across the enterprise, regardless of whether the customer touchpoint is in the contact center, on a website, through a mobile app, in the back-office, or in a branch. To develop that deep understanding, leading brands recognize the need to fuse the data that has traditionally existed in silos across the enterprise and use it to inform and automate the customer experience. We believe that this trend benefits Verint as it creates demand for new solutions that help brands support complex customer journeys and increase automation to meet elevated customer expectations.

While we continue to see significant demand for our solutions, including due to the foregoing key trends, we believe that current macroeconomic conditions, as described above, are impacting customer and partner spending decisions. Future impacts on our business and financial results as a result of these conditions are not estimable at this time and depend, in part, on the extent to which these conditions improve or worsen. See the “Risk Factors” under Item 1A of our Annual Report on Form 10-K for the year ended January 31, 2023 for further discussion of the possible impact of macroeconomic conditions and other global events on our business.

Critical Accounting Policies and Estimates

Note 1, “Summary of Significant Accounting Policies” to the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended January 31, 2023 describes the significant accounting policies and methods used in the preparation of the condensed consolidated financial statements appearing in this report. The accounting policies that reflect our more significant estimates, judgments and assumptions in the preparation of our condensed consolidated financial statements are described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of our Annual Report on Form 10-K for the year ended January 31, 2023, and include the following:

- Revenue recognition;
- Accounting for business combinations;
- Goodwill and other acquired intangible assets;
- Income taxes; and
- Accounting for stock-based compensation.

There were no significant changes to our critical accounting policies and estimates during the six months ended July 31, 2023.

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 latter 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 three and six months ended July 31, 2023 and 2022:

	Three Months Ended July 31,		Six Months Ended July 31,	
(in thousands, except per share data)	2023	2022	2023	2022
Revenue	$ 210,165	$ 222,899	$ 426,731	$ 440,805
Operating (loss) income	$ (7,512)	$ 1,510	$ 1,260	$ 2,008
Net loss attributable to Verint Systems Inc. common shares	$ (11,200)	$ (7,612)	$ (13,105)	$ (12,526)
Net loss per common share attributable to Verint Systems Inc.:				
Basic	$ (0.17)	$ (0.12)	$ (0.20)	$ (0.19)
Diluted	$ (0.17)	$ (0.12)	$ (0.20)	$ (0.19)

Three Months Ended July 31, 2023 compared to Three Months Ended July 31, 2022. Our revenue decreased approximately $12.7 million, from $222.9 million in the three months ended July 31, 2022 to $210.2 million in the three months ended July 31, 2023. The decrease consisted of a $7.3 million decrease in nonrecurring revenue and a $5.4 million decrease in recurring revenue. For additional details on our revenue by category, see “—Revenue”. Revenue in the Americas, in Europe, the Middle East and Africa (“EMEA”), and in the Asia-Pacific (“APAC”) regions represented approximately 68%, 21%, and 11% of our total revenue, respectively, in the three months ended July 31, 2023, compared to approximately 69%, 20%, and 11%, respectively, in the three months ended July 31, 2022. Further details of changes in revenue are provided below.

We reported an operating loss of $7.5 million in the three months ended July 31, 2023 compared to operating income of $1.5 million in the three months ended July 31, 2022. The decrease in operating income was primarily due to a $6.5 million decrease in gross profit, from $147.8 million to $141.3 million, and a $2.5 million increase in operating expenses, from $146.3 million to $148.8 million. The increase in operating expenses consisted of a $2.7 million increase in selling, general and administrative expenses and a $0.1 million increase in net research and development expenses, partially offset by a $0.3 million decrease in amortization of other acquired intangible assets. Further details of changes in operating income are provided below.

Net loss attributable to Verint Systems Inc. common shares was $11.2 million and diluted net loss per common share was $0.17 in the three months ended July 31, 2023 compared to a net loss attributable to Verint Systems Inc. common shares of $7.6 million and diluted net loss per common share of $0.12 in the three months ended July 31, 2022. The increase in net loss attributable to Verint Systems Inc. common shares in the three months ended July 31, 2023 was primarily due to a $9.0 million decrease in operating income as described above, partially offset by a $5.3 million decrease in our provision for income taxes and a $0.1 million decrease in total other expense, net. Further details of these changes are provided below.

Six Months Ended July 31, 2023 compared to Six Months Ended July 31, 2022. Our revenue decreased approximately $14.1 million, from $440.8 million in the six months ended July 31, 2022 to $426.7 million in the six months ended July 31, 2023. The decrease consisted of a $15.7 million decrease in nonrecurring revenue, partially offset by a $1.6 million increase in recurring revenue. For additional details on our revenue by category, see "—Revenue". Revenue in the Americas, EMEA, and APAC regions represented approximately 69%, 20%, and 11% of our total revenue, respectively, in the six months ended July 31, 2023, compared to approximately 68%, 21%, and 11%, respectively, in the six months ended July 31, 2022. Further details of changes in revenue are provided below.

We reported operating income of $1.3 million in the six months ended July 31, 2023 compared to operating income of $2.0 million in the six months ended July 31, 2022. The decrease in operating income was primarily due to a $1.2 million increase in operating expenses, from $287.0 million to $288.2 million, partially offset by a $0.5 million increase in gross profit, from $289.0 million to $289.5 million. The increase in operating expenses consisted of a $1.1 million increase in selling, general and administrative expenses and a $0.9 million increase in net research and development expenses, partially offset by a $0.8 million decrease in amortization of other acquired intangible assets. Further details of changes in operating income are provided below.

Net loss attributable to Verint Systems Inc. common shares was $13.1 million and diluted net loss per common share was $0.20 in the six months ended July 31, 2023 compared to a net loss attributable to Verint Systems Inc. common shares of $12.5 million and diluted net loss per common share of $0.19 in the six months ended July 31, 2022. The increase in net loss attributable to Verint Systems Inc. common shares in the six months ended July 31, 2023 was primarily due to a $1.1 million increase in total other expense, net, a $0.7 million decrease in operating income as described above, and a $0.1 million increase in net income attributable to noncontrolling interests, partially offset by a $1.3 million decrease in our provision for income taxes. Further details of these changes are provided below.

As of July 31, 2023, we employed approximately 4,100 employees plus a few hundred contractors, as compared to approximately 4,300 employees plus a few hundred contractors at July 31, 2022.

Foreign Currency Exchange Rates' Impact on Results of Operations

A portion of our business is conducted in currencies other than the U.S. dollar, and therefore our revenue, cost of revenue, and operating expenses are affected by fluctuations in applicable foreign currency exchange rates. The income statements of our non-U.S. operations are translated into U.S. dollars at the average exchange rates for each applicable month in a period. Revenue denominated in non-U.S. dollar currency was 22% and 21% of our total revenue for the three months ended July 31, 2023 and 2022, respectively. Revenue denominated in non-U.S. dollar currency was 21% of our total revenue for each of the six months ended July 31, 2023 and 2022. Our combined cost of revenue and operating expenses denominated in non-U.S. dollar currency were 29% and 31% of our total combined cost of revenue and operating expenses for the three months ended July 31, 2023 and 2022, respectively. Our combined cost of revenue and operating expenses denominated in non-U.S. dollar currency was 30% of our total combined cost of revenue and operating expenses for each of the six months ended July 31, 2023 and 2022.

When comparing average exchange rates for the three months ended July 31, 2023 to average exchange rates for the three months ended July 31, 2022, the U.S. dollar weakened relative to the British pound sterling and the euro and strengthened relative to the Australian dollar, resulting in an overall increase in our revenue and expenses on a U.S. dollar-denominated basis. For the three months ended July 31, 2023, had foreign currency exchange rates remained unchanged from rates in effect for the three months ended July 31, 2022, our revenue would have been approximately $0.5 million lower and our cost of revenue and operating expenses on a combined basis would have been approximately $0.1 million lower, which would have resulted in a $0.4 million decrease in our operating income.

When comparing average exchange rates for the six months ended July 31, 2023 to average exchange rates for the six months ended July 31, 2022, the U.S. dollar strengthened relative to the Australian dollar, the British pound sterling, and the Israeli shekel, resulting in an overall decrease in our revenue and expenses on a U.S. dollar-denominated basis. For the six months ended July 31, 2023, had foreign currency exchange rates remained unchanged from rates in effect for the six months ended July 31, 2022, our revenue would have been approximately $2.4 million higher and our cost of revenue and operating expenses on a combined basis would have been approximately $4.3 million higher, which would have resulted in a $1.9 million decrease in our operating income.

Revenue

We derive and report our revenue in two categories: (a) recurring revenue, which includes bundled SaaS, unbundled SaaS, hosting services, optional managed services, initial and renewal support revenue, and product warranties, and (b) nonrecurring revenue, which primarily consists of perpetual licenses, hardware, installation services, business advisory consulting and training services, and patent license royalties.

The following table sets forth revenue by category for the three and six months ended July 31, 2023 and 2022:

	Three Months Ended July 31,		% Change	Six Months Ended July 31,		% Change
(in thousands)	**2023**	**2022**	**2023 - 2022**	**2023**	**2022**	**2023 - 2022**
Recurring revenue						
Bundled SaaS revenue	$ 62,066	$ 54,679	14%	$ 121,519	$ 103,964	17%
Unbundled SaaS revenue	51,375	47,875	7%	109,070	93,320	17%
Total SaaS revenue	**113,441**	**102,554**	11%	**230,589**	**197,284**	17%
Optional managed services revenue	12,165	15,778	(23)%	25,030	31,691	(21)%
Support revenue	35,393	48,108	(26)%	71,819	96,832	(26)%
Total recurring revenue	**160,999**	**166,440**	(3)%	**327,438**	**325,807**	1%
Nonrecurring revenue						
Perpetual revenue	25,212	30,790	(18)%	49,546	64,048	(23)%
Professional services revenue	23,954	25,669	(7)%	49,747	50,950	(2)%
Total nonrecurring revenue	**49,166**	**56,459**	(13)%	**99,293**	**114,998**	(14)%
Total revenue	**$ 210,165**	**$ 222,899**	(6)%	**$ 426,731**	**$ 440,805**	(3)%

Recurring Revenue

Three Months Ended July 31, 2023 compared to Three Months Ended July 31, 2022. Recurring revenue decreased approximately $5.4 million, or 3%, from $166.4 million in the three months ended July 31, 2022 to $161.0 million in the three months ended July 31, 2023. The decrease consisted of a $12.7 million decrease in support revenue and a $3.6 million decrease in optional managed services revenue, partially offset by a $10.9 million increase in SaaS revenue. The decrease in support revenue and optional managed services revenue was primarily due to customers migrating to our bundled SaaS solutions. The increase in SaaS revenue was primarily due to an increase in bundled SaaS revenue due to new customer contracts and existing customers expanding their use of our cloud platform and an increase in unbundled SaaS revenue resulting from support conversion transactions.

Six Months Ended July 31, 2023 compared to Six Months Ended July 31, 2022. Recurring revenue increased approximately $1.6 million, or 1%, from $325.8 million in the six months ended July 31, 2022 to $327.4 million in the six months ended July 31, 2023. The increase consisted of a $33.3 million increase in SaaS revenue, partially offset by a $25.0 million decrease in support revenue and a $6.7 million decrease in optional managed services revenue. The increase in SaaS revenue was primarily due to an increase in bundled SaaS revenue due to new customer contracts and existing customers expanding their use of our cloud platform and an increase in unbundled SaaS revenue resulting from support conversion transactions. The decrease in support revenue and optional managed services revenue was primarily due to customers migrating to our bundled SaaS solutions.

We expect our revenue mix to continue to shift to our cloud offerings, which is consistent with our cloud-first strategy and a general market shift from on-premises to cloud-based solutions, with an increasing portion of the mix coming from our bundled SaaS offerings. Bundled SaaS revenue is generally recognized ratably over the subscription term, while unbundled SaaS revenue is typically recognized upfront upon delivery of the license keys, or when the license term commences, if later. As a result, our revenue may fluctuate from period to period due to the revenue mix in each period, which is influenced by customer buying preferences. When the percentage of unbundled SaaS to bundled SaaS sold or renewed in a period increases, revenue will generally be higher in that period than if the percentage of bundled SaaS to unbundled SaaS were higher. Additionally, a multi-year unbundled SaaS contract will generally result in greater revenue recognition upfront than a one-year unbundled SaaS contract. While we continue to see significant demand for our solutions as our customers accelerate the digitization of their customer interactions and internal operations, we believe that current macroeconomic factors, as described above, are increasing the length of our sales cycles and impacting customer and partner spending decisions.

Nonrecurring Revenue

Three Months Ended July 31, 2023 compared to Three Months Ended July 31, 2022. Nonrecurring revenue decreased approximately $7.3 million, or 13%, from $56.5 million in the three months ended July 31, 2022 to $49.2 million in the three months ended July 31, 2023. The decrease consisted of a $5.6 million decrease in perpetual revenue and a $1.7 million decrease in professional services revenue. The decrease in perpetual revenue was primarily due to a decrease in on-premises license revenue driven by the continued shift in spending by our customers toward our cloud-based solutions. The decrease in professional services revenue was primarily driven by a decrease in implementation services as a result of the overall shift in our business to a cloud-based model.

Six Months Ended July 31, 2023 compared to Six Months Ended July 31, 2022. Nonrecurring revenue decreased approximately $15.7 million, or 14%, from $115.0 million in the six months ended July 31, 2022 to $99.3 million in the six months ended July 31, 2023. The decrease consisted of a $14.5 million decrease in perpetual revenue and a $1.2 million decrease in professional services revenue. The decrease in perpetual revenue was primarily due to a decrease in on-premises license revenue driven by the continued shift in spending by our customers toward our cloud-based solutions and a decrease in demand for our offerings that include third-party hardware with embedded software. The decrease in professional services revenue was primarily driven by a decrease in implementation services as a result of the overall shift in our business to a cloud-based model.

Cost of Revenue

The following table sets forth the cost of revenue by recurring and nonrecurring, as well as amortization of acquired technology for the three and six months ended July 31, 2023 and 2022:

	Three Months Ended July 31,		% Change	Six Months Ended July 31,		% Change
(in thousands)	2023	2022	2023 - 2022	2023	2022	2023 - 2022
Cost of recurring revenue	$ 39,567	$ 40,852	(3)%	$ 79,210	$ 81,880	(3)%
Cost of nonrecurring revenue	27,372	30,700	(11)%	54,167	62,768	(14)%
Amortization of acquired technology	1,937	3,553	(45)%	3,902	7,192	(46)%
Total cost of revenue	**$ 68,876**	**$ 75,105**	**(8)%**	**$ 137,279**	**$ 151,840**	**(10)%**

Cost of Recurring Revenue

Cost of recurring revenue primarily consists of employee compensation and related expenses for our cloud operations and support teams, contractor costs, cloud infrastructure and data center costs, travel expenses relating to optional managed services and support, and royalties due to third parties for software components that are embedded in our cloud-based solutions. Cost of recurring revenue also includes amortization of capitalized software development costs, stock-based compensation expenses, facility costs, and other allocated overhead expenses.

Three Months Ended July 31, 2023 compared to Three Months Ended July 31, 2022. Cost of recurring revenue decreased approximately $1.3 million, or 3%, from $40.9 million in the three months ended July 31, 2022 to $39.6 million in the three months ended July 31, 2023. The decrease was primarily due to a reduction in service and support costs due to lower personnel costs as a result of a decrease in headcount, cost optimization efforts focusing on improvements in utilization of our cloud infrastructure, as well as offshoring certain support activities. Our recurring revenue gross margins were 75% in each of the three months ended July 31, 2023 and 2022.

Six Months Ended July 31, 2023 compared to Six Months Ended July 31, 2022. Cost of recurring revenue decreased approximately $2.7 million, or 3%, from $81.9 million in the six months ended July 31, 2022 to $79.2 million in the six months ended July 31, 2023. The decrease was primarily due to a reduction in service and support costs due to lower personnel costs as a result of a decrease in headcount, cost optimization efforts focusing on improvements in utilization of our cloud infrastructure, as well as offshoring certain support activities, and a decrease in general overhead expenses due to a reduced number of offices, partially offset by an increase in the amortization of capitalized software development costs. Our recurring revenue gross margins increased from 75% in the six months ended July 31, 2022 to 76% in the six months ended July 31, 2023, primarily due to a favorable change in offering mix as SaaS revenue has higher gross margins than our optional managed services and a decrease in recurring costs as noted above.

We expect our cost of recurring revenue to increase on an absolute basis in future periods as we continue to invest in our cloud operations to support our growing cloud customer base and enhance the security of our solutions.

Cost of Nonrecurring Revenue

Cost of nonrecurring revenue primarily consists of employee compensation and related expenses, contractor costs, travel expenses relating to installation, training and consulting services, hardware material costs, and royalties due to third parties for software components that are embedded in our on-premises software solutions. Cost of nonrecurring revenue also includes amortization of capitalized software development costs, employee compensation and related expenses associated with our global operations, facility costs, and other allocated overhead expenses.

Three Months Ended July 31, 2023 compared to Three Months Ended July 31, 2022. Cost of nonrecurring revenue decreased approximately $3.3 million, or 11%, from $30.7 million in the three months ended July 31, 2022 to $27.4 million in the three months ended July 31, 2023. The decrease was primarily driven by a decrease in employee compensation and related expenses due to a decrease in headcount supporting our nonrecurring revenue offerings and a decrease in third-party hardware delivered and related shipping and handling costs. Our nonrecurring gross margins decreased from 46% in the three months ended July 31, 2022 to 44% in the three months ended July 31, 2023, primarily due to a decline in perpetual license revenue as our customers shift to our cloud-based solutions.

Six Months Ended July 31, 2023 compared to Six Months Ended July 31, 2022. Cost of nonrecurring revenue decreased approximately $8.6 million, or 14%, from $62.8 million in the six months ended July 31, 2022 to $54.2 million in the six months ended July 31, 2023. The decrease was primarily driven by a decrease in employee compensation and related expenses due to a decrease in headcount supporting our nonrecurring revenue offerings and a decrease in third-party hardware delivered and related shipping and handling costs. Our nonrecurring gross margins were 45% in each of the six months ended July 31, 2023 and 2022.

Amortization of Acquired Technology

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

Three Months Ended July 31, 2023 compared to Three Months Ended July 31, 2022. Amortization of acquired technology decreased approximately $1.7 million, or 45%, from $3.6 million in the three months ended July 31, 2022 to $1.9 million in the three months ended July 31, 2023. The decrease was attributable to acquired technology intangible assets from historical business combinations becoming fully amortized, partially offset by amortization expense of acquired technology intangible assets associated with recent business combinations.

Six Months Ended July 31, 2023 compared to Six Months Ended July 31, 2022. Amortization of acquired technology decreased approximately $3.3 million, or 46%, from $7.2 million in the six months ended July 31, 2022 to $3.9 million in the six months ended July 31, 2023. The decrease was attributable to acquired technology intangible assets from historical business combinations becoming fully amortized, partially offset by amortization expense of acquired technology intangible assets associated with recent business combinations.

Further discussion regarding our business combinations appears in Note 5, “Business Combinations, Asset Acquisitions, and Divestitures” to our condensed consolidated financial statements included under Part I, Item 1 of this report.

Research and Development, Net

Research and development expenses, net ("R&D") consist primarily of personnel and subcontracting expenses, facility costs, and other allocated overhead, net of certain software development costs that are capitalized and benefits derived from participation in government-sponsored programs in certain jurisdictions for the support of research and development activities conducted in those locations. Software development costs are capitalized upon the establishment of technological feasibility and continue to be capitalized through the general release of the related software product.

The following table sets forth research and development, net for the three and six months ended July 31, 2023 and 2022:

	Three Months Ended July 31,		% Change	Six Months Ended July 31,		% Change
(in thousands)	2023	2022	2023 - 2022	2023	2022	2023 - 2022
Research and development, net	$ 34,057	$ 33,956	0%	$ 65,839	$ 64,903	1%

Three Months Ended July 31, 2023 compared to Three Months Ended July 31, 2022. R&D increased approximately $0.1 million, from $34.0 million in the three months ended July 31, 2022 to $34.1 million in the three months ended July 31, 2023. This increase was primarily attributable to a $1.3 million increase in employee compensation and related expenses primarily due to increased investment in R&D headcount and $1.1 million of asset impairment charges related to a cloud-based IT infrastructure realignment project, partially offset by a $1.2 million increase in benefits from participation in certain government-sponsored programs for the support of R&D activities and a $1.0 million decrease in stock-based compensation expense.

Six Months Ended July 31, 2023 compared to Six Months Ended July 31, 2022. R&D increased approximately $0.9 million, or 1%, from $64.9 million in the six months ended July 31, 2022 to $65.8 million in the six months ended July 31, 2023. This increase was primarily attributable to a $2.7 million increase in employee compensation and related expenses primarily due to increased investment in R&D headcount and $1.1 million of asset impairment charges related to a cloud-based IT infrastructure realignment project, partially offset by a $1.7 million increase in benefits from participation in certain government-sponsored programs for the support of R&D activities and a $1.0 million decrease in stock-based compensation expense.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") consist primarily of personnel costs and related expenses, professional fees, changes in the fair values of our obligations under contingent consideration arrangements, sales and marketing expenses, including travel costs, sales commissions and sales referral fees, facility costs, communication expenses, and other administrative expenses.

The following table sets forth selling, general and administrative expenses for the three and six months ended July 31, 2023 and 2022:

	Three Months Ended July 31,		% Change	Six Months Ended July 31,		% Change
(in thousands)	2023	2022	2023 - 2022	2023	2022	2023 - 2022
Selling, general and administrative	$ 108,374	$ 105,705	3%	209,653	208,587	1%

Three Months Ended July 31, 2023 compared to Three Months Ended July 31, 2022. SG&A increased approximately $2.7 million, or 3%, from $105.7 million in the three months ended July 31, 2022 to $108.4 million in the three months ended July 31, 2023. This increase was primarily due to an $11.2 million increase in IT costs and asset impairment charges related to a cloud-based IT infrastructure realignment project and a $0.8 million increase in third-party software components in order to support our hybrid work environment. These increases in SG&A were partially offset by a $5.2 million decrease in stock-based compensation expense primarily due to a decrease in the grant date fair value of equity awards and a shorter vesting schedule for prior period grants which became fully vested in the prior year and the recognition of a $1.8 million impairment charge in the prior year recorded to adjust the carrying amount of an office building we own to its fair value less costs to sell upon classification as held for sale. SG&A was also impacted by a $2.4 million decrease due to a change in the fair value of our obligations under contingent consideration arrangements as a result of revised outlooks for achieving the performance targets under certain contingent consideration arrangements.

Six Months Ended July 31, 2023 compared to Six Months Ended July 31, 2022. SG&A increased approximately $1.1 million, or 1%, from $208.6 million in the six months ended July 31, 2022 to $209.7 million in the six months ended July 31, 2023. This increase was primarily due to a $12.5 million increase in IT costs and asset impairment charges related to a cloud-based IT infrastructure realignment project, a $6.7 million increase in professional services expense primarily due to reaching settlement regarding certain legal matters discussed in Note 15, “Commitments and Contingencies” to our condensed consolidated financial statements included under Part I, Item 1 of this report, an increase of $2.1 million in employee compensation and related expenses due to an increase in headcount and general wage inflation, and a $1.8 million increase in third-party software components in order to support our hybrid work environment. These increases in SG&A were partially offset by a $7.8 million decrease in stock-based compensation expense primarily due to a decrease in the grant date fair value of equity awards and a shorter vesting schedule for prior period grants which became fully vested in the prior year, a $6.5 million decrease in accelerated facility costs and asset impairment charges due to the early termination or abandonment of certain office leases in the prior year, a $2.1 million decrease in facilities expenses and depreciation charges as a result of a reduced number of offices, the recognition of a $1.8 million impairment charge in the prior year recorded to adjust the carrying amount of an office building we own to its fair value less costs to sell upon classification as held for sale, and a $1.4 million decrease in marketing-related expenses. SG&A was also impacted by a $2.0 million decrease due to a change in the fair value of our obligations under contingent consideration arrangements as a result of revised outlooks for achieving the performance targets under certain contingent consideration arrangements.

Amortization of Other Acquired Intangible Assets

Amortization of other acquired intangible assets consists of the amortization of certain intangible assets acquired in connection with business combinations, including customer relationships, distribution networks, trade names, and non-compete agreements.

The following table sets forth the amortization of other acquired intangible assets for the three and six months ended July 31, 2023 and 2022:

	Three Months Ended July 31,		% Change	Six Months Ended July 31,		% Change
(in thousands)	2023	2022	2023 - 2022	2023	2022	2023 - 2022
Amortization of other acquired intangible assets	$ 6,370	$ 6,623	(4)%	$ 12,700	$ 13,467	(6)%

Three Months Ended July 31, 2023 compared to Three Months Ended July 31, 2022. Amortization of other acquired intangible assets decreased approximately $0.2 million, or 4%, from $6.6 million in the three months ended July 31, 2022 to $6.4 million in the three months ended July 31, 2023. The decrease was attributable to acquired customer-related intangible assets from historical business combinations becoming fully amortized, partially offset by amortization expense associated with acquired intangible assets from recent business combinations.

Six Months Ended July 31, 2023 compared to Six Months Ended July 31, 2022. Amortization of other acquired intangible assets decreased approximately $0.8 million, or 6%, from $13.5 million in the six months ended July 31, 2022 to $12.7 million in the six months ended July 31, 2023. The decrease was attributable to acquired customer-related intangible assets from historical business combinations becoming fully amortized, partially offset by amortization expense associated with acquired intangible assets from recent business combinations.

Further discussion regarding our business combinations appears in Note 5, “Business Combinations, Asset Acquisitions, and Divestitures” to our condensed consolidated financial statements included under Part I, Item 1 of this report.

Other (Expense) Income, Net

The following table sets forth total other (expense) income, net for the three and six months ended July 31, 2023 and 2022:

(in thousands)	Three Months Ended July 31, 2023	2022	% Change 2023 - 2022	Six Months Ended July 31, 2023	2022	% Change 2023 - 2022
Interest income	$ 1,808	$ 498	*	$ 3,790	$ 697	*
Interest expense	(2,604)	(1,863)	40%	(5,385)	(3,364)	60%
Other income (expense):						
Foreign currency (losses) gains, net	(64)	547	(112)%	173	2,260	(92)%
Other, net	40	(80)	(150)%	(173)	(119)	45%
Total other (expense) income, net	(24)	467	(105)%	—	2,141	(100)%
Total other expense, net	**$ (820)**	**$ (898)**	(9)%	**$ (1,595)**	**$ (526)**	*

* Percentage is not meaningful.

Three Months Ended July 31, 2023 compared to Three Months Ended July 31, 2022. Total other expense, net, decreased by $0.1 million from $0.9 million in the three months ended July 31, 2022 to $0.8 million in the three months ended July 31, 2023.

Interest income increased from $0.5 million in the three months ended July 31, 2022 to $1.8 million in the three months ended July 31, 2023 due to higher interest rates on our investments in commercial paper and money market funds, which are included in cash and cash equivalents, as well as our bank time deposits, which are included in short-term investments.

Interest expense increased from $1.9 million in the three months ended July 31, 2022 to $2.6 million in the three months ended July 31, 2023 primarily due to higher interest rates on our borrowings. Further discussion regarding our borrowings appears in Note 7, “Long-term Debt” to our condensed consolidated financial statements included under Part I, Item 1 of this report.

We recorded $0.1 million of net foreign currency losses in the three months ended July 31, 2023 compared to $0.5 million of net foreign currency gains in the three months ended July 31, 2022. Our foreign currency losses in the current period resulted primarily from fluctuations associated with the exchange rate movement of the U.S. dollar against the British pound sterling.

Six Months Ended July 31, 2023 compared to Six Months Ended July 31, 2022. Total other expense, net, increased by $1.1 million from $0.5 million in the six months ended July 31, 2022 to $1.6 million in the six months ended July 31, 2023.

Interest income increased from $0.7 million in the six months ended July 31, 2022 to $3.8 million in the six months ended July 31, 2023 due to higher interest rates on our investments in commercial paper and money market funds, which are included in cash and cash equivalents, as well as our bank time deposits, which are included in short-term investments.

Interest expense increased from $3.4 million in the six months ended July 31, 2022 to $5.4 million in the six months ended July 31, 2023 primarily due to higher interest rates on our borrowings. Additionally, we recorded $0.2 million of losses on early retirement of debt as a result of repaying the remaining $100.0 million outstanding balance on our Term Loan utilizing proceeds from borrowings under our Revolving Credit Facility. Further discussion regarding our Term Loan and Revolving Credit Facility appears under “Financing Arrangements” below and in Note 7, “Long-term Debt” to our condensed consolidated financial statements included under Part I, Item 1 of this report.

We recorded $0.2 million of net foreign currency gains in the six months ended July 31, 2023 compared to $2.3 million of net foreign currency gains in the six months ended July 31, 2022. Our foreign currency gains in the current period resulted primarily from fluctuations associated with the exchange rate movement of the U.S. dollar against the Israeli shekel and the Brazilian real.

Provision for Income Taxes

The following table sets forth our provision for income taxes for the three and six months ended July 31, 2023 and 2022:

(in thousands)	Three Months Ended July 31, 2023	2022	% Change 2023 - 2022	Six Months Ended July 31, 2023	2022	% Change 2023 - 2022
Provision for income taxes	$ (2,544)	$ 2,848	(189)%	$ 1,819	$ 3,144	(42)%

Three Months Ended July 31, 2023 compared to Three Months Ended July 31, 2022. Our effective income tax rate was 30.5% for the three months ended July 31, 2023, compared to an effective income tax rate of 465.4% for the three months ended July 31, 2022.

For the three months ended July 31, 2023, the effective tax rate differs from the U.S. federal statutory rate of 21% primarily due to the U.S. taxation of certain foreign activities, offset by lower statutory rates in certain foreign jurisdictions. The result was an income tax benefit of $2.5 million on a pretax loss of $8.3 million, which represented an effective income tax rate of 30.5%.

For the three months ended July 31, 2022, the income tax rate differs from the U.S. federal statutory rate of 21% primarily due to a discrete income tax provision of $2.1 million attributable to the recording of a valuation allowance against a deferred tax asset related to an asset held for sale in a foreign jurisdiction and U.S. taxation of certain foreign activities, offset by lower statutory rates in certain foreign jurisdictions. The result was an income tax provision of $2.8 million on pretax income of $0.6 million, which represented an effective income tax rate of 465.4%. Excluding the discrete income tax provision attributable to the foreign jurisdiction valuation allowance, the result was an income tax provision of $0.7 million on pre-tax income of $0.6 million, resulting in an effective tax rate of 124.8%.

Six Months Ended July 31, 2023 compared to Six Months Ended July 31, 2022. Our effective income tax rate was negative 543.0% for the six months ended July 31, 2023, compared to an effective income tax rate of 212.1% for the six months ended July 31, 2022.

For the six months ended July 31, 2023, the effective tax rate varies significantly from the U.S. federal statutory rate of 21% due to the impact of recurring discrete income tax adjustments against the near break-even pretax loss. In addition, the effective tax rate differs from the U.S. federal statutory rate of 21% primarily due to the U.S. taxation of certain foreign activities, offset by lower statutory rates in certain foreign jurisdictions. The result was an income tax provision of $1.8 million on a pretax loss of $0.3 million, which represented a negative effective income tax rate of 543.0%.

For the six months ended July 31, 2022, the income tax rate differs from the U.S. federal statutory rate of 21% primarily due to a discrete income tax provision of $2.1 million attributable to the recording of a valuation allowance against a deferred tax asset related to an asset held for sale in a foreign jurisdiction and U.S. taxation of certain foreign activities, offset by lower statutory rates in certain foreign jurisdictions. The result was an income tax provision of $3.1 million on pretax income of $1.5 million, which represented an effective income tax rate of 212.1%. Excluding the discrete income tax provision attributable to the foreign jurisdiction valuation allowance, the result was an income tax provision of $1.0 million on pre-tax income of $1.5 million, resulting in an effective tax rate of 71.5%.

The Organization for Economic Co-operation and Development (“OECD”) Pillar 2 guidelines address the increasing digitalization of the global economy, re-allocating taxing rights among countries. The European Union and many other member states have committed to adopting Pillar 2 which calls for a global minimum tax of 15% to be effective for tax years beginning in 2024. The OECD guidelines published to date include transition and safe harbor rules around the implementation of the Pillar 2 global minimum tax. We are monitoring developments and evaluating the impacts these new rules will have on our tax rate, including eligibility to qualify for these safe harbor rules.

Liquidity and Capital Resources

Overview

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

On December 4, 2019, we announced that an affiliate (the “Apax Investor”) of Apax Partners (“Apax”) would make an investment in us in an amount of up to $400.0 million. Under the terms of the Investment Agreement, dated as of December 4, 2019 (the “Investment Agreement”), on May 7, 2020, the Apax Investor purchased $200.0 million of our Series A convertible preferred stock (“Series A Preferred Stock”) with an initial conversion price of $53.50 per share. In accordance with the Investment Agreement, the Series A Preferred Stock did not participate in the Spin-Off distribution of the Cognyte shares and the Series A Preferred Stock conversion price was instead adjusted to $36.38 per share based on the ratio of the relative trading prices of Verint and Cognyte following the Spin-Off. In connection with the completion of the Spin-Off, on April 6, 2021, the Apax Investor purchased $200.0 million of our Series B convertible preferred stock (“Series B Preferred Stock”). The Series B Preferred Stock is convertible at a conversion price of $50.25, based in part on our trading price over the 20 trading day period following the Spin-Off. As of July 31, 2023, Apax’s ownership in us on an as-converted basis was approximately 12.9%.

Each series of Preferred Stock pays dividends at an annual rate of 5.2% until May 7, 2024, and thereafter at a rate of 4.0%, subject to adjustment under certain circumstances. Dividends will be cumulative and payable semiannually in arrears in cash. All dividends that are not paid in cash will remain accumulated dividends with respect to each share of Preferred Stock. We used the proceeds from the Apax investment to repay outstanding indebtedness, to fund a portion of our stock repurchase programs (as described below under "Liquidity and Capital Resources Requirements"), and/or for general corporate purposes. Please refer to Note 9, "Convertible Preferred Stock", to our condensed consolidated financial statements included under Part I, Item 1 of this report for more information regarding the Apax convertible preferred stock investment.

Our primary recurring use of cash is payment of our operating costs, which consist primarily of employee-related expenses, such as compensation and benefits, as well as general operating expenses for cloud operations, marketing, facilities and overhead costs, and capital expenditures. We also utilize cash for debt service, stock repurchases, dividends on the Preferred Stock, and business acquisitions. Cash generated from operations, along with our existing cash, cash equivalents, and short-term investments, are our primary sources of operating liquidity.

We have historically expanded our business in part by investing in strategic growth initiatives, including acquisitions of products, technologies, and businesses. We may finance such acquisitions using cash, debt, stock, or a combination of the foregoing, however, we have used cash as consideration for substantially all of our historical business acquisitions, including approximately $21.9 million of net cash expended for business combinations during the year ended January 31, 2023. There were no business combinations during the six months ended July 31, 2023 or 2022. In July 2023, we entered into an agreement to acquire source code that qualifies as an asset acquisition and made an initial deposit payment of $1.0 million upon the execution of the contract and incurred direct transaction costs related to such asset acquisition of $0.2 million. Please refer to Note 5, "Business Combinations, Asset Acquisitions, and Divestitures", to our condensed consolidated financial statements included under Part I, Item 1 of this report for more information regarding our recent business combinations and asset acquisitions.

We continually examine our options with respect to terms and sources of existing and future short-term and long-term capital resources to enhance our operating results and to ensure that we retain financial flexibility, and may from time to time elect to raise capital through the issuance of additional equity or the incurrence of additional debt. On April 9, 2021, we issued $315.0 million in aggregate principal amount of 0.25% convertible senior notes due April 15, 2026, unless earlier converted by the holders pursuant to their terms (the "2021 Notes"). We used a portion of the net proceeds from the issuance of the 2021 Notes to pay the costs of the capped call transactions described below. We also used a portion of the net proceeds from the issuance of the 2021 Notes, together with the net proceeds from the issuance of the Series B Preferred Stock mentioned above, to repay a portion of the outstanding indebtedness under our Credit Agreement, to terminate an interest rate swap agreement, and to repurchase shares of our common stock. The remainder is being used for working capital and other general corporate purposes.

A portion of our operating income is earned outside the United States. Cash, cash equivalents, short-term investments, and restricted cash, restricted cash equivalents, and restricted bank time deposits (excluding any long-term portions) held by our subsidiaries outside of the United States were $132.0 million and $126.0 million as of July 31, 2023 and January 31, 2023, respectively, and are generally used to fund the subsidiaries' operating requirements and to invest in growth initiatives, including business acquisitions. These subsidiaries also held long-term restricted cash and cash equivalents, and restricted bank time deposits of $0.2 million, at July 31, 2023 and January 31, 2023.

We currently intend to continue to indefinitely reinvest a portion of the earnings of our foreign subsidiaries, which, as a result of the 2017 Tax Cuts and Jobs Act, may now be repatriated without incurring additional U.S. federal income taxes.

Should other circumstances arise whereby we require more capital in the United States than is generated by our domestic operations, or should we otherwise consider it in our best interests, we could repatriate future earnings from foreign jurisdictions, which could result in higher effective tax rates. As noted above, we currently intend to indefinitely reinvest a portion of the earnings of our foreign subsidiaries to finance foreign activities. Except to the extent that earnings of our foreign subsidiaries have been subject to U.S. taxation as of July 31, 2023, we have not provided tax on the outside basis difference of foreign subsidiaries nor have we provided for any additional withholding or other tax that may be applicable should a future distribution be made from any unremitted earnings of foreign subsidiaries. Due to complexities in the laws of the foreign jurisdictions and the assumptions that would have to be made, it is not practicable to estimate the total amount of income and withholding taxes that would have to be provided on such earnings.

The following table summarizes our total cash, cash equivalents, restricted cash, cash equivalents, and bank time deposits, and short-term investments, as well as our total debt, as of July 31, 2023 and January 31, 2023:

(in thousands)		July 31, 2023		January 31, 2023
Cash and cash equivalents	$	231,296	$	282,099
Restricted cash and cash equivalents, and restricted bank time deposits (excluding long term portions)		5		300
Short-term investments		1,452		697
Total cash, cash equivalents, restricted cash and cash equivalents, restricted bank time deposits, and short-term investments	**$**	**232,753**	**$**	**283,096**
Total debt, including current portions	**$**	**409,958**	**$**	**408,908**

Capital Allocation Framework

As noted above, after cash utilization required for working capital, capital expenditures, required debt service, and dividends on the Preferred Stock, we expect that our primary usage of cash will be for business combinations, repayment of outstanding indebtedness, and/or stock repurchases under repurchase programs that may be in place from time to time (subject to the terms of our Credit Agreement). Please see the “Liquidity and Capital Resources Requirements” section below for further information about our recent stock repurchase programs.

Condensed Consolidated Cash Flow Activity

The following table summarizes selected items from our condensed consolidated statements of cash flows for the six months ended July 31, 2023 and 2022:

	Six Months Ended July 31,			
(in thousands)		2023		2022
Net cash provided by operating activities	$	63,332	$	46,680
Net cash used in investing activities		(15,821)		(13,954)
Net cash used in financing activities		(99,570)		(132,437)
Effect of foreign currency exchange rate changes on cash and cash equivalents		1,257		(2,575)
Net decrease in cash, cash equivalents, restricted cash, and restricted cash equivalents	**$**	**(50,802)**	**$**	**(102,286)**

Our financing activities used $99.6 million of net cash and our investing activities used $15.8 million of net cash during the six months ended July 31, 2023, which was partially offset by $63.3 million of cash generated from operating activities. Further discussion of these items appears below.

Net Cash Provided by Operating Activities

Net cash provided by operating activities is driven primarily by our net income or loss, as adjusted for non-cash items and working capital changes. Operating activities generated $63.3 million of net cash during the six months ended July 31, 2023, compared to $46.7 million generated during the six months ended July 31, 2022. Our operating cash flow in the current period increased primarily due to lower operating lease payments as a result of the early termination of several leased offices in the prior year, a partial insurance reimbursement related to certain legal matters that we agreed to settle, with payment from us to the other party occurring in August 2023, and a favorable impact on operating cash flow from changes in operating assets and liabilities compared to the prior period, partially offset by higher combined interest and net income tax payments.

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

Net Cash Used in Investing Activities

During the six months ended July 31, 2023, our investing activities used $15.8 million of net cash, consisting primarily of $12.9 million of payments for property, equipment and capitalized software development, a $1.6 million investment in a privately-held company, $0.9 million of net cash utilized for business combinations and asset acquisitions, and $0.8 million of net purchases of short-term investments, partially offset by a $0.3 million decrease in restricted bank time deposits during the period.

During the six months ended July 31, 2022, our investing activities used $14.0 million of net cash, consisting primarily of payments for property, equipment and capitalized software development costs.

We had no significant commitments for capital expenditures at July 31, 2023.

Net Cash Used in Financing Activities

For the six months ended July 31, 2023, our financing activities used $99.6 million of net cash, primarily due to $100.0 million of repayments of borrowing under our Term Loan, $74.3 million of payments to repurchase common stock, $20.8 million of payments of Preferred Stock dividends, $2.6 million for the financing portion of payments under contingent consideration arrangements related to prior business combinations, $1.0 million of finance lease payments, a $0.5 million distribution to a noncontrolling shareholder of one of our subsidiaries and $0.2 million paid for debt-related issuance fees, partially offset by $100.0 million of proceeds from borrowings under our Revolving Credit Facility.

For the six months ended July 31, 2022, our financing activities used $132.4 million of net cash, primarily due to $105.7 million of payments to repurchase common stock, $20.8 million of payments of Preferred Stock dividends, $3.7 million for the financing portion of payments under contingent consideration arrangements related to prior business combinations, $1.6 million of finance lease payments, a $0.5 million distribution to a noncontrolling shareholder of one of our subsidiaries, and $0.2 million paid for debt-related issuance fees.

Liquidity and Capital Resources Requirements

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

Our liquidity could be negatively impacted by a decrease in demand for our products and services, including the impact of changes in customer buying behavior due to circumstances over which we have no control, including, but not limited to, the effects of general economic conditions or geopolitical developments. If we determine to make additional business acquisitions or otherwise require additional funds, we may need to raise additional capital, which could involve the issuance of additional equity or debt securities or an increase in our borrowings under our credit facility.

Repurchases of Common Stock

On December 7, 2022, we announced that our board of directors had authorized a stock repurchase program for the period from December 12, 2022 until January 31, 2025, whereby we may repurchase shares of common stock in an amount not to exceed, in the aggregate, $200.0 million during the repurchase period.

During the year ended January 31, 2023, we repurchased approximately 649,000 shares of our common stock for a cost of $23.5 million under the current stock repurchase program. During the six months ended July 31, 2023, we repurchased approximately 1,996,000 shares of our common stock at a cost of $74.1 million, including excise tax of $0.4 million, under this program. Our share repurchases in excess of issuances are subject to a 1% excise tax enacted by the IRA. The excise tax of $0.4 million was recognized as part of the cost basis of shares acquired in the condensed consolidated statements of stockholders' equity during the six months ended July 31, 2023. Repurchases were funded with available cash in the United States.

Financing Arrangements

2021 Notes

On April 9, 2021, we issued $315.0 million in aggregate principal amount of our 2021 Notes, unless earlier converted by the holders pursuant to their terms. The 2021 Notes are unsecured and pay interest in cash semiannually in arrears at a rate of 0.25% per annum.

We used a portion of the net proceeds from the issuance of the 2021 Notes to pay the costs of the Capped Calls described below. We also used a portion of the net proceeds from the issuance of the 2021 Notes, together with the net proceeds from the

April 6, 2021 issuance of $200.0 million of Series B Preferred Stock, to repay a portion of the outstanding indebtedness under our Credit Agreement described below, to terminate an interest rate swap agreement, and to repurchase shares of our common stock. The remainder is being used for working capital and other general corporate purposes.

The 2021 Notes are convertible into shares of our common stock at an initial conversion rate of 16.1092 shares per $1,000 principal amount of 2021 Notes, which represents an initial conversion price of approximately $62.08 per share, subject to adjustment upon the occurrence of certain events, and subject to customary anti-dilution adjustments. Prior to January 15, 2026, the 2021 Notes will be convertible only upon the occurrence of certain events and during certain periods, and will be convertible thereafter at any time until the close of business on the second scheduled trading day immediately preceding the maturity date of the 2021 Notes. Upon conversion of the 2021 Notes, holders will receive cash up to the aggregate principal amount, with any remainder to be settled with cash or common stock, or a combination thereof, at our election. As of July 31, 2023, the 2021 Notes were not convertible.

Based on the closing market price of our common stock on July 31, 2023, the if-converted value of the 2021 Notes was less than their aggregate principal amount.

Capped Calls

In connection with the issuance of the 2021 Notes, on April 6, 2021 and April 8, 2021, we entered into capped call transactions (the “Capped Calls”) with certain counterparties. The Capped Calls are intended generally to reduce the potential dilution to our common stock upon any conversion of the 2021 Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted 2021 Notes, in the event that at the time of conversion our common stock price exceeds the conversion price, with such reduction and/or offset subject to a cap.

The Capped Calls exercise price is equal to the $62.08 initial conversion price of each of the 2021 Notes, and the cap price is $100.00, each subject to certain adjustments under the terms of the Capped Calls. The Capped Calls have the economic effect of increasing the conversion price of the 2021 Notes from $62.08 per share to $100.00 per share. Our exercise rights under the Capped Calls generally trigger upon conversion of the 2021 Notes, and the Capped Calls terminate upon maturity of the 2021 Notes, or the first day the 2021 Notes are no longer outstanding. As of July 31, 2023, no Capped Calls have been exercised.

Pursuant to their terms, the Capped Calls qualify for classification within stockholders’ equity, and their fair value is not remeasured and adjusted, as long as they continue to qualify for stockholders’ equity classification. We paid approximately $41.1 million for the Capped Calls, including applicable transaction costs, which was recorded as a reduction to additional paid-in capital.

Credit Agreement

On June 29, 2017, we entered into a credit agreement with certain lenders and terminated a prior credit agreement. The credit agreement was amended in 2018, 2020, 2021, and 2023, as further described below (as amended, the “Credit Agreement”).

The Credit Agreement currently provides for $725.0 million of senior secured credit facilities, comprised of a $425.0 million term loan originally set to mature on June 29, 2024 (the “Term Loan”), and a $300.0 million revolving credit facility maturing on April 9, 2026 (the “Revolving Credit Facility”). The Revolving Credit Facility replaced our prior $300.0 million revolving credit facility (the “Prior Revolving Credit Facility”), and is subject to increase and reduction from time to time according to the terms of the Credit Agreement.

On April 27, 2023, we repaid the remaining $100.0 million outstanding principal balance on our Term Loan in full utilizing proceeds from our Revolving Credit Facility, along with $0.5 million of accrued interest thereon. As a result, $0.2 million of deferred debt issuance costs associated with the Term Loan were written off and are included within interest expense on our condensed consolidated statement of operations for the six months ended July 31, 2023.

Interest rates on loans under the Credit Agreement are periodically reset, at our option, originally at either a Eurodollar Rate (which was derived from LIBOR) or an ABR Rate (each as defined in the Credit Agreement), plus in each case a margin.

On May 10, 2023, we entered into an amendment to the Credit Agreement (the “Fourth Amendment”) related to the planned phase-out of LIBOR by the UK Financial Conduct Authority. Effective July 1, 2023, borrowings under the Credit Agreement will bear interest, at our option, at either: (i) the alternate base rate (as defined in the Credit Agreement), plus the applicable margin therefor (as defined in the Credit Agreement) or (ii) the adjusted Term Secured Overnight Financing Rate published by the CME Term SOFR Administrator (as more fully defined and set forth in the Credit Agreement, “Adjusted Term SOFR”), plus the applicable margin therefor. The applicable margin in each case is determined based on our Leverage Ratio (as defined below) and ranges from 0.25% to 1.25% for borrowings bearing interest at the alternate base rate and from 1.25% to 2.25% for borrowings bearing interest based on Adjusted Term SOFR.

Borrowings under the Revolving Credit Facility were $100.0 million at July 31, 2023, which is included in long-term debt on our condensed consolidated balance sheet. For borrowings under the Revolving Credit Facility, the margin is determined by reference to our Consolidated Total Debt to Consolidated EBITDA (each as defined in the Credit Agreement) leverage ratio (the "Leverage Ratio"). As of July 31, 2023, the interest rate on our revolving credit facility borrowings was 6.93%. In addition, we are required to pay a commitment fee with respect to unused availability at rates per annum determined by reference to our Leverage Ratio. The proceeds of borrowings under the Revolving Credit Facility were used to repay the outstanding balance of the Term Loan.

The Credit Agreement contains certain customary affirmative and negative covenants for credit facilities of this type. The Credit Agreement also contains a financial covenant that, solely with respect to the Revolving Credit Facility, requires us to maintain a Leverage Ratio of no greater than 4.5 to 1. At July 31, 2023, our Leverage Ratio was approximately 1.1 to 1. The limitations imposed by the covenants are subject to certain exceptions as detailed in the Credit Agreement.

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

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

Contractual Obligations

Our principal commitments primarily consist of long-term debt, dividends on Preferred Stock, leases for office space and open non-cancellable purchase orders. As of July 31, 2023, we believe there have been no material changes to our contractual obligations from those disclosed in Part II, Item 7. — Management's Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended January 31, 2023. For additional information regarding our leases, long-term debt and our commitments and contingencies, see Note 17, "Leases", in the Form 10-K and Note 7, "Long-Term Debt", Note 9, "Convertible Preferred Stock", and Note 15, "Commitments and Contingencies" in the notes to our condensed consolidated financial statements included in Part I, Item 1 of this report.

As of July 31, 2023, our total operating lease liabilities were $39.3 million, of which $6.3 million is included within accrued expenses and other current liabilities (current portions), and $33.0 million is included as operating lease liabilities (long-term portions), on our condensed consolidated balance sheets.

It is not our business practice to enter into off-balance sheet arrangements. However, in the normal course of business, we enter into contracts in which we make representations and warranties that guarantee the performance of our products and services. Historically, there have been no significant losses related to such guarantees.

Our condensed consolidated balance sheet at July 31, 2023 included $53.5 million of non-current tax reserves (including interest and penalties of $6.0 million), net of related benefits for uncertain tax positions. We do not expect to make any significant payments for these uncertain tax positions within the next 12 months.

Contingent Payments Associated with Business Combinations and Asset Acquisitions

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

For the six months ended July 31, 2023, we made $3.1 million of payments under contingent consideration arrangements. As of July 31, 2023, potential future cash payments, and earned consideration expected to be paid, subsequent to July 31, 2023 under contingent consideration arrangements totaled $19.0 million, the estimated fair value of which was $7.9 million, of which $5.2 million was recorded within accrued expenses and other current liabilities, and $2.7 million was recorded within other liabilities. The performance periods associated with these potential payments extend through January 2026.

In July 2023, we entered into an agreement to acquire source code that qualifies as an asset acquisition and provides for additional consideration contingent upon achieving certain performance targets for the years ending January 31, 2025 and 2026 of up to $5.0 million, with a minimum of $2.0 million guaranteed over the period, plus the opportunity to receive additional payments from us based on any revenue we receive from sales of products based on the acquired technology in adjacent markets.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, and the potential impact of these pronouncements on our condensed consolidated financial statements, see Note 1, “Basis of Presentation and Significant Accounting Policies” to the condensed consolidated financial statements in Part I, Item 1 of this report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk on Our Debt

In April 2021, we issued $315.0 million in aggregate principal amount of the 2021 Notes. Prior to January 15, 2026, the 2021 Notes will be convertible only upon the occurrence of certain events and during certain periods, and will be convertible thereafter at any time until the close of business on the second scheduled trading day immediately preceding the maturity date of the 2021 Notes. Upon conversion of the 2021 Notes, holders will receive cash up to the aggregate principal amount, with any remainder to be settled with cash or common stock, or a combination thereof, at our election. Concurrent with the issuance of the 2021 Notes, we entered into capped call transactions with certain counterparties. These separate transactions were completed to reduce our exposure to potential dilution upon conversion of the 2021 Notes.

The 2021 Notes have a fixed annual interest rate of 0.25% and therefore do not have interest rate risk exposure. However, the fair values of the 2021 Notes are subject to interest rate risk, market risk, and other factors due to the convertible feature. The fair values of the 2021 Notes are also affected by our common stock price. Generally, the fair values of the 2021 Notes will increase as interest rates fall and/or our common stock price increases, and decrease as interest rates rise and/or our common stock price decreases. Changes in the fair values of the 2021 Notes do not impact our financial position, cash flows, or results of operations due to the fixed nature of the debt obligations. We do not carry the 2021 Notes at fair value on our consolidated balance sheet, but we report the fair value of the 2021 Notes for disclosure purposes.

Interest rates on loans under the Credit Agreement are periodically reset, at our option, originally at either a Eurodollar Rate or an ABR Rate (each as defined in the Credit Agreement), plus, in each case, a margin. On May 10, 2023, we entered into an amendment to the Credit Agreement (the “Fourth Amendment”) related to the planned phase-out of LIBOR by the UK Financial Conduct Authority. Effective July 1, 2023, borrowings under the Credit Agreement will bear interest, at our option, at either: (i) the alternate base rate (as defined in the Credit Agreement), plus the applicable rate margin therefor (as defined in the Credit Agreement) or (ii) the adjusted Term Secured Overnight Financing Rate published by the CME Term SOFR Administrator (as more fully defined and set forth in the Credit Agreement, “Adjusted Term SOFR”), plus the applicable margin therefor. The applicable margin in each case is determined based on our leverage ratio (described above) and ranges from 0.25% to 1.25% for borrowings bearing interest at the alternate base rate and from 1.25% to 2.25% for borrowings bearing interest based on Adjusted Term SOFR.

On April 27, 2023, we repaid in full the remaining $100.0 million outstanding principal balance related to our Term Loan with $100.0 million of proceeds from borrowings under our Revolving Credit Facility. For loans under the Revolving Credit Facility, the margin is determined by reference to our Consolidated Total Debt to Consolidated EBITDA (each as defined in the Credit Agreement) leverage ratio. As of July 31, 2023, the interest rate on our $100.0 million of borrowings under our Revolving Credit Facility was 6.93%. A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our financial statements.

Inflation Risk

While we continue to see significant demand for our solutions as our customers accelerate the digitization of their customer interactions and internal operations, we believe that current macroeconomic factors, including increased inflation rates, are impacting customer and partner spending decisions. Given the current macroeconomic environment, we continue to look for ways to manage costs and mitigate any changes in our customers’ purchasing behavior that may occur due to significant inflationary pressure or other factors. If our costs, in particular labor, sales and marketing, and cloud hosting costs, become subject to sustained or increased inflationary pressure, we may be unable to fully offset such higher costs through price increases, which could harm our business, financial condition, and results of operations.

The section entitled “Quantitative and Qualitative Disclosures About Market Risk” under Part II, Item 7A of our Annual Report on Form 10-K for the year ended January 31, 2023 provides detailed quantitative and qualitative discussions of the market risks affecting our operations. Other than as described above under “Interest Rate Risk on Our Debt” and “Inflation Risk”, and the market risk that is created by the global market disruptions and uncertainties resulting from macroeconomic factors discussed in

"Management's Discussion and Analysis of Financial Condition and Results of Operations" included under Part I, Item 2 of this report, we believe that our market risk profile did not materially change during the six months ended July 31, 2023.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Management conducted an evaluation under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of July 31, 2023. Disclosure controls and procedures are those controls and other procedures that are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified by the rules and forms promulgated by the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As a result of this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of July 31, 2023.

Changes in Internal Control Over Financial Reporting

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the three months ended July 31, 2023, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be achieved. Further, the design of a control system must reflect the impact of resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the possibility that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors. Additionally, controls can be circumvented by individual acts, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all possible conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Part II

Item 1. Legal Proceedings

See Note 15, “Commitments and Contingencies” to our condensed consolidated financial statements under Part I, Item 1 of this report for information regarding our legal proceedings.

Item 1A. Risk Factors

There have been no material changes to the Risk Factors described in Part I “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended January 31, 2023. In addition to the other information set forth in this Quarterly Report, you should carefully consider the risks discussed in our Annual Report on Form 10-K, which could materially affect our business, financial condition, or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing us, however. Additional risks and uncertainties not currently known to us or that we currently deem to be insignificant also may materially and adversely affect our business, financial condition, or operating results in the future.

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

Unregistered Sales of Equity Securities and Use of Proceeds

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On December 7, 2022, we announced that our board of directors had authorized a stock repurchase program for the period from December 12, 2022 until January 31, 2025, whereby we may repurchase shares of common stock not to exceed, in the aggregate, $200.0 million during the repurchase period. During the year ended January 31, 2023, we repurchased approximately 649,000 shares under this stock repurchase program for an aggregate purchase price of $23.5 million. During the six months ended July 31, 2023, we repurchased approximately 1,996,000 shares under this stock repurchase program for $74.1 million, including excise tax of $0.4 million. Repurchases were financed with available cash in the United States.

From time to time, we have purchased common stock from our directors, officers, and other employees to facilitate income tax withholding by us or the payment of income taxes by such holders upon vesting of equity awards occurring during a Company-imposed trading blackout or lockup period.

On August 16, 2022, the U.S. government enacted the Inflation Reduction Act (the "IRA") into law. The IRA imposes a 1% excise tax on share repurchases, which is effective for us for repurchases completed after December 31, 2022. We reflect the excise tax within equity as part of the repurchase of the common stock.

Share repurchase activity during the three months ended July 31, 2023 was as follows:

Period	Total Number Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
May 1, 2023 - May 31, 2023	155,848	$ 34.81	155,848	$ 111,486
June 1, 2023 - June 30, 2023	131,482	34.86	131,482	106,902
July 1, 2023 - July 31, 2023	115,320	34.30	115,320	102,947
	402,650	**$ 34.68**	**402,650**	**$ 102,947**

(1) Represents the approximate weighted-average price paid per share and excludes excise tax.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the three months ended July 31, 2023, no director or officer of the Company adopted, modified, or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each of these terms is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

The following exhibit list includes agreements that we entered into or that became effective during the three months ended July 31, 2023:

Number	Description	Filed Herewith / Incorporated by Reference from
10.1	Verint Systems Inc. 2023 Long-Term Stock Incentive Plan	Form 8-K filed on June 23, 2023
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350 (1)	Filed herewith
32.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350 (1)	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith

(1) These exhibits are being “furnished” with this periodic report and are not deemed “filed” with the SEC and are not incorporated by reference in any filing of the company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Verint Systems Inc.
September 6, 2023	/s/ Grant Highlander
	Grant Highlander
	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Dan Bodner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Verint Systems Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated:	September 6, 2023	By:	/s/ Dan Bodner
			Dan Bodner
			Chief Executive Officer
			Principal Executive Officer

Exhibit 31.2

CERTIFICATION BY THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Grant Highlander, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Verint Systems Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated:	September 6, 2023	By:	/s/ Grant Highlander
			Grant Highlander
			Chief Financial Officer
			Principal Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Verint Systems Inc. (the “Company”) on Form 10-Q for the period ended July 31, 2023 (the “Report”), I, Dan Bodner, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated:	September 6, 2023	/s/ Dan Bodner
		Dan Bodner
		Chief Executive Officer
		Principal Executive Officer

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Exhibit 32.2

CERTIFICATION REQUIRED BY 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Verint Systems Inc. (the “Company”) on Form 10-Q for the period ended July 31, 2023 (the “Report”), I, Grant Highlander, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated:	September 6, 2023	/s/ Grant Highlander
		Grant Highlander
		Chief Financial Officer
		Principal Financial Officer

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.