VERINT SYSTEMS INC
Form 10-K
March 17, 2010

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the year ended January 31, 2008
Commission File Number 000-49790
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.)

330 South Service Road, Melville, New York 11747
(Address of principal executive offices) (Zip code)
Registrant s telephone number, including area code: (631) 962-9600
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.001 par value per share
Title of class

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No þ

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o

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

The aggregate market value of common stock held by non-affiliates of the registrant, based on the closing price for the registrant s common stock on the Pink OTC Markets Inc. on the last business day of the registrant s most recently completed second fiscal quarter (July 31, 2009) was approximately $164,219,172.

There were 32,529,594 shares of the registrant s common stock outstanding on February 28, 2010.

Table of Contents

Cautionary Note on Forward-Looking Statements

Certain statements discussed in this report constitute 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, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act) (which Sections were adopted as part of the Private Securities Litigation Reform Act of 1995). Forward-looking statements include financial projections, statements of plans and objectives for future operations, statements of future economic performance, and statements of assumptions relating thereto. Forward-looking statements are often identified by future or conditional words such as will , plans , expects , intends , believes , seeks , estimates , or anticipates , or by variations of by similar expressions. There can be no assurances that forward-looking statements will be achieved. By their very nature, forward-looking statements involve known and unknown risks, uncertainties, and other important factors that could cause our actual results or performance to differ materially from those expressed or implied by such forward-looking statements. Important risks, uncertainties, and other factors that could cause our actual results to differ materially from our forward-looking statements include, among others:

risks relating to the filing of our Securities and Exchange Commission (SEC) reports, including the occurrence of known contingencies or unforeseen events that could delay our plan for completion of our outstanding financial statements, management distraction, and significant expense;

risk associated with the SEC s initiation of an administrative proceeding on March 3, 2010 to suspend or revoke the registration of our common stock under the Exchange Act due to our previous failure to file an annual report on either Form 10-K or Form 10-KSB since April 25, 2005 or quarterly reports on either Form 10-Q or Form 10-QSB since December 12, 2005;

risks that the delay in the filing of this report, our Annual Report on Form 10-K for the year ended January 31, 2009, and the Quarterly Reports for each of the quarters ended April 30, July 31, and October 31, 2009 may cause us to be delayed in the completion of the audit relating to, and timely filing of our Annual Report for, the year ended January 31, 2010, which may cause us to not be in compliance with the financial statement delivery requirements of our credit facility and result in an event of default thereunder;

risks related to the announcement by Standard & Poor s (S&P) on January 29, 2010 that our credit rating had been placed on CreditWatch Developing, or that S&P or Moody s could downgrade our credit ratings;

risks associated with being a consolidated, controlled subsidiary of Comverse Technology, Inc. (Comverse) and formerly part of Comverse s consolidated tax group, including risk of any future impact on us resulting from Comverse s special committee investigation and restatement or related effects, and risks related to our dependence on Comverse to provide us with accurate financial information, including with respect to stock-based compensation expense and net operating loss carryforwards (NOLs) for our financial statements;

uncertainty regarding the impact of general economic conditions, particularly in information technology spending, on our business;

risk that our financial results will cause us not to be compliant with the leverage ratio covenant under our credit facility;

risk that customers or partners delay or cancel orders or are unable to honor contractual commitments due to liquidity issues, challenges in their business, or otherwise;

risk that we will experience liquidity or working capital issues and related risk that financing sources will be unavailable to us on reasonable terms or at all;

uncertainty regarding the future impact on our business of our internal investigation, restatement, extended filing delay, and the SEC s administrative proceeding, including customer, partner, employee, and investor concern and potential customer and partner transaction deferrals or losses;

risks relating to the remediation or inability to adequately remediate internal control weaknesses and to the proper application of highly complex accounting rules and pronouncements in order to produce accurate SEC reports on a timely basis;

iii

Table of Contents

- risks relating to our implementation and maintenance of adequate systems and internal controls for our current and future operations and reporting needs;
- risk of possible future restatements if the special processes being used to prepare the financial statements contained in this report or the regular recurring processes that will be used to produce future SEC reports are inadequate;
- risk associated with current or future regulatory actions or private litigations relating to our internal investigation, restatement, or delay in timely making required SEC filings;
- risk that we will be unable to re-list our common stock on a national securities exchange and maintain such listing;
- risks associated with Comverse controlling our board of directors and a majority of our common stock (and therefore the results of any significant stockholder vote);
- risks associated with significant leverage resulting from our current debt position;
- risks due to aggressive competition in all of our markets, including with respect to maintaining margins and sufficient levels of investment in the business and with respect to introducing quality products which achieve market acceptance;
- risks created by continued consolidation of competitors or introduction of large competitors in our markets with greater resources than us;
- risks associated with significant foreign and international operations, including exposure to fluctuations in exchange rates;
- risks associated with complex and changing local and foreign regulatory environments;
- risks associated with our ability to recruit and retain qualified personnel in all geographies in which we operate;
- challenges in accurately forecasting revenue and expenses;
- risks associated with acquisitions and related system integrations;

Table of Contents

risks relating to our ability to improve our infrastructure to support growth;
risks that our intellectual property rights may not be adequate to protect our business or that others may make claims on our intellectual property or claim infringement on their intellectual property rights;
risks associated with a significant amount of our business coming from domestic and foreign government customers;
risk that we improperly handle sensitive or confidential information or perception of such mishandling;
risks associated with dependence on a limited number of suppliers for certain components of our products;
risk that we are unable to maintain and enhance relationships with key resellers, partners, and systems integrators; and
risk that use of our NOLs or other tax benefits may be restricted or eliminated in the future.

These risks and uncertainties, as well as other factors, are discussed in greater detail in Risk Factors under Item 1A of this report. Readers are cautioned not to place undue reliance on forward-looking statements, which reflect our management s view only as of the filing 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.

Explanatory Note

General. This is the first periodic report of Verint Systems Inc. (together with its consolidated subsidiaries, Verint , the Company , we , us , and our , unless the context indicates otherwise) covering periods after October 31, 2005. Reader should be aware that several aspects of this report differ from other annual reports. First, this report is for each of the years ended January 31, 2008, January 31, 2007, and January 31, 2006, in lieu of filing separate reports for each of those years. Second, because of the amount of time that has passed since our last periodic report was filed with the SEC and the significant changes we have made to our business in the interim (including the acquisition of Witness Systems, Inc. (Witness) in May 2007), the information relating to our business and related matters is focused on our more recent periods and also includes certain information for periods after January 31, 2008. Finally, in this report, we are restating certain items and making other corrective adjustments to certain of our previously filed historical financial statements and related information resulting from the accounting reviews and internal investigation referenced below. We intend to file, as soon as practicable, our Annual Report on Form 10-K for the year ended January 31, 2009 and our Quarterly Reports on Form 10-Q for each of the quarters ended April 30, 2009, July 31, 2009, and October 31, 2009.

Table of Contents

We have not amended and do not intend to amend any of our previously filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by the restatements or corrections of our financial statements. Instead, we are only restating and correcting the selected financial data for the years ended January 31, 2005 and January 31, 2004 that are included in this report in Selected Financial Data under Item 6. Accordingly, as disclosed in our Current Reports on Form 8-K dated November 5, 2007 and April 17, 2006, the consolidated financial statements and related financial information contained in previously filed financial reports, including all financial information furnished on Form 8-K and any related reports of our independent registered public accounting firm, should no longer be relied upon. We also do not intend to file the Current Reports on Form 8-K/A in respect of the acquisitions of Witness and the networked video security business of MultiVision Intelligent Surveillance Limited. We also do not intend to file the Quarterly Reports for any of the quarters for the years ended January 31, 2007 and January 31, 2008, although we have included certain quarterly disclosures for those quarters in this report. See Management s Discussion and Analysis of Financial Condition and Results of Operations Selected Quarterly Results of Operations under Item 7. We intend to include similar disclosures for the 2008 quarterly periods in the Annual Report on Form 10-K for the year ended January 31, 2009 that we will file as soon as practicable after the date of this report. This Annual Report on Form 10-K supersedes the information provided in our Current Report on Form 8-K filed on February 3, 2010, including the preliminary unaudited financial information and the notes thereto included as Exhibit 99.2 in such Form 8-K.

Background of the Restatement and Extended Filing Delay. This report has been delayed due to various accounting reviews and an internal investigation, together with the resulting restatement of our previously filed financial statements described in this report. We were initially delayed in the filing of our periodic reports as a result of an investigation by our majority stockholder, Comverse, of its improper stock option grant practices because we were dependent upon Comverse to provide us with certain information regarding our stock-based compensation expenses relating to grants of Comverse stock options made to our employees prior to our initial public offering (IPO). Following the initiation of the Comverse investigation, we internally reviewed our own stock option grant practices to determine whether the actual dates of measurement for any stock options granted by us following our IPO differed from the recorded dates. In this report, we refer to our own stock option grant review (which did not result in any adjustments) and the adjustments to stock based compensation expenses relating to Comverse stock option grants (and related tax expenses) as Phase I .

Our periodic reporting was further delayed after Comverse subsequently expanded its investigation into certain non-option related accounting matters, including possible revenue recognition errors, errors in recording of certain deferred tax assets, expense misclassification, misuse of accounting reserves, and understatement of backlog. As a result of this expansion of the Comverse investigation, our audit committee initiated its own internal investigation into certain of these non-option accounting issues, including accounting reserves, income statement expense classification and certain revenue recognition practices. In this report, we refer to our internal investigation and adjustments relating to this investigation as Phase II .

Table of Contents

Separate and distinct from the Phase I review and the Phase II investigation, we also undertook a review of our accounting treatment for revenue recognition under complex contractual arrangements pursuant to the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, *Software Revenue Recognition* (SOP 97-2), SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (SOP 81-1), and related accounting guidance. In this report, we refer to this review and related adjustments as the VSOE/revenue recognition review .

All of the foregoing accounting reviews and the independent investigation have been completed, including with respect to the periods covered by this report and the results have been reported to our board of directors.

Additionally, we were delayed in filing our periodic reports due to an unexpected recent change in the allocation of NOLs to us by Comverse for the year ended January 31, 2003 and earlier years (i.e., prior to our IPO).

Summary of Findings of the Reviews and the Internal Investigation. In connection with the Phase I review, the Phase II investigation, and the VSOE/revenue recognition review, our management and audit committee made certain findings, as more fully described in Management s Discussion and Analysis of Financial Condition and Results of Operations Investigation and Restatement under Item 7. A summary of the key findings is below:

- Phase I No evidence of any differences between the actual dates of measurement and the recorded dates of measurement with respect to Verint stock option grants was discovered during the course of our management review. Although it was not the focus of the Phase II investigation, our audit committee subsequently uncovered no evidence of improper stock option backdating. As described below, Phase I adjustments consist of tax related adjustments resulting from errors in Comverse s stock-based compensation accounting and additional stock-based compensation expense related to Comverse s grant of its options to our employees.
- Phase II Our audit committee found that prior to the year ended January 31, 2003, accounting reserves were intentionally overstated. In addition, our audit committee found this practice of overstating reserves was not systemic within Verint but rather was done on an ad hoc basis by a small number of employees, including our former Chief Financial Officer and certain other former employees who directly or indirectly reported to him. Following the recommendation of our audit committee, we terminated our relationship with our former Chief Financial Officer and these other employees. Moreover, although this practice of overstating reserves (and the subsequent release of these overstated reserves) necessarily had an impact on our published earnings, our audit committee found no evidence that the purpose of the individuals involved in overstating reserves was to cause any particular effect on earnings. Rather, our audit committee found that the apparent intent of these individuals in overstating reserves was to build a conservative reserve to protect against unanticipated future expenses or erroneous judgments. Our audit committee also concluded that the overstated reserves had resulted in large measure from a simple lack of rigorous and diligent accounting. Our audit committee found no evidence indicating that reserves were intentionally overstated in any period subsequent to the year ended January 31, 2003.

Table of Contents

VSOE/revenue recognition review We found that the requirement to prepare contemporaneous documentation analyzing and supporting the adoption of SOP 97-2 was not adequately performed, that we had prepared limited documentation analyzing our initial and ongoing compliance with SOP 97-2, that we had not appropriately determined whether VSOE of fair value (as defined below) existed for undelivered elements, and that other errors had been made in the recognition of revenue and cost of revenue related to many of our contracts.

Summary of Financial Statements and Restatement Adjustments. As noted above, this report includes audited consolidated financial statements with respect to the years ended January 31, 2008, 2007, and 2006, none of which have been previously filed by us with the SEC. Additionally, we have included in Selected Financial Data under Item 6 unaudited and restated financial information with respect to certain items for each of the years ended January 31, 2005 and 2004. As described more fully in this report, certain restatement adjustments affecting periods prior to the year ended January 31, 2004 have been reflected as an adjustment to the opening balance of retained earnings as of February 1, 2003. As set forth in the table below, with respect to Phase I, we are also providing a reconciliation covering all affected periods by year, going back to the year ended January 31, 1991.

The restatements and corrections of our consolidated financial statements included in this report reflect:

- additional stock-based compensation expense relating to grants by Comverse of options to acquire Comverse common stock granted to our employees during the period from the year ended January 31,1991 through our May 2002 IPO, during which time we were a wholly-owned subsidiary of Comverse;
- tax-related adjustments resulting from errors in Comverse s stock-based compensation accounting;
- the correction of certain misstated reserves for periods through October 31, 2005;
- the reclassification of royalty and license fees from either selling, general and administrative expense or research and development expense to cost of revenues for periods prior to the year ended January 31, 2003; and
- corrections relating to revenue recognition (including correction of errors in determining vendor specific objective evidence of fair value, or VSOE) under SOP 97-2, and associated corrections to cost of revenue, deferred revenue, and deferred cost of revenue, for periods from February 1, 2000 through October 31, 2005.

Table of Contents

The following table summarizes the adjustments to our historical financial statements resulting from the restatement. As no financial statements for periods subsequent to the three months ended October 31, 2005 have previously been filed by us as a result of the various accounting reviews, there are no adjustments or restatements for those periods.

	Impact of Restatement							
(in thousands)	**Revenue (1)**	**Cost of Revenue (2)**	**Phase I Adjustments (3)**	**Phase II Adjustments (4)**	**Other Adjustments (5)**	**Total Adjustments, Before Taxes**	**Income Tax Effect of All Adjustments**	**Total Adjustments, Net of Taxes**
	Increase (Decrease) to Earnings							
Period:								
Cumulative effect on February 1, 2003 opening retained earnings	$ (145,176)	$ 54,479	$ (18,135)	$ 4,376	$ 1,064	$ (103,392)	$ 2,197	$ (101,195)
Year ended January 31, 2004	(20,873)	10,421	(111)	(2,170)	1,235	(11,498)	(4,164)	(15,662)
Year ended January 31, 2005	(37,422)	7,234	(57)	(1,486)	(353)	(32,084)	32,039	(45)
Cumulative effect on February 1, 2005 opening retained earnings	(203,471)	72,134	(18,303)	720	1,946	(146,974)	30,072	(116,902)
Nine month period ended October 31, 2005	(36,722)	11,611	(28)	99	626	(24,414)	2,736	(21,678)
Total adjustments	$ (240,193)	$ 83,745	$ (18,331)	$ 819	$ 2,572	$ (171,388)	$ 32,808	$ (138,580)

(1) Because they do not affect our reported income (loss) before income tax and noncontrolling interest or net income (loss) in any period,

these restatement adjustments do not reflect the impact of certain transactions now reported on a gross rather than net basis of accounting.

(2) Includes cost of revenue as well as certain operating costs that vary directly with revenue. These adjustments do not reflect the impact of certain transactions now reported on a gross rather than net basis of accounting.

(3) Includes impact of errors identified in the Phase I review. Further details of these adjustments by year are presented in the table below.

(4) Includes impact of errors identified in the Phase II investigation, primarily relating to impacts to reserves, as well as certain revenue

recognition matters unrelated to our VSOE/revenue recognition review and account classifications.

(5) Includes adjustments to correct misstatements identified during our restatement process that were not related to historical stock option practices, reserves, or revenue recognition.

As indicated in the above table, we have restated our reported revenue so that $240 million of revenue that was previously reported through October 31, 2005 has been deferred into subsequent periods. Below is an illustration of when the revenue recognition criteria will be met and therefore how revenue deferred in the restatement is expected to be recognized, other than the impact of foreign currency exchange rates on certain revenue now reported and translated into U.S. Dollars in different accounting periods:

- $26 million in the three-month period ended January 31, 2006;
- $84 million in the year ended January 31, 2007;
- $48 million in the year ended January 31, 2008;
- $34 million in the year ended January 31, 2009;
- $25 million in the year ended January 31, 2010;

ix

Table of Contents

$12 million in the year ending January 31, 2011; and

$11 million thereafter.

A breakdown of the adjustments by period relating to the Phase I review, to record stock-based compensation expense, is provided below.

Impact of Phase I Adjustments by Period
(in thousands)

Year ended January 31, 1991	$	3
Year ended January 31, 1992		5
Year ended January 31, 1993		94
Year ended January 31, 1994		34
Year ended January 31, 1995		95
Year ended January 31, 1996		171
Year ended January 31, 1997		184
Year ended January 31, 1998		15
Year ended January 31, 1999		393
Year ended January 31, 2000		2,147
Year ended January 31, 2001		5,829
Year ended January 31, 2002		3,881
Year ended January 31, 2003		5,284
Cumulative effect on February 1, 2003 opening retained earnings		18,135
Year ended January 31, 2004		111
Year ended January 31, 2005		57
Cumulative effect on February 1, 2005 opening retained earnings		18,303
Nine-month period ended October 31, 2005		28
Total Adjustments	$	18,331

Table of Contents

For a detailed explanation of the impact of the restatements and corrections to certain of our historical financial information for the year ended January 31, 2005 and the year ended January 31, 2004, see Selected Financial Data under Item 6. For a detailed discussion of the circumstances giving rise to the delays in filing our periodic reports for periods following the quarter ended October 31, 2005 and for additional information regarding the reviews and the internal investigation, the findings of the reviews and the internal investigation, the accounting errors identified and the related adjustments, see Management s Discussion and Analysis of Financial Condition and Results of Operations Investigation and Restatement under Item 7 and Note 2, Correction of Errors in Previously Issued Consolidated Financial Statements to the consolidated financial statements included in Item 15. For a full description of the material weaknesses in our internal controls over financial reporting identified by management as a result of the reviews and the internal investigation as well as management s remediation efforts as of the filing date of this report, see Controls and Procedures under Item 9A.

Remedial Efforts. As a result of the Phase I review, the Phase II investigation, the VSOE/revenue recognition review, and our internal controls testing, we have identified the material weaknesses set forth in Controls and Procedures under Item 9A and have implemented several remedial measures relating to corporate governance, training, ethics and corporate culture, internal controls and compliance. Such measures include:

- establishing an Internal Audit Department, which reports directly to our audit committee;
- updating our Employee Code of Business Conduct and Ethics and implementing a new Finance and Accounting Code of Conduct that serves as a set of guiding principles emphasizing our commitment to integrity in financial and accounting reporting, as well as transparency and robust and complete communications with, and disclosures to, internal and external auditors;
- revising and enhancing our revenue recognition policies and controls, including
  - appointing a VP Finance and Global Revenue Controller and Regional Revenue Controllers, and establishing a centralized revenue recognition department to address complex revenue recognition matters and to provide oversight and guidance on the design of controls and processes to enhance and standardize revenue recognition accounting application; and
  - designing and implementing enhanced information technology systems and user applications, including a broader and more sophisticated implementation of our Enterprise Resource Planning system;
- engaging external subject matter experts to assist in developing, implementing, and/or enhancing accounting and finance-related policies and procedures, including
  - advising on the accounting for and disclosure of stock-based compensation matters;
  - assisting in developing and implementing a formal remediation plan; and
  - assisting in developing, implementing and/or enhancing revenue recognition, account reconciliations, journal entry review/approval procedures, end-user computing, fixed assets, and reserve and accrual analyses;

Table of Contents

- revising our policies and procedures regarding the manner in which transactions are to be documented, the level of support required for documenting management s judgments and related document retention procedures, including
  - implementing a record retention program to centralize global finance documentation in a standard repository;
  - engaging external subject matter experts with specialized international and consolidated income tax knowledge to assist in creating**,** implementing, and documenting a consolidated tax process; and
- expanding our accounting policy and controls organization by creating and filling new positions with qualified accounting and finance personnel including a new Chief Financial Officer, a new Senior Vice President Finance and Corporate Controller, and a Vice President of Global Accounting as well as creating the position of Chief Compliance Officer.

Other Information. As a result of the delay in filing our periodic reports with the SEC, we were unable to comply with the listing standards of NASDAQ and our common stock was suspended from trading effective February 1, 2007 and formally de-listed effective June 4, 2007.

In connection with our Phase I review and the internal investigation, on April 9, 2008, as we previously reported, we received a Wells Notice from the staff of the SEC arising from the staff s investigation of our past stock option grant practices and certain unrelated accounting matters. These accounting matters were also the subject of our internal investigation. On March 3, 2010, the SEC filed a settled enforcement action against us in the United States District Court for the Eastern District of New York relating to certain of our accounting reserve practices. Without admitting or denying the allegations in the SEC s Complaint, we consented to the issuance of a Final Judgment permanently enjoining us from violating Section 17(a) of the Securities Act, Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder. The settled SEC action did not require us to pay any monetary penalty and sought no relief beyond the entry of a permanent injunction. The SEC s related press release noted that, in accepting the settlement offer, the SEC considered our remediation and cooperation in the SEC s investigation. The settlement was approved by the United States District Court for the Eastern District of New York on March 9, 2010.

On December 23, 2009, as we previously reported, we received an additional Wells Notice from the staff of the SEC relating to our failure to timely file our periodic reports under the Exchange Act. On March 3, 2010, the SEC issued an Order Instituting Proceedings (OIP) pursuant to Section 12(j) of the Exchange Act to suspend or revoke the registration of our common stock because of our failure to file an annual report on either Form 10-K or Form 10-KSB since April 25, 2005 or quarterly reports on either Form 10-Q or Form 10-QSB since December 12, 2005. An Administrative Law Judge will consider the evidence in the Section 12(j) proceeding and has been directed in the OIP to issue an initial decision within 120 days of service of the OIP. We are currently evaluating the Section 12(j) OIP, including available procedural remedies and intend to defend against the possible suspension or revocation of the registration of our common stock.

Table of Contents

PART I

Item 1. Business

As discussed under Explanatory Note , this report covers each of the years ended January 31, 2008, 2007, and 2006. As such, the information relating to our business and related matters set forth below includes information for each of those years. However, as a result of the gap in our public financial reporting and the significant changes we have made to our business in the interim, the information in this Item 1 focuses on our more recent periods and also includes certain updated information for periods after January 31, 2008.

Our Company

Verint® Systems Inc. is a global leader in Actionable Intelligence® solutions and value-added services. Our solutions enable organizations of all sizes to make timely and effective decisions to improve enterprise performance and make the world a safer place. More than 10,000 organizations in over 150 countries including over 80% of the Fortune 100 use Verint solutions to capture, distill, and analyze complex and underused information sources, such as voice, video, and unstructured text.

In the enterprise market, our workforce optimization solutions help organizations enhance customer service operations in contact centers, branches, and back-office environments to increase customer satisfaction, reduce operating costs, identify revenue opportunities, and improve profitability. In the security intelligence market, our video intelligence, public safety, and communications intelligence and investigative solutions are vital to government and commercial organizations in their efforts to protect people and property and neutralize terrorism and crime.

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

Actionable Intelligence Markets Enterprise Workforce Optimization and Security Intelligence

We deliver our Actionable Intelligence solutions to the enterprise workforce optimization and security intelligence markets across a wide range of industries, including financial services, retail, healthcare, telecommunications, law enforcement, government, transportation, utilities, and critical infrastructure. Much of the information available to organizations in these industries is unstructured, residing in telephone conversations, video streams, Web pages, email, and other text communications. Our advanced Actionable Intelligence solutions enable our customers to collect and analyze large amounts of both structured and unstructured information in order to make better decisions.

Table of Contents

In the enterprise workforce optimization market, demand for our Actionable Intelligence solutions is driven by organizations that seek to leverage unstructured information from customer interactions and other customer-related data in order to optimize the performance of their customer service operations, improve the customer experience, and enhance compliance. In the security intelligence market, demand for our Actionable Intelligence solutions is driven by organizations that seek to distill intelligence from a wide range of unstructured and structured information sources in order to detect, investigate, and neutralize security threats.

We have established leadership positions in both the enterprise workforce optimization and security intelligence markets by leveraging our core competency in developing highly scalable, enterprise-class applications with advanced, integrated analytics for both unstructured and structured information.

Company Background

We were incorporated in Delaware in February 1994 as a wholly-owned subsidiary of Comverse. Our initial focus was on the commercial call recording market, which at the time was transitioning from analog tape to digital recorders. In 1999, we expanded into the security market by combining with another division of Comverse focused on the communications interception market. In 2001, we further expanded our security offering into video security through a combination of our business with Loronix® Information Systems, Inc., which had been previously acquired by Comverse.

In May 2002, we completed our IPO, and, today, Comverse holds approximately a 67% ownership position in us (assuming conversion of all of our Series A Convertible Preferred Stock, par value $0.001 per share, (preferred stock) into common stock). Since our IPO, we have acquired a number of companies that have strengthened our position in both the enterprise workforce optimization and security intelligence markets. Our largest acquisition was of Witness in May 2007, which strengthened our leadership position in the enterprise workforce optimization market. For further information regarding the Witness and other recent acquisitions, see Recent Developments Mergers and Acquisitions; Financings .

We participate in the enterprise workforce optimization and security intelligence markets through three operating segments: Enterprise Workforce Optimization Solutions (Workforce Optimization), Video Intelligence Solutions (Video Intelligence), and Communications Intelligence and Investigative Solutions (Communications Intelligence), each of which is described in greater detail below and in Management s Discussion and Analysis of Financial Condition and Results of Operations under Item 7. At the time of filing of our last annual report on Form 10-K, filed for the year ended January 31, 2005, we conducted our business in a single operating segment. As a result of developments relating to the management of our business subsequent to January 2005, during a portion of the period of our extended filing delay, we disclosed that our business operated in two segments. Following the May 25, 2007 acquisition of Witness and resulting changes in our business as a whole, we concluded that our business was conducted in three separate operating segments. All of the applicable financial information contained in this report for the years ended January 31, 2008, 2007, and 2006, is presented to reflect our three operating segments. Please see also Note 18, Segment, Geographic, and Significant Customer Information to the consolidated financial statements included in Item 15 for additional information and financial data about each of our operating segments and geographic regions.

Table of Contents

Through our website at www.verint.com, we will make available our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, as well as amendments to those reports filed or furnished by us pursuant to Section 13(a) or Section 15(d) of the Exchange Act free of charge, as soon as reasonably practicable after we file such materials with the SEC. Any documents that we file with the SEC can also be read and copied at the SEC s Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information. Our filings are also available at the SEC s website at www.sec.gov. Our website address set forth above is not intended to be an active link and information on our website is not incorporated in, and should not be construed to be a part of, this report.

The Enterprise Workforce Optimization Solutions Segment

We are a leading provider of enterprise workforce optimization software and services. Our solutions enable organizations to extract and analyze valuable information from customer interactions and related operational data in order to make more effective, proactive decisions for optimizing the performance of their customer service operations, improving the customer experience, and enhancing compliance. Marketed under the Impact 360® brand to contact centers, back offices, branch and remote offices, and public safety centers, these solutions comprise a unified suite of enterprise workforce optimization applications and services that include Internet Protocol (IP) and legacy Time-Division Multiplexing (TDM) voice recording and quality monitoring, speech and data analytics, workforce management, customer feedback, eLearning and coaching, performance management, and desktop productivity/application analysis. These applications can be deployed stand-alone or in an integrated fashion.

The Workforce Optimization Market and Trends

We believe that customer service is being viewed more strategically than in the past, particularly by organizations whose interactions with customers regarding sales and services take place primarily through contact centers. Consistent with this trend, we believe organizations seek solutions that enable them to strike a balance between driving sales, managing operating costs, and delivering the optimal customer experience.

In order to make better decisions to achieve these goals, we believe that organizations increasingly seek to leverage valuable data collected from customer interactions and associated operational activities. However, customer service solutions have traditionally been deployed in the contact center as stand-alone applications, which prevented information from being shared and analyzed across multiple/related applications. These solutions also lacked functionality for analyzing unstructured information, such as the content of phone calls and emails. As a result, organizations historically based their customer service-related business decisions on a fraction of the information available to them.

Table of Contents

We believe that customer-centric organizations today seek unified, innovative enterprise workforce optimization solutions delivered by a single vendor to better manage customer service operations across the enterprise. We believe that the key business and technology trends driving demand for workforce optimization solutions include:

Integration of Workforce Optimization Applications

We believe that organizations increasingly seek a unified enterprise workforce optimization suite that includes call recording and quality monitoring, speech and data analytics, workforce management, customer feedback, performance management, eLearning, and coaching, as well as pre-defined business integrations. Such a unified workforce optimization suite can provide business and financial benefits, create a foundation for continuous improvement through a closed loop feedback process, and improve collaboration among various functions throughout the enterprise. For example:

- contact center managers can receive instant alerts when staff is out of adherence with standards, monitor and record interactions to determine the cause, and act quickly to correct the problem;
- supervisors can assign and deliver electronic learning material to staff desktops based on training needs automatically identified from quality monitoring evaluation scores and performance management scorecard metrics, and then track courses taken and new skills acquired; and
- using integrated speech analytics with quality monitoring, our solutions can categorize calls, allowing organizations to review the interactions that are most significant to the business and identify the underlying causes of customer service issues.

Additionally, by deploying an integrated workforce optimization suite with a single, unified graphical user interface and common database, enterprises can achieve lower cost of ownership, reduce hardware costs, simplify system administration, and streamline implementation and training. An integrated workforce optimization suite also enables enterprises to interact with a single vendor for sales and service and helps ensure seamless integration and update of all applications.

Greater Insight through Customer Interaction Analytics

We believe that enterprises are increasingly interested in deploying sophisticated customer interaction analytics, particularly speech, data, and customer feedback analytics, for gaining a better understanding of workforce performance, the customer experience, and the factors underlying business trends in order to improve the performance of their customer service operations. Although enterprises have recorded customer interactions for many years, most were able to extract intelligence only by manually listening to calls, which generally could be done for only a small percentage of all calls. Today, customer interaction analytics applications, such as speech and data analytics, have evolved to automatically analyze and categorize customer interactions in order to detect patterns and trends that significantly impact the business. Customer surveys included in a unified analytics suite help enterprises understand the effectiveness of their employees, products, and processes directly from the customer s perspective. Together, these applications provide a new level of insight into such important areas as customer satisfaction, customer behavior, and staff effectiveness, including the underlying cause of business trends in these critical areas.

Table of Contents

Adoption of Workforce Optimization Across the Enterprise

Workforce optimization solutions have traditionally been deployed in contact centers. However, many customer service employees work in other areas of the enterprise, such as the back office and branch and remote office locations. Today, we believe that certain enterprises show increased interest in deploying certain workforce optimization applications, such as staff scheduling and desktop activity management, outside the contact center to enable the same type of performance measurement that has historically been available in the contact center, with the goal of improving customer service and performance across the enterprise.

Migration to Voice over Internet Protocol (VoIP) Technologies

Many enterprises are replacing their contact centers legacy voice (TDM) infrastructures with VoIP telephony infrastructure. These upgrades typically require new deployments of enterprise workforce optimization solutions that are designed to support IP or hybrid TDM/IP environments.

Our Enterprise Workforce Optimization Solution Portfolio

We are a leader in the workforce optimization market with Impact 360, a comprehensive, unified portfolio of workforce optimization solutions. Our Workforce Optimization solutions are highly scalable and designed to be deployed by small to very large organizations in traditional contact centers and other areas of the enterprise, such as the back office, remote offices, and branches, as well as by public safety centers. Our solutions are generally implemented in industries that have significant customer service operations, such as insurance, banking and brokerage, telecommunications, media, retail, public safety, and hospitality.

The following table summarizes our portfolio of Workforce Optimization solutions.

Solution	**Description**
Quality Monitoring	Records multimedia interactions based on user-defined business rules and provides sophisticated interaction assessment functionality, including intelligent evaluation forms and automatic delivery of calls for evaluation according to quotas or contact-related criteria, to help enterprises evaluate and improve the performance of customer service staff.
Full-Time and Compliance Recording	Provides contact center recording for compliance, sales verification, and monitoring in IP, traditional TDM, and mixed telephony environments. Includes encryption capabilities to help support the Payment Card Industry Data Security Standard and other regulatory requirements for protecting sensitive data.

Table of Contents

Solution	Description
Workforce Management	Helps enterprises forecast staffing requirements, deploy the appropriate level of resources, and evaluate the productivity of their customer service staff. Also includes optional strategic planning capabilities to help determine optimal hiring plans.
Customer Interaction Analytics (Speech, Data, and Customer Feedback)	Our speech analytics analyze call content for the purpose of proactively identifying business trends, building effective cost containment and customer service strategies, and enhancing quality monitoring programs. Our data analytics apply our data mining technology to call-related information (metadata) and call content, as well as to productivity, quality, and customer experience metrics, to help enterprises identify hidden service and quality issues, determine the causes, and correct them. Our customer feedback analytics help enterprises efficiently survey customers via Interactive Voice Response (IVR), Web, or email in order to gather customer feedback on products, processes, agent performance, and customer satisfaction and loyalty.
Performance Management	Provides a comprehensive view of key performance indicators (KPIs), with performance scorecards and reports on customer interactions, customer experience trends, and contact center, back office, branch, remote office, and customer service staff performance.
eLearning and Coaching	Enables enterprises to deliver Web-based training to customer service staff desktops, including learning clips created from recordings and other customized materials targeted to staff needs and competencies.
Desktop Activity Management	Captures information from customer service employee interactions with their desktop applications to provide insights into productivity, training issues, process adherence, and bottlenecks.
Workforce Optimization for Small-to-Medium Sized Businesses (SMB)	Designed for smaller companies (with contact centers), which increasingly face the same business requirements as their larger competitors. Enables companies of all sizes to boost productivity, reduce attrition, capture and evaluate interactions, and satisfy compliance and risk management requirements in a cost-effective way.
Public Safety	Includes quality monitoring, speech analytics, and full-time and compliance recording solutions under the brand Impact 360 for Public Safety Powered by Audiolog . Our public safety solution allows first responders (police, fire departments, emergency medical services, etc.) in the Security Intelligence market to deploy workforce optimization solutions to record, manage, and act on incoming assistance requests and related data.

Table of Contents

The Video Intelligence Solutions Segment

We are a leading provider of networked IP video solutions designed to optimize security and enhance operations. Our Video Intelligence Solutions portfolio includes IP video management software and services, edge devices for capturing, digitizing, and transmitting video over different types of wired and wireless networks, video analytics, and networked digital video recorders (DVRs). Marketed under the Nextiva® brand, this portfolio enables organizations to deploy an end-to-end IP video solution with analytics or evolve to IP video solutions without discarding their investments in analog Closed Circuit Television (CCTV) technology.

The Networked IP Video Market and Trends

We believe that terrorism, crime, and other security threats around the world are generating demand for advanced video security solutions that can help detect threats and prevent security breaches. We believe that organizations across a wide range of industries, including public transportation, utilities, ports and airports, government, education, finance, and retail, are interested in broader deployment of video solutions and more proactive use of existing video to increase the safety and security of their facilities, employees, and visitors, improve emergency response, and enhance their investigative capabilities.

Consistent with this trend, the video security market continues to experience a technology transition from relatively passive analog CCTV video systems, which use analog equipment and closed networks and generally provide only basic recording and viewing capabilities, to more sophisticated, proactive, network-based IP video that use video management software to efficiently collect, manage, and analyze large amounts of video over networks and feature analytics. We believe this transition from passive analog systems to network-based digital systems greatly improves the ability of organizations to quickly and efficiently detect security breaches and deliver video and data across the enterprise and to outside agencies in order to address security threats, improve operational efficiency, and comply with cost containment mandates.

While the security market is evolving to networked IP video solutions, many organizations have already made significant investments in analog technology. Our Nextiva solutions allow these organizations to cost effectively migrate to networked IP video without discarding their existing analog investments. Designed on an open platform, our solutions facilitate interoperability with our customers business and security systems and with complementary third-party products, such as cameras, video analytics, video management software, command and control systems, and access control systems.

Table of Contents

Our Video Intelligence Solutions Portfolio

We are a leader in the networked video market with Nextiva, a comprehensive, end-to-end, networked IP video solution portfolio. The following table summarizes our portfolio of Video Intelligence Solutions.

Solution	Description
IP Video Management Software	Simplifies management of large volumes of video and geographically-dispersed video surveillance operations, with a suite of applications that includes automated system health monitoring, policy-based video distribution, networked video viewing, and investigation management. Designed for use with industry-standard servers and storage solutions and for inter-operability with other enterprise systems.
Edge Devices	Captures, digitizes, and transmits video across enterprise networks, providing many of the benefits of IP video while using existing analog CCTV investments. Includes IP cameras; bandwidth-efficient video encoders to convert analog images to IP video for transmission over IP networks; and wireless devices that perform both video encoding and wireless IP transmission, facilitating video surveillance in areas too difficult or expensive to wire.
Video Analytics	Analyzes video content to automatically detect anomalies and activities of interest, such as perimeter intrusion, unattended objects, camera tampering, and vehicles moving in the wrong direction. Also includes industry-specific analytics applications focused on the behavior of people in retail and other environments.
Networked DVRs	Performs networked digital video recording utilizing secure, embedded operating systems and market-specific data integrations for applications that require local storage, as well as remote networking.

Our Video Intelligence Solutions are deployed across a wide range of industries, including banking, retail, critical infrastructure, government, corporate campuses, education, airports, seaports, public transportation, and homeland security. Our video solutions include certain video analytics and data integrations specifically optimized for these industries. For example, our public transportation application includes global positioning system (GPS) integrations, our retail application includes point of sale integrations and retail traffic analytics, our banking application includes automated teller machine (ATM) integrations, and our critical infrastructure application includes video analytics for detecting suspicious events and command and control integrations.

Table of Contents

The Communications Intelligence and Investigative Solutions Segment

We are a leading provider of Communications Intelligence and Investigative Solutions that help law enforcement, national security, intelligence, and other government agencies effectively detect, investigate, and neutralize criminal and terrorist threats. Our solutions are designed to handle massive amounts of unstructured and structured information from different sources, quickly make sense of complex scenarios, and generate evidence and intelligence. Our portfolio includes solutions for communications interception, service provider compliance, mobile location tracking, fusion and data management, financial crime investigation, web intelligence, integrated video monitoring, and tactical communications intelligence. These solutions can be deployed stand-alone or collectively, as part of a large-scale system to address the needs of large government agencies that require advanced, comprehensive solutions.

The Communications Intelligence and Investigative Solutions Market and Trends

We believe that terrorism, criminal activities, including financial fraud and drug trafficking, and other security threats, combined with an expanding range of communication and information media, are driving demand for innovative security solutions that collect, integrate, and analyze information from voice, video, and data communications, as well as from other sources, such as private and public databases. We believe the key trends driving demand for our Communications Intelligence and Investigative Solutions are:

Increasing Complexity of Communications Networks and Growing Network Traffic

Law enforcement and certain other government agencies are typically given the authority to intercept communication transmissions to and from specified targets for the purpose of generating evidence. National security and intelligence agencies intercept communications, often in massive volumes, for the purpose of generating intelligence and supporting investigations. We believe that these agencies are seeking technically advanced solutions to help them to keep pace with increasingly complex communications networks and the growing amount of network traffic.

Growing Demand for Advanced Intelligence and Investigative Solutions

Investigations related to criminal and terrorist networks, drugs, financial crimes, and other illegal activities are highly complex and often involve collecting and analyzing information from multiple sources. We believe that law enforcement, national security, intelligence, and other government agencies are seeking advanced solutions that enable them to integrate and analyze information from multiple sources and collaborate more efficiently with various other agencies in order to unearth suspicious activity, optimize investigative workflows, and make investigations more effective.

Table of Contents

Legal and Regulatory Compliance Requirements
In many countries, communications service providers are mandated by government regulation to satisfy certain technical requirements for delivering communication content and data to law enforcement and government authorities. For example, in the United States, requirements have been established under the Communications Assistance for Law Enforcement Act (CALEA). In Europe, similar requirements have been adopted by the European Telecommunications Standards Institute (ETSI). In addition, many law enforcement and government agencies around the world are mandated to ensure compliance of laws and regulations related to criminal activities, such as financial crime. We believe these laws and regulations are creating demand for our Communications Intelligence and Investigative Solutions.

Our Communications Intelligence and Investigative Solutions Portfolio
We are a leader in the market for communications intelligence and investigative solutions, which are marketed under the RELIANT , VANTAGE®, STAR-GATE , X-TRACT®, and ENGAGE brand names. The following table summarizes our portfolio of Communications Intelligence and Investigative solutions.

Solution	**Description**
Communications Interception	Enables the interception, monitoring, and analysis of information collected from a wide range of communications networks, including fixed and mobile networks, IP networks, and the Internet. Includes lawful interception solutions designed to intercept specific target communications pursuant to legal warrants and mass interception solutions for investigating and proactively addressing criminal and terrorist threats.
Communications Service Provider Compliance	Provides communication service providers with the ability to collect and deliver to government agencies specific call-related information in compliance with CALEA, ETSI, and other compliance regulations and standards. Includes a scalable warrant and subpoena management system for efficient, cost-effective administration of legal warrants across multiple networks and sites.
Mobile Location Tracking	Tracks the location of mobile network devices for intelligence and evidence gathering, with analytics and workflow designed to support investigative activities. Provides real-time tracking of multiple targets, real-time alerts, and investigative capabilities, such as geospatial fencing and events correlation.
Fusion and Investigation Management	Fuses data gathered from multiple database sources, with link analysis, adaptable investigative workflow, and analytics to improve investigation efficiency and productivity. Supports complex investigations that require expertise across various domains, involve multiple government agencies, and require significant resources and time.
Financial Crime Investigation	Helps law enforcement and government financial regulatory agencies investigate financial fraud, money laundering, and other financial crimes, as well as drug- and terror-related cases.

Table of Contents

Solution	Description
Web Intelligence	Increases the productivity and efficiency of investigations in which the Internet is the prime source of information. Features advanced data collection, text analysis, data enrichment, advanced analytics, and a clearly defined investigative workflow on a scalable platform.
Integrated Video Monitoring	Enables the scalable collection, storage, and analysis of video captured by surveillance systems and its integration with other sources of information, such as intercepted communications or location tracking data.
Tactical Communications Intelligence	Provides portable communications interception and location tracking capabilities for local use or integration with centralized monitoring systems, to support tactical field operations.

Customer Services

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

Implementation, Training and Consulting

Our solutions are implemented by our service organizations, authorized partners, resellers, or customers. Our implementation services include project management, system installation, and commissioning, including integrating our applications with our customers   environments and third-party solutions. Our training programs are designed to enable our customers to effectively utilize our solutions and to certify our partners to sell, install, and support our solutions. Customer and partner training are provided at the customer site, at our training centers around the world, or remotely through webinars. Our consulting services are designed to enable our customers to maximize the value of our solutions in their own environments.

Maintenance Support

We offer a range of customer maintenance support programs to our customers and partners, including phone, Web, and email access to technical personnel up to 24 hours a day, 7 days a week. Our support programs are designed to ensure long-term, successful use of our solutions. We believe that customer support is critical to retaining and expanding our customer base. Our Workforce Optimization solutions are sold with a warranty of generally one year for hardware and 90 days for software. Our Video Intelligence solutions and Communications Intelligence solutions are sold with warranties that typically range from 90 days to 3 years, and in some cases longer. In addition, customers are typically provided the option to purchase maintenance plans that provide a range of services, such as telephone support, advanced replacement upgrades, and on-site repair or replacement. Currently, the majority of our maintenance revenue is related to our Workforce Optimization solutions.

Direct and Indirect Sales

We sell our solutions through our direct sales teams and indirect channels, including distributors, systems integrators, value-added resellers (VAR), and original equipment manufacturers (OEM) partners.

Each of our solutions is sold by trained, dedicated, regionally organized direct and indirect sales teams. Our direct sales teams are focused on large and mid-sized customers and, in many cases, co-sell with our other channels and sales agents. Our indirect sales teams are focused on developing and supporting relationships with our indirect channels, which provide us with broader market coverage, including access to their customer base, integration services, and presence in certain geographies and vertical markets. Our sales teams are supported by business consultants, solutions specialists, and pre-sales engineers who, during the sales process, determine customer requirements and develop technical responses to those requirements. While we sell directly and indirectly in all three of our segments, sales of our Video Intelligence solutions are primarily indirect, and sales of our Communications Intelligence solutions are primarily direct.

Customers

Our solutions are currently used by more than 10,000 organizations in over 150 countries. In the year ended January 31, 2008, we derived approximately 49%, 28%, and 23% of our revenue from the sales of our Workforce Optimization solutions, Video Intelligence solutions, and Communications Intelligence solutions, respectively. In the year ended January 31, 2007, we derived approximately 34%, 33%, and 33% of our revenue from the sales of our Workforce Optimization solutions, Video Intelligence solutions, and Communications Intelligence solutions, respectively. In the year ended January 31, 2006, we derived approximately 25%, 37%, and 38% of our revenue from the sales of our Enterprise Workforce Optimization solutions, Video Intelligence solutions, and Communications Intelligence solutions, respectively.

In the year ended January 31, 2008, we derived approximately 52%, 33%, and 15% of our revenue from sales to end users in the Americas; Europe, the Middle East, and Africa (EMEA); and the Asia Pacific Region (APAC), respectively. In the year ended January 31, 2007, we derived approximately 48%, 31%, and 21% of our revenue from sales to end users in the Americas, EMEA, and APAC, respectively. In the year ended January 31, 2006, we derived approximately 51%, 33%, and 16% of our revenue from sales to end users in the Americas, EMEA, and APAC, respectively.

Table of Contents

None of our customers, including system integrators, VARs, various local, regional, and national governments worldwide, and OEM partners, individually accounted for more than 10% of our consolidated revenue in the years ended January 31, 2008, 2007, or 2006. Additionally, while none of our operating segments is dependent on a single or small number of customers, in some years, we have entered into contracts with customers in our Video Intelligence segment or our Communications Intelligence segment the loss of which could have a material adverse effect on the segment. See Note 18, Segment, Geographic, and Significant Customer Information to the consolidated financial statements included in Item 15. Some of the customer engagements on which we work require us to have the necessary security credentials or to participate in the project through an approved legal entity. For a more detailed discussion of the risks associated with our government customers, see Risk Factors We are dependent on contracts with governments around the world for a significant portion of our revenue. These contracts expose us to additional business risks and compliance obligations under Item 1A and Risk Factors U.S. and foreign governments could refuse to buy our Communications Intelligence solutions or could deactivate our security clearances in their countries thereby restricting or eliminating our ability to sell these solutions in those countries and perhaps other countries influenced by such a decision under Item 1A.

Research and Development

We continue to enhance the features and performance of our existing solutions and to introduce new solutions through extensive research and development activities, including the development of new solutions, the addition of capabilities to existing solutions, quality assurance, and advanced technical support for our customer services organization. In certain instances, we customize our products to meet the particular requirements of our customers. Research and development is performed primarily in the United States, United Kingdom, and Israel for our Workforce Optimization segment; primarily in the United States, Canada, and Israel for our Video Intelligence segment; and primarily in Israel, with separate and independent research and development activities in Germany, for our Communications Intelligence segment.

We believe that our future success depends on a number of factors, which include our ability to:

- identify and respond to emerging technological trends in our target markets;
- develop and maintain competitive solutions that meet our customers changing needs;
- enhance our existing products by adding features and functionality to meet specific customer needs or differentiate our products from those of our competitors; and
- attract, recruit, and retain highly skilled and experienced employees.

To support these efforts, we make significant investments in research and development every year. In the years ended January 31, 2008, 2007, and 2006, we spent approximately $87.7 million, $53.0 million, and $34.9 million, respectively, on research and development, net. We allocate our research and development resources in response to market research and customer demand for additional features and solutions. Our development strategy involves rolling out initial releases of our products and adding features over time. We incorporate product feedback received from our customers into our product development process. While the majority of our products are developed internally, in some cases, we also acquire or license technologies, products, and applications from third parties based on timing and cost considerations.

As noted above, a significant portion of our research and development operations is located outside the United States. Historically, we have also derived substantial benefits from participation in certain government-sponsored programs, including the Office of the Chief Scientist (OCS) of Israel and certain research and development programs in Canada, for the support of research and development activities conducted in those countries. The Israeli law under which these OCS grants are made limits our ability to manufacture products, or transfer technologies, developed using these grants outside of Israel without permission from the OCS. See Risk Factors - Research and development and tax benefits we receive in Israel may be reduced or eliminated in the future and our receipt of these benefits subjects us to certain restrictions and Risk Factors - Because we have significant foreign operations, we are subject to geopolitical and other risks that could materially adversely affect our business under Item 1A for a discussion of these and other risks associated with our foreign operations.

Manufacturing and Suppliers

Our manufacturing and assembly operations are performed in our United States and Israeli facilities for our Workforce Optimization solutions; in our United States, Israeli and Canadian facilities for our Video Intelligence Solutions; and in our German and Israeli facilities for our Communications Intelligence and Investigative Solutions. These operations consist of installing our software on externally purchased hardware components, final assembly, and testing, which involves the application of extensive quality control procedures to materials, components, subassemblies, and systems. We also manufacture certain hardware units and perform system integration functions prior to shipping turnkey solutions to our customers. We rely on several unaffiliated subcontractors for the supply of specific proprietary components and assemblies that are incorporated in our products, as well as for certain operations activities that we outsource. Although we have occasionally experienced delays and shortages in the supply of proprietary components in the past, we have, to date, been able to obtain adequate supplies of all components in a timely manner from alternative sources, when necessary. See Risk Factors For certain products and components, we rely on a limited number of suppliers and manufacturers and we may not be able to obtain substitute suppliers or manufacturers on terms that are as favorable as those we have now or at all if these relationships are interrupted under Item 1A for a discussion of risks associated with our manufacturing operations and suppliers.

Employees

As of January 31, 2010, we employed approximately 2,500 people, including part-time employees and certain contractors. Approximately 46%, 38%, 10%, and 6% of our employees are located in the Americas, Israel, Europe, and APAC, respectively.

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

Table of Contents

Intellectual Property Rights

General

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

Patents

As of February 28, 2010, we had more than 460 patents and patent applications worldwide. We have accumulated a significant amount of proprietary know-how and expertise in developing analytics solutions for enterprise workforce optimization and security intelligence products. We regularly review new areas of technology related to our businesses to determine whether they are patentable.

Licenses

Our licenses are designed to prohibit unauthorized use, copying, and disclosure of our software technology. When we license our software to customers, we require license agreements containing restrictions and confidentiality terms customary in the industry in order to protect our proprietary rights in the software. These agreements generally warrant that the software and propriety hardware will materially comply with written documentation and assert that we own or have sufficient rights in the software we distribute and have not violated the intellectual property rights of others. We license our products in a format that does not permit users to change the software code.

We license certain software, technology, and related rights for use in the manufacture and marketing of our products and pay royalties to third parties under such licenses and other agreements. We believe that our rights under such licenses and other agreements are sufficient for the manufacture and marketing of our products and, in the case of licenses, extend for periods at least equal to the estimated useful lives of the related technology and know-how.

Trademarks and Service Marks

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

Table of Contents

Competition

We face strong competition in all of our markets, and we expect that competition will persist and intensify. In our Workforce Optimization segment, our competitors are Aspect Software, Inc., Autonomy Corp., Genesys Telecommunications, NICE Systems Ltd (NICE), and many smaller companies, which can vary across regions. In our Video Intelligence segment, our competitors include Dedicated Microcomputer Limited, Genetec Inc., March Networks Corporation, Milestone Systems A/S, NICE, and Pelco, Inc. (a division of Schneider Electric Limited); divisions of larger companies, including Bosch Security Systems, Cisco Systems, Inc., General Electric Company (which announced in November 2009 its intent to sell its fire-detection and security business to United Technologies Corp.), Honeywell International Inc., and many smaller companies, which can vary across regions. In our Communications Intelligence segment, our primary competitors are Aqsacom Inc., ETI, JSI Telecom, NICE, Pen-Link, Ltd., RCS S.R.L. a subsidiary of URMET S.p.A., Trovicor, SS8 Networks, Inc., Ultimaco (a division of Sophos, Plc), and many smaller companies, which can vary across regions. Some of our competitors have superior brand recognition and greater financial resources than we do, which may enable them to increase their market share at our expense. Furthermore, we expect that competition will increase as other established and emerging companies enter IP markets and as new products, services, and technologies are introduced.

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

- product performance and functionality;
- product quality and reliability;
- breadth of product portfolio and interoperability;
- global presence and high-quality customer service and support;
- specific industry knowledge, vision, and experience; and
- price.

We believe that our success depends primarily on our ability to provide technologically advanced and cost-effective solutions and services. We expect that competition will increase as other established and emerging companies enter our market and as new products, services, and technologies are introduced. In recent years, there has also been significant consolidation among our competitors, which has improved the competitive position of several of these companies and enabled new competitors to emerge in all of our markets. See Risk Factors Intense competition in our markets and competitors with greater resources than us may limit our market share, profitability, and growth under Item 1A for a more detailed discussion of the competitive risks we face.

Table of Contents

Export Regulations

We and our subsidiaries are subject to applicable export control regulations in countries from which we export goods and services, including the United States and Israel. These controls may apply by virtue of the country in which the products are located or by virtue of the origin of the content contained in the products. If the controls of a particular country apply, the level of control generally depends on the nature of the goods and services in question. For example, our Communications Intelligence solutions tend to be more highly controlled than our Workforce Optimization solutions. Certain countries, including the United States and Israel, have also imposed controls on products that contain encryption functionality, which covers many of our products. Where controls apply, the export of our products generally requires an export license or authorization (either on a per-product or per-transaction basis) or that the transaction qualify for a license exception or the equivalent, and may also be subject to corresponding reporting requirements.

Recent Developments

The following summarizes significant developments at Verint since October 31, 2005 (the date of our last periodic report), beyond our internal investigation, restatement, and audit-related items discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations Investigation and Restatement under Item 7 and elsewhere in this report.

Mergers and Acquisitions; Financings

On January 9, 2006, we acquired the networked video security business of Hong Kong-based MultiVision Intelligent Surveillance Limited (MultiVision) as part of our plan to expand the footprint of our video business in the APAC region. We paid approximately $48.9 million in cash for MultiVision.

On February 6, 2006, we acquired all of the outstanding shares of CM Insight Limited (CM Insight), a U.K.-based, privately held customer management solution provider that helps enterprises enhance their customer experience and improve the quality and performance of their contact center operations. We paid approximately $6.6 million in cash for CM Insight. In addition, the selling shareholders of CM Insight were entitled to receive earn-out payments over two years based on certain performance targets. For the 12-month period ended February 6, 2007, the selling shareholders of CM Insight earned the maximum earn-out payment available for such period of £2.0 million, or approximately $3.9 million at then-current exchange rates. As the applicable performance targets for the 12-month period ended February 6, 2008 were not achieved, no earn-out payments were made for such period.

On July 14, 2006, we acquired all of the outstanding shares of Mercom Systems Inc. (Mercom), a privately held provider of interaction recording and performance evaluation solutions for small-to-midsize contact centers and public safety centers. The purchase price consisted of $35.0 million in cash at closing, $0.7 million of direct transaction costs, and potential additional cash earn-out payments. As of January 31, 2008, the end of the earn-out period, the former shareholders had earned and been paid approximately $3.7 million of the potential earn-out.

Table of Contents

On February 1, 2007, we completed the acquisition of ViewLinks Euclipse Ltd., an Israeli-based, privately-held provider of data mining and link analysis software solutions. The aggregate purchase price was $7.4 million in cash.

On May 25, 2007, we completed the acquisition of Witness. Under the terms of the merger agreement, each outstanding share of Witness common stock was converted into the right to receive $27.50 in cash, less applicable withholding taxes, if any. In addition, upon consummation of the merger, outstanding vested options to purchase Witness common stock were converted into a right to receive a cash payment, and unvested options to purchase Witness common stock were assumed by us and converted into options to purchase our common stock. The aggregate merger consideration paid to consummate the transaction, including the fair value of Witness stock options exchanged for Verint options, was approximately $944.3 million, net of cash acquired, $650.0 million of which was financed by proceeds of a term loan and a new credit agreement entered into by us in connection with the transaction, and $293.0 million of which was financed with proceeds from the issuance of our preferred stock to Comverse and from available cash balances.

On February 4, 2010, our wholly-owned subsidiary, Verint Americas Inc., acquired all of the outstanding shares of Iontas Limited (Iontas), a privately held provider of desktop analytics solutions. Prior to this acquisition, we licensed certain technology from Iontas, whose solutions measure application usage and analyze workflows to help improve staff performance in contact center, branch and back-office operations environments. We acquired Iontas for approximately $15.2 million in cash (net of cash acquired) and potential additional earn-out payments of up to $3.8 million, tied to certain targets being achieved over the next two years. The initial purchase price allocation for this acquisition is not yet available, as we have not completed the appraisals necessary to assess the fair values of the tangible and identified intangible assets acquired and liabilities assumed, the assets and liabilities arising from contingencies (if any), and the amount of goodwill to be recognized as of the acquisition date.

For the years ended January 31, 2007 and 2008, we recorded non-cash impairment charges related to certain of these acquisitions. For more information regarding these impairment charges, see Note 6, Intangible Assets and Goodwill to the consolidated financial statements included in Item 15. For more information about the integration risks associated with the foregoing acquisitions and the requirements of our credit facility, see Risk Factors We have incurred significant indebtedness as a result of the acquisition of Witness, which makes us highly leveraged, subjects us to restrictive covenants, and could adversely affect our operations under Item 1A and Risk Factors Our business could be materially adversely affected as a result of the risks associated with acquisitions and investments under Item 1A.

OCS Royalty Settlement

On July 31, 2006, we entered into a settlement agreement with the OCS, pursuant to which we exited a royalty-bearing program and the OCS agreed to accept a lump sum payment of approximately $36.0 million. Prior to the settlement, we had accrued approximately $16.8 million of royalties and related interest due under the original terms of the program through charges to cost of revenue in the corresponding periods of the related revenue, net of previous royalty payments. We recorded a charge of approximately $19.2 million to cost of revenue in the second quarter of the year ended January 31, 2007 for the remaining amount of the lump sum settlement in excess of amounts previously accrued under the program. Payments agreed to under the OCS settlement were completed immediately following the execution of the settlement agreement. Beginning in calendar year 2006, we entered into a new program with the OCS under which we are no longer required to pay royalties to the OCS.

Settlement with NICE

On August 1, 2008, we reached a settlement agreement with NICE to resolve all then-outstanding patent litigations between NICE and its subsidiaries and Witness. These litigations resulted from a 2004 suit filed by one of NICE s subsidiaries against Witness alleging that certain Witness products infringed a number of VoIP call recording patents held by NICE. Following the filing of this initial lawsuit, Witness filed two patent infringement suits against NICE alleging infringement of certain screen capture and speech analytics patents, and NICE filed a second suit against Witness alleging violation of additional call recording patents.

Table of Contents

Following a January 2008 trial, a jury in the second suit filed by NICE was unable to reach a verdict, resulting in a mistrial. On May 16, 2008, a jury in the speech analytics case filed by Witness returned a verdict in our favor and against NICE on the claims of infringement and awarded us $3.3 million in damages; however, this award was superseded by the terms of the settlement agreement disclosed above. On May 23, 2008, the court in the initial VoIP suit filed by NICE found in our favor and against NICE on the claims of infringement.

Wells Notices

On April 9, 2008, as we previously reported, we received a Wells Notice from the staff of the SEC arising from the staff s investigation of our past stock option grant practices and certain unrelated accounting matters. These accounting matters were also the subject of our internal investigation. On March 3, 2010, the SEC filed a settled enforcement action against us in the United States District Court for the Eastern District of New York relating to certain of our accounting reserve practices. Without admitting or denying the allegations in the SEC s Complaint, we consented to the issuance of a Final Judgment permanently enjoining us from violating Section 17(a) of the Securities Act, Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder. The settled SEC action did not require us to pay any monetary penalty and sought no relief beyond the entry of a permanent injunction. The SEC s related press release noted that, in accepting the settlement offer, the SEC considered our remediation and cooperation in the SEC s investigation. The settlement was approved by the United States District Court for the Eastern District of New York on March 9, 2010.

On December 23, 2009, as we previously reported, we received an additional Wells Notice from the staff of the SEC relating to our failure to timely file our periodic reports under the Exchange Act. On March 3, 2010, the SEC issued an OIP pursuant to Section 12(j) of the Exchange Act to suspend or revoke the registration of our common stock because of our failure to file an annual report on either Form 10-K or Form 10-KSB since April 25, 2005 or quarterly reports on either Form 10-Q or Form 10-QSB since December 12, 2005. An Administrative Law Judge will consider the evidence in the Section 12(j) proceeding and has been directed in the OIP to issue an initial decision within 120 days of service of the OIP. We are currently evaluating the Section 12(j) OIP, including available procedural remedies and intend to defend against the possible suspension or revocation of the registration of our common stock.

Item 1a. Risk Factors

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

Table of Contents

Risks Related to Our Internal Investigation, Restatement, Internal Controls, and Ownership

Following the filing of this report, we will remain delayed in our SEC reporting obligations, we cannot assure you when we will complete our remaining SEC filings for periods subsequent to those included in this report, and we are likely to continue to face challenges until we complete these filings and re-list our common stock.

Although our internal investigation, revenue recognition review, and related restatement of our financial statements have been completed as discussed under Explanatory Note, we continue to face challenges with regard to completing our remaining SEC filings for periods subsequent to those included in this report. We remain delayed with our SEC reporting obligations as of the filing date of this report and we cannot assure you that we will be able to complete our remaining filings for periods subsequent to those included in this report prior to the conclusion of the SEC administrative proceeding to suspend or revoke the registration of our common stock described below. Until we complete these remaining filings, we expect to continue to face many of the risks and challenges we have experienced during our extended filing delay period, including:

- risk associated with the SEC s initiation of an administrative proceeding on March 3, 2010 to suspend or revoke the registration of our common stock under the Exchange Act due to our previous failure to file an annual report on either Form 10-K or Form 10-KSB since April 25, 2005 or quarterly reports on either Form 10-Q or Form 10-QSB since December 12, 2005;
- continued risk in maintaining compliance with the covenants and other requirements of our credit agreement, which, among other things, makes it an event of default if we do not provide audited financial statements for the year ended January 31, 2010 to our lenders on or before May 31, 2010;
- continued concern on the part of customers, partners, investors, and employees about our financial condition and extended filing delay status, including potential loss of business opportunities;
- additional significant time and expense required to complete our remaining filings and the process of seeking the re-listing of our common stock on NASDAQ or another national securities exchange beyond the very significant time and expense we have already incurred in connection with our internal investigation, restatement, and audits to date;
- continued distraction of our senior management team and our board of directors as we work to complete our remaining filings and seek to re-list our common stock;
- limitations on our ability to raise capital and make acquisitions; and
- general reputational harm as a result of the foregoing.

Table of Contents

Even if we complete our remaining filings for periods subsequent to those included in this report and our common stock is re-listed on NASDAQ or another national securities exchange, we cannot assure you that all of the risks and challenges described above will be eliminated. For example, we cannot assure you that lost business opportunities can be recaptured or that general reputational harm will not persist. If we are unable to complete our remaining filings prior to the conclusion of the SEC administrative proceeding to suspend or revoke the registration of our common stock described below, are unable to re-list our common stock, or if one or more of the foregoing risks or challenges persist even after we have done so, our business, results of operations, and financial condition are likely to be materially and adversely affected.

We have identified various material weaknesses in our internal control over financial reporting which have materially adversely affected our ability to timely and accurately report our results of operations and financial condition. These material weaknesses may not have been fully remediated as of the filing date of this report and we cannot assure you that other material weaknesses will not be identified in the future.

As a result of the circumstances which gave rise to our internal investigation, restatement, and revenue recognition review discussed under Explanatory Note , our Chief Executive Officer and Chief Financial Officer have concluded that, as of January 31, 2008, we had material weaknesses in our internal controls over financial reporting and that, as a result, our disclosure controls and procedures and our internal controls over financial reporting were not effective at such date. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting that creates a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

In addition, we believe that we continued to have material weaknesses in our internal control over financial reporting subsequent to January 31, 2008 and that many, if not all, of the material weaknesses identified at January 31, 2008 remained material weaknesses as of January 31, 2009 (for which our assessment has not been completed as of the filing date of this report) and possibly subsequent to that date. See Controls and Procedures under Item 9A for a detailed discussion of the material weaknesses identified as of January 31, 2008, possible material weaknesses as of subsequent periods, and related remediation activities. Although we have implemented remedial measures to address all of the identified material weaknesses, our assessment of the impact of these measures has not been completed as of the filing date of this report and we cannot assure you that these measures are adequate. Moreover, we cannot assure you that additional material weaknesses in our internal control over financial reporting will not arise or be identified in the future.

As a result, we must continue our remediation activities and must also continue to improve our operational, information technology, and financial systems, infrastructure, procedures, and controls, as well as continue to expand, train, retain, and manage our employee base. Any failure to do so, or any difficulties we encounter during implementation, could result in additional material weaknesses or in material misstatements in our financial statements. These misstatements could result in a future restatement of our financial statements, could cause us to fail to meet our reporting obligations, or could cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

The extraordinary processes underlying the preparation of the financial statements contained in this report may not have been adequate and our financial statements remain subject to the risk of future restatement.

The completion of our audits for the years ended January 31, 2008, 2007, and 2006, the restatement of our financial results for the years ended January 31, 2005 and 2004, and the revenue recognition review undertaken in connection therewith, involved many months of review and analysis, including highly technical analyses of our contracts and business practices, equity-based compensation instruments, tax accounting, and the proper application of SOP 97-2, SOP 81-1, and other accounting rules and pronouncements. The completion of our financial statement audits also followed the completion of an extremely detailed forensic audit as part of our internal investigation. Given the complexity and scope of these exercises, and notwithstanding the very extensive time, effort, and expense that went into them, we cannot assure you that these extraordinary processes were adequate or that additional accounting errors will not come to light in the future in these or other areas.

In addition, the relevant accounting rules and pronouncements that were the focus of our restatement and extended audit are subject to ongoing interpretation by the Financial Accounting Standards Board (FASB), the AICPA, the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. Further, the accounting profession continues to assess these accounting rules and pronouncements with the objective of providing additional guidance on potential interpretations. As a result, ongoing interpretations of these rules and pronouncements could drive unanticipated changes in our accounting practices or financial reporting. We cannot assure you that such unanticipated changes will not arise or that if they do arise that we will be able to timely adapt to them or that we will not experience future reporting delays.

If additional accounting errors come to light in areas reviewed as part of our extraordinary processes or otherwise, or if ongoing interpretations of applicable accounting rules and pronouncements result in unanticipated changes in our accounting practices or financial reporting, future restatements of our financial statements may be required.

We cannot assure you that our regular financial statement preparation and reporting processes are or will be adequate or that future restatements will not be required.

As discussed in the preceding risk factor, the processes underlying the preparation of the financial statements contained in this report were extraordinary. While we expect to continue to rely on these extraordinary processes for a period of time, during the year ending January 31, 2011, we expect to increasingly rely on our regular financial statement preparation and reporting processes.

Table of Contents

While we have significantly changed and enhanced these regular processes (as described elsewhere in this report), as of the filing date of this report, we cannot assure you that previously identified material weaknesses have been fully remediated and we continue to:

- make changes to our finance organization;
- adopt new accounting and reporting processes and procedures;
- enhance our revenue recognition and other existing accounting policies and procedures;
- introduce new or enhanced accounting systems and processes; and
- improve our internal controls over financial reporting.

Many of these changes and enhancements to our regular processes are ongoing as of the filing date of this report and we continue to assimilate the complex and pervasive changes we have already made. We cannot assure you that the changes and enhancements made to date, or those that are still in process, are adequate, will operate as expected, or will be completed in a timely fashion (if still in process). As a result, we cannot assure you that we will not discover additional errors, that future financial reports will not contain material misstatements or omissions, that future restatements will not be required, that we will be able to timely complete our remaining SEC filings for periods subsequent to this report, or that we will be able to stay current with our reporting obligations in the future.

We cannot assure you that our common stock will be re-listed, or that once re-listed, it will remain listed.

As a result of the delay in filing our periodic reports with the SEC, we were unable to comply with the listing standards of NASDAQ and our common stock was suspended from trading effective February 1, 2007 and formally de-listed effective June 4, 2007. We have applied to re-list our common stock with NASDAQ; however, there can be no assurance that we will be able to re-list our common stock in an expeditious manner or at all. Even if our common stock is re-listed, unless we are able to timely comply with our SEC reporting obligations in the future, our common stock may again be de-listed. If we cannot re-list our common stock or if it is de-listed again in the future, the price of our common stock will likely be adversely affected and there may be a decrease in the liquidity of our common stock.

Table of Contents

The circumstances which gave rise to our extended filing delay and restatement continue to create the risk of litigation against us, which could be expensive and could damage our business.

Although Comverse and its affiliates have been named in a number of class action or shareholder derivative lawsuits relating to Comverse s internal investigation and restatement, no such actions relating to our investigation, restatement, or extended filing delay have been brought against us to date. However, companies that have undertaken internal reviews and investigations or restatements face greater risk of litigation or other actions and there can be no assurance that such a suit or action relating to our internal investigation, restatement, or extended filing delay will not be initiated against us or our current or former officers, directors, or other personnel in the future. In addition, we have in the past and may in the future become subject to litigation or threatened litigation from current or former personnel as a result of our suspension of option exercises during our extended filing delay period, the expiration of equity awards during such period, or other employment-related matters relating to our internal investigation, restatement, or extended filing delay. Any such litigation or action may be time consuming and expensive, and may distract management from the conduct of our business. Any such litigation or action could have a material adverse effect on our business, financial condition, and results of operations, and may expose us to costly indemnification obligations to current or former officers, directors, or other personnel, regardless of the outcome of such matter.

We were the subject of an SEC investigation relating to our reserve and stock option accounting practices, and are the subject of an SEC proceeding relating to our failure to timely file required SEC reports. These government inquiries or any future inquiries to which we may become subject could result in penalties and/or other remedies that could have a material adverse effect on our financial condition and results of operation.

Comverse was the subject of an SEC investigation and resulting civil action regarding the improper backdating of stock options and other accounting practices, including the improper establishment, maintenance, and release of reserves, the reclassification of certain expenses, and the calculation of backlog of sales orders. On June 18, 2009, Comverse announced that it had reached a settlement with the SEC on these matters without admitting or denying the allegations of the SEC complaint. Three of Comverse s former officers, each of whom previously served on our board of directors, have also been charged in civil and criminal actions by the SEC and the Department of Justice in connection with the circumstances surrounding the Comverse Special Committee investigation. Two of these three matters have been settled to date.

On July 20, 2006, we announced that, in connection with the SEC investigation into Comverse s past stock option grants which was in process at that time, we had received a letter requesting that we voluntarily provide to the SEC certain documents and information related to our own stock option grants and practices. We voluntarily responded to this request. On April 9, 2008, as we previously reported, we received a Wells Notice from the staff of the SEC arising from the staff s investigation of our past stock option grant practices and certain unrelated accounting matters. These accounting matters were also the subject of our internal investigation. On March 3, 2010, the SEC filed a settled enforcement action against us in the United States District Court for the Eastern District of New York relating to certain of our accounting reserve practices. Without admitting or denying the allegations in the SEC s Complaint, we consented to the issuance of a Final Judgment permanently enjoining us from violating Section 17(a) of the Securities Act, Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder. The settled SEC action did not require us to pay any monetary penalty and sought no relief beyond the entry of a permanent injunction. The SEC s related press release noted that, in accepting the settlement offer, the SEC considered our remediation and cooperation in the SEC s investigation. The settlement was approved by the United States District Court for the Eastern District of New York March 9, 2010.

Table of Contents

On December 23, 2009, as we previously reported, we received an additional Wells Notice from the staff of the SEC relating to our failure to timely file our periodic reports under the Exchange Act. On March 3, 2010, the SEC issued an OIP pursuant to Section 12(j) of the Exchange Act to suspend or revoke the registration of our common stock because of our failure to file an annual report on either Form 10-K or Form 10-KSB since April 25, 2005 or quarterly reports on either Form 10-Q or Form 10-QSB since December 12, 2005. An Administrative Law Judge will consider the evidence in the Section 12(j) proceeding and has been directed in the OIP to issue an initial decision within 120 days of service of the OIP. We are currently evaluating the Section 12(j) OIP, including available procedural remedies and intend to defend against the possible suspension or revocation of the registration of our common stock. We cannot at this time predict the outcome of the Section 12(j) administrative proceedings or of any available appeals that may follow. Similarly, we cannot predict what, if any, impact the outcome of the administrative proceedings may have on our business. If a final order is issued by the SEC suspending or revoking the registration of our common stock, broker-dealers would be prevented from making a market in our common stock in the United States and from any further trading of our common stock on the Pink OTC Markets, Inc. (the Pink Sheets) or any other exchange, market, or board in the United States until, in the case of a suspension, the lifting of such suspension, and, in the case of a revocation, we file a new registration with the SEC under the Exchange Act and that registration is made effective.

In addition, as a result of our acquisition of Witness, we are subject to an additional SEC inquiry relating to certain of Witness stock option grants. On October 27, 2006, Witness received notice from the SEC of an informal non-public inquiry relating to the stock option grant practices of Witness from February 1, 2000 through the date of the notice. On July 12, 2007, we received a copy of the Formal Order of Investigation from the SEC relating to substantially the same matter as the informal inquiry. We and Witness have fully cooperated, and intend to continue to fully cooperate, if called upon to do so, with the SEC regarding this matter. In addition, the U.S. Attorney s Office for the Northern District of Georgia was given access to the documents and information provided by Witness to the SEC. While we have not heard from the SEC or the U.S. Attorney s office on this matter since June 2008, we have no assurance that one or both will not further pursue the matter.

We cannot predict the outcome of any of the foregoing unresolved proceedings or whether we will face additional government inquiries, investigations, or other actions related to these or other matters. An adverse ruling in any SEC enforcement action or other regulatory proceeding could impose upon us fines, penalties, or other remedies, including the suspension or revocation of the registration of our common stock as discussed above, which could have a material adverse effect on our results of operations and financial condition. Even if we are successful in defending against an SEC enforcement action or other regulatory proceeding, such an action or proceeding may be time consuming, expensive, and distracting from the conduct of our business and could have a material adverse effect on our business, financial condition, and results of operations. In the event of any such action or proceeding, we may also become subject to costly indemnification obligations to current or former officers, directors, or employees, which may or may not be covered by insurance.

Table of Contents

We may not have sufficient insurance to cover our liability in any future litigation claims either due to coverage limits or as a result of insurance carriers seeking to deny coverage of such claims.

We face a variety of litigation-related liability risks, including liability for indemnification of (and advancement of expenses to) current and former directors, officers, and employees under certain circumstances, pursuant to our certificate of incorporation, bylaws, other applicable agreements, and/or Delaware law.

Prior to the announcement of the Comverse Special Committee investigation, our directors and officers were included in a director and officer liability insurance policy, which covered all directors and officers of Comverse and its subsidiaries, which policy remains the sole source of insurance in connection with the matters related to such investigation. The Comverse insurance coverage may not be adequate to cover any claims against us in connection with such matters and may not be available to us due to the exhaustion of the coverage limits by Comverse in connection with the claims already asserted against Comverse and its personnel.

Following the announcement of the Comverse Special Committee investigation, we sought and obtained our own director and officer liability insurance policy for our directors and officers. We cannot assure you that the limits of our directors and officers liability insurance coverage will be sufficient to cover our potential exposure.

In addition, the underwriters of our present coverage or our old shared coverage with Comverse may seek to avoid coverage in certain circumstances based upon the terms of the respective policies, in which case we would have to self-fund any indemnification amounts owed to our directors and officers and bear any other uninsured liabilities.

If we do not have sufficient directors and officers insurance coverage under our present or historical insurance policies, or if our insurance underwriters are successful in avoiding coverage, our results of operations and financial condition could be materially adversely affected.

We have been adversely affected as a result of being a consolidated, controlled subsidiary of Comverse and may continue to be adversely affected in the future.

We have been adversely affected as a result of being a consolidated, controlled subsidiary of Comverse and may continue to be adversely affected in the future. These adverse effects arise in part, though not exclusively, from the Comverse Special Committee investigation. Under applicable accounting rules, we were required to record stock-based compensation expenses on our books for Comverse stock options granted to our employees while we were a wholly-owned subsidiary of Comverse which were found to have been improperly accounted for as part of the Comverse Special Committee investigation. Because we were dependent upon Comverse to provide us with the amount of these charges, we were forced to wait until the conclusion of the Comverse Special Committee investigation to record them, which was the initial reason we were not able to timely complete our required SEC filings. The subsequent expansion of the Comverse Special Committee investigation into other accounting issues further delayed our receipt of the required information. In addition, because of our previous inclusion in Comverse s consolidated tax group and our related tax sharing agreement with Comverse, as further discussed below, we were also forced to wait for Comverse to substantially complete its analysis of certain tax information, including information related to the net operating loss allocated to us as of our May 2002 IPO, in order to complete the restatement of our historical financial statements, the preparation of our current financial statements and associated audits. In addition to our own internal investigation and revenue recognition review, these investigations and reviews have required significant time, expense, and management distraction, have contributed to a protracted delay in the completion of our SEC filings, and have caused significant concerns on the part of customers, partners, investors, and employees.

Future delays at Comverse, if any, may again delay the completion of the preparation of our outstanding or future financial statements, associated audits and SEC filings, which could have an adverse effect on our business. In addition, if errors are discovered in the information provided to us by Comverse, we may be required to correct or restate our financial statements. In part because of the issues identified at Comverse and our relationship with Comverse, we have also been subject to enhanced scrutiny by third parties, including customers, prospects, suppliers, service providers, and regulatory authorities, all of which have adversely affected our business, and the cost, duration, and risks associated with our restatement and audits have increased.

We may continue to be adversely affected by events at Comverse so long as we remain one of its majority-owned subsidiaries. In particular, Comverse s strategic plans regarding its assets, including its ownership interest in our stock, may adversely affect our business.

Our previous inclusion in Comverse s consolidated tax group and our related tax sharing agreement with Comverse may expose us to additional tax liabilities.

Prior to our IPO in May 2002, we were included in Comverse s U.S. federal income tax return. Following our IPO, we began filing a separate U.S. federal income tax return for our own consolidated group; however, we remained party to a tax-sharing agreement with Comverse for prior periods. As a result, Comverse may unilaterally make decisions that could impact our liability for income taxes for periods prior to the IPO. Additionally, adjustments to the consolidated group s tax liability for periods prior to our IPO could affect our NOLs from Comverse and cause us to incur additional tax liability in future periods. The foregoing could result from, among other things, any agreements between Comverse and the Internal Revenue Service relating to issues that could be raised upon examination or the filing of amended federal income tax returns by Comverse on our behalf.

In addition, notwithstanding the terms of the tax sharing agreement, federal tax law provides that each member of a consolidated federal income tax group is jointly and severally liable for the group s entire tax obligation; as a result, under certain circumstances, we could be liable for taxes of other members of the Comverse consolidated group if, for example, federal income tax assessments were not paid. Similar principles apply for certain combined state income tax return filings.

Comverse can control our business and affairs, including our board of directors.

Because Comverse currently holds approximately a 67% ownership position in us (assuming the conversion of all of our preferred stock into common stock), Comverse effectively controls the outcome of all matters submitted for stockholder action, including the approval of significant corporate transactions, such as financings, equity issuances, or mergers and acquisitions. Our preferred stock, all of which is held by Comverse, entitles it to further control over significant corporate transactions.

By virtue of its majority ownership stake, Comverse also has the ability, acting alone, to remove existing directors and/or to elect new directors to our board of directors in order to fill vacancies. At present, Comverse has appointed individuals who are officers or executives of Comverse as six of our eleven directors. These directors have fiduciary duties to both us and Comverse and may become subject to conflicts of interest on certain matters where Comverse s interest as majority stockholder may not be aligned with the interests of our minority stockholders. In addition, under the terms of the preferred stock, Comverse also has the right to appoint two additional directors to our board of directors under certain circumstances.

As a consequence of Comverse s control over the composition of our board of directors, Comverse can also exert a controlling influence on our management, direction and policies, including the ability to appoint and remove our officers or, subject to the terms of our credit agreement, declare and pay dividends.

We may lose business opportunities to Comverse that might otherwise be available to us.

In connection with our May 2002 IPO, we entered into a business opportunities agreement with Comverse that addresses certain potential conflicts of interest between Comverse and us. This agreement allocates between Comverse and us opportunities to pursue transactions or matters that, absent such allocation, could constitute corporate opportunities of both companies. In general, we are precluded under this agreement from pursuing opportunities offered to officers or employees of Comverse who may also be our directors, officers, or employees, unless Comverse fails to pursue these opportunities. As a result, we may lose valuable business opportunities to Comverse, which could have an adverse effect on our results of operations.

As a result of the delay in completing our financial statements, we are currently unable to register securities with the SEC, which may adversely affect our ability to raise, and the cost of raising, future capital.

As a result of the delay in completing our financial statements, we have been and remain unable to register securities for sale by us or for resale by other security holders, which has adversely affected our ability to raise capital. Additionally, following the filing of our Annual Report on Form 10-K for the year ended January 31, 2009 and our Quarterly Reports on Form 10-Q for each of the quarters ended April 30, 2009, July 31, 2009, and October 31, 2009, as discussed under Explanatory Note , we will remain ineligible to use Form S-3 to register securities until we have timely filed all periodic reports under the Exchange Act for at least 12 calendar months (or, in the event the registration of our common stock is revoked pursuant to the Section 12(j) proceeding discussed under Explanatory Note , until after we have timely filed all required reports for the 12 calendar months following the date on which we once again become subject to the SEC reporting requirements). In the meantime, we would need to use Form S-1 to register securities with the SEC for capital raising transactions or issue such securities in private placements, in either case, increasing the costs of raising capital during that period.

Table of Contents

Risks Related to Our Business

Competition and Markets

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

Our business is subject to risks arising from adverse changes in domestic and global economic conditions. Slowdowns or recessions around the world may cause companies and governments to delay, reduce, or even cancel planned spending. In particular, declines in information technology spending have affected the market for our products, especially in industries that are or have experienced significant cost-cutting, such as financial services. Customers or partners who are facing business challenges or liquidity issues are also more likely to delay purchase decisions or cancel orders, as well as to delay or default on payments. If customers or partners significantly reduce their spending with us or significantly delay or fail to make payments to us, our business, results of operations, and financial condition would be materially adversely affected. Moreover, as a result of current economic conditions, like many companies, we have engaged in significant cost-saving measures over the last 24 months. We cannot assure you that these measures will not negatively impact our ability to execute on our objectives and grow in the future, particularly if we are not able to invest in our business as a result of a protracted economic downturn.

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

We face aggressive competition from numerous and varied competitors in all of our markets, making it difficult to maintain market share, remain profitable, and grow. Even if we are able to maintain or increase our market share for a particular product, revenue or profitability could decline due to pricing pressures, increased competition from other types of products, or because the product is in a maturing industry.

Our competitors may be able to more quickly develop or adapt to new or emerging technologies, better respond to changes in customer requirements or preferences, or devote greater resources to the development, promotion, and sale of their products. Some of our competitors have, in relation to us, longer operating histories, larger customer bases, longer standing relationships with customers, greater name recognition, and significantly greater financial, technical, marketing, customer service, public relations, distribution, or other resources. Some of our competitors are also significantly larger than us and some of these companies have increased their presence in our markets in recent years through internal development, partnerships, and acquisitions. There has also been significant consolidation among our competitors, which has improved the competitive position of several of these companies, and enabled new competitors to emerge in all of our markets. In addition, we may face competition from solutions developed internally by our customers or partners. To the extent we cannot compete effectively, our market share and, therefore, results of operations, could be materially adversely affected.

Because price is a key consideration for many of our customers, we may have to accept less-favorable payment terms, lower the prices of our products and services, and/or reduce our cost structure, including reducing headcount or investment in research and development, in order to remain competitive. Certain of our competitors have become increasingly aggressive in their pricing strategy, particularly in markets where they are trying to establish a foothold. If we are forced to take these kinds of actions to maintain market share, our revenue and profitability may suffer or we may adversely impact our longer-term ability to execute or compete.

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

The markets for our products are characterized by rapidly changing technology and evolving industry standards. The introduction of products embodying new technology and the emergence of new industry standards can exert pricing pressure on existing products and/or can render our existing products obsolete and unmarketable. It is critical to our success that, in all of our markets, we are able to:

- anticipate and respond to changes in technology and industry standards;
- successfully develop and introduce new, enhanced, and competitive products which meet our customers changing needs; and
- deliver these new and enhanced products on a timely basis while adhering to our high quality standards.

We may not be able to successfully develop new products or introduce new applications for existing products. In addition, new products and applications that we introduce may not achieve market acceptance. If we are unable to introduce new products that address the needs of our customers or that achieve market acceptance, there may be a material adverse impact on our revenue and on our financial results.

Because many of our solutions are sophisticated, we must invest greater resources in sales and installation processes with greater risk of loss if we are not successful.

In many cases, it is necessary for us to educate our potential customers about the benefits and value of our solutions because many of our solutions are not simple, mass-market items with which customers are already familiar. In addition, many of our solutions are sophisticated and may not be readily usable by customers without our assistance in training, system integration, and configuration. The greater need to work with and educate customers as part of the sales process and, after completion of a sale, during the installation process for many of our products, increases the time and difficulty of completing transactions, makes it more difficult to efficiently deploy limited resources, and creates risk that we will have invested in an opportunity that ultimately does not come to fruition. If we are unable to demonstrate the benefits and value of our solutions to customers and efficiently convert our sales leads into successful sales and installations, our results may be adversely affected.

Table of Contents

Many of our sales are made by competitive bid, which often requires us to expend significant resources, which we may not recoup.

Many of our sales, particularly in larger installations, are made by competitive bid. Successfully competing in competitive bidding situations subjects us to risks associated with the frequent need to bid on programs in advance of the completion of their design, which may result in unforeseen technological difficulties and cost overruns, as well as making substantial investments of time and money in research and development and marketing activities for contracts that may not be awarded to us. If we do not ultimately win a bid, we may obtain little or no benefit from these expenditures and may not be able to recoup these costs on future projects.

Even where we are not involved in a competitive bidding process, due to the intense competition in our markets and increasing customer demand for shorter delivery periods, we must in some cases begin the implementation of a project before the corresponding order has been finalized, increasing the risk that we will have to write off expenses associated with potential orders that do not come to fruition.

The nature of our business and our varying business models make it difficult for us to predict our operating results.

It is difficult for us to forecast the timing of revenue from product sales because customers often need a significant amount of time to evaluate our products before a purchase, and sales are dependent on budgetary and, in the case of government customers, other bureaucratic processes. The period between initial customer contact and a purchase by a customer may vary from as little as a few weeks to more than a year. During the evaluation period, customers may defer or scale down proposed orders for various reasons, including:

- changes in budgets and purchasing priorities;
- reductions in need to upgrade existing systems;
- deferrals in anticipation of enhanced or new products;
- introduction of new products by our competitors; or
- lower prices offered by our competitors.

In addition, we have historically derived a significant portion of our revenue from contracts for large system installations with major customers and we continue to emphasize sales to larger customers in our product development and marketing strategies. Contracts for large installations typically involve a lengthy and complex bidding and selection process, and our ability to obtain particular contracts is inherently difficult to predict. The timing and scope of these opportunities are difficult to forecast, and the pricing and margins may vary substantially from transaction to transaction. As a result, our future operating results may be volatile and vary significantly from period to period.

Table of Contents

While we have no single customer that is material to our total revenue, we do have many significant customers in each of our segments and periodically receive multi-million dollar orders. The deferral or loss of one or more significant orders or customers or a delay in an expected implementation of such an order could materially adversely affect our segment operating results in any quarter, particularly if there are significant sales and marketing expenses associated with the deferred or lost sales.

In recent years, an increasing percentage of our revenue has come from software sales as compared to hardware sales. This trend has only been amplified with the addition of the Witness business. As with other software-focused companies, this has meant that more of our quarterly business has come in the last few weeks of each quarter. In addition, customers have increasingly been placing orders close to, or even on, the requested delivery date. The trend of shorter periods between order date and delivery date, along with this trend of business moving to the end of the quarter, has further complicated the process of accurately predicting revenue or making sales forecasts on a quarterly basis.

Under applicable accounting standards and guidance, revenue for some of our software and hardware transactions is recognized at the time of delivery, while revenue from other software and hardware transactions is required to be deferred over a period of years. To a large extent, this depends on the terms we offer to customers and partners, including terms relating to pricing, future deliverables, and post-contract customer support. As a result, it is difficult for us to accurately predict at the outset of a given period how much of our future revenue will be recognized within that period and how much will be required to be deferred over a longer period. See Management s Discussion and Analysis of Financial Condition and Results of Operations under Item 7 for additional information.

We base our current and future expense levels on our internal operating plans and sales forecasts, and our operating costs are, to a large extent, fixed. As a result, we may not be able to sufficiently reduce our operating costs in any period to compensate for an unexpected near-term shortfall in revenue.

If we are unable to maintain our relationships with resellers, systems integrators, and other third parties that market and sell our products, our business, financial condition, results of operations, and ability to grow could be materially adversely impacted.

Approximately half of our revenue is generated by sales made through partners, distributors, resellers, and systems integrators. If our relationship in any of these sales channels deteriorates or terminates, we may lose important sales and marketing opportunities. In pursuing new partnerships and strategic alliances, we must often compete for the opportunity with similar solution providers. In order to effectively compete for such opportunities, we must introduce products tailored not only to meet specific partner needs, but also to evolving customer and prospective customer needs, and include innovative features and functionality easy for partners to sell and install. Even if we are able to win such opportunities on terms we find acceptable, there is no assurance that we will be able to realize the benefits we anticipate. Our competitors often seek to establish exclusive relationships with these sales channels or, at a minimum, to become a preferred partner for these sales channels. Some of our sales channel partners also partner with our competitors and may even offer our products and those of our competitors as alternatives when presenting bids to end customers. Our ability to achieve revenue growth depends to a significant extent on maintaining and adding to these sales channels and if we are unable to do so, our revenue could be materially adversely affected.

Certain provisions in agreements that we have entered into may expose us to liability that is not limited in amount by the terms of the contract.

Certain contract provisions, principally confidentiality and indemnification obligations in certain of our license agreements, could expose us to risks of loss that, in some cases, are not limited to a specified maximum amount. Even where we are able to negotiate limitation of liability provisions, these provisions may not always be enforced depending on the facts and circumstances of the case at hand. If we or our products fail to perform to the standards required by our contracts, we could be subject to uncapped liability for which we may or may not have adequate insurance and our business, financial condition, and results of operations could be materially adversely affected.

Our products may contain undetected defects which could impair their market acceptance and may result in customer claims for substantial damages if our products fail to perform properly.

Our products are complex and involve sophisticated technology that performs critical functions to highly demanding standards. Our existing and future products may develop operational problems. In addition, new products or new versions of existing products may contain undetected defects or errors. If we do not discover such defects, errors, or other operational problems until after a product has been released and used by the customer or partner, we may incur significant costs to correct such defects, errors, or other operational problems, including product liability claims or other contract liabilities to customers or partners. In addition, defects or errors in our products may result in claims for substantial damages and questions regarding the integrity of the products, which could cause adverse publicity and impair their market acceptance.

If the regulatory environment does not evolve as expected or does not favor our products, our results may suffer.

The regulatory environment relating to our solutions is still evolving and, in the security market in particular, has been driven to a significant extent by legislative and regulatory actions, such as the CALEA in the United States and standards established by the ETSI in Europe, as well as initiatives to strengthen security for critical infrastructure, such as airports. These actions and initiatives are evolving and are at all times subject to change based on factors beyond our control, such as political climate, budgets, and even current events. While we attempt to anticipate these actions and initiatives through our product offerings and refinements thereto, we cannot assure you that we will be successful in these efforts, that our competitors will not do so more successfully than us, or that changes in these actions or initiatives or the underlying factors which affect them will not occur which will reduce or eliminate this demand. If any of the foregoing should occur, or if our markets do not grow as anticipated for any other reason, our results may suffer. In addition, changes to these actions or initiatives, including changes to technical requirements, may require us to modify or redesign our products in order to maintain compliance, which may subject us to significant additional expense.

Table of Contents

Conversely, as the telecommunications industry continues to evolve, state, federal, and foreign governments (including supranational government organizations such as the European Union) and industry associations may increasingly regulate the monitoring of telecommunications and telephone or internet monitoring and recording products such as ours. We believe that increases in regulation could come in a number of forms, including increased regulations regarding privacy or protection of personal information such as social security numbers, credit card information, and employment records. The adoption of these types of regulations or changes to existing regulations could cause a decline in the use of our solutions or could result in increased expense for us if we must modify our solutions to comply with these regulations. Moreover, these types of regulations could subject our customers or us to liability. Whether or not these kinds of regulations are adopted, if we do not adequately address the privacy concerns of consumers, companies may be hesitant to use our solutions. If any of these events occur, our business could be materially adversely affected.

For certain products and components, we rely on a limited number of suppliers and manufacturers and if these relationships are interrupted we may not be able to obtain substitute suppliers or manufacturers on favorable terms or at all.

Although we generally use standard parts and components in our products, we do rely on non-affiliated suppliers for certain non-standard components which may be critical to our products, including both hardware and software, and on manufacturers of assemblies that are incorporated into our products. While we endeavor to use larger, more established suppliers and manufacturers wherever possible, in some cases, these providers may be smaller, more early-stage companies, particularly with respect to suppliers of new technologies we may incorporate into our products that we have not developed internally. Although we do have agreements in place with most of these providers, which include appropriate protections such as source code escrows where needed, these agreements are generally not long-term and these contractual protections offer limited practical benefits to us in the event our relationship with a key provider is interrupted. If these suppliers or manufacturers experience financial, operational, manufacturing capacity, or quality assurance difficulties, or cease production and sale of the products we buy from them entirely, or there is any other disruption in our relationships with these suppliers or manufacturers, we will be required to locate alternative sources of supply or manufacturing, to internally develop the applicable technologies, to redesign our products to accommodate an alternative technology, or to remove certain features from our products. This could increase the costs of, and create delays in, delivering our products or reduce the functionality of our products, which could adversely affect our business and financial results.

Table of Contents

If we cannot recruit or retain qualified personnel, our ability to operate and grow our business may be limited.
We depend on the continued services of our executive officers and other key personnel. In addition, in order to continue to grow effectively, we need to attract (and retain) new employees, including managers, finance personnel, sales and marketing personnel, and technical personnel, who understand and have experience with our products, services, and industry. The market for such personnel is intensely competitive in most, if not all, of the geographies in which we operate, and on occasion we have had to relocate personnel to fill positions in locations where we could not attract qualified experienced personnel. Further, for as long as we remain delayed with our SEC reporting obligations and our common stock remains de-listed, we are likely to continue to experience a certain amount of difficulty attracting and retaining highly-qualified personnel, particularly at more senior levels, due to concerns about our status. So long as we remain delayed with our SEC reporting obligations and our common stock remains de-listed, our ability to use our common stock to retain and motivate employees will also continue to be a challenge and subject to certain restrictions. If we are unable to attract and retain qualified employees, on reasonable economic and other terms or at all, our ability to grow could be impaired, our ability to timely report our financial results could be adversely affected, and our operations and financial results could be materially adversely affected.

Because we have significant foreign operations, we are subject to geopolitical and other risks that could materially adversely affect our business.
We have significant operations in foreign countries, including sales, research and development, customer support and administrative services. The countries in which we have our most significant foreign operations include Israel, the United Kingdom, Canada, India, Hong Kong, and Germany, and we intend to continue to expand our operations internationally. We believe our business may suffer if we are unable to successfully expand into new regions, as well as maintain and expand existing foreign operations. Our foreign operations are, and any future foreign expansion will be, subject to a variety of risks, many of which are beyond our control, including risks associated with:

- foreign currency fluctuations;
- political, security, and economic instability in foreign countries;
- changes in and compliance with local laws and regulations, including export control laws, tax laws, labor laws, employee benefits, customs requirements, currency restrictions, and other requirements;
- differences in tax regimes and potentially adverse tax consequences of operating in foreign countries;
- customizing products for foreign countries;
- legal uncertainties regarding liability and intellectual property rights;
- hiring and retaining qualified foreign employees; and
- difficulty in accounts receivable collection and longer collection periods.

Table of Contents

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

In addition, the tax authorities in the jurisdictions in which we operate, including the United States, may from time to time review the pricing arrangements between us and our foreign subsidiaries. An adverse determination by one or more tax authorities in this regard may have a material adverse effect on our financial results. Restrictive laws, policies, or practices in certain countries directed toward Israel or companies having operations in Israel may also limit our ability to sell some of our products in those countries.

Conditions in Israel may materially adversely affect our operations and personnel and may limit our ability to produce and sell our products.

We have significant operations in Israel, including research and development, manufacturing, sales, and support. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, which in the past have led and may in the future, lead to security and economic problems for Israel. In addition, Israel has faced and continues to face difficult relations with the Palestinians and the risk of terrorist violence from both Palestinian as well as foreign elements such as Hezbollah. Infighting among the Palestinians may also create security and economic risks to Israel. Current and future conflicts and political, economic, and/or military conditions in Israel and the Middle East region have affected and may in the future affect our operations in Israel. The exacerbation of violence within Israel or the outbreak of violent conflicts between Israel and its neighbors, including Iran, may impede our ability to manufacture, sell, and support our products, engage in research and development, or otherwise adversely affect our business or operations. In addition, many of our employees in Israel are required to perform annual compulsory military service and are subject to being called to active duty at any time under emergency circumstances. The absence of these employees may have an adverse effect on our operations. Hostilities involving Israel may also result in the interruption or curtailment of trade between Israel and its trading partners or a significant downturn in the economic or financial condition of Israel and could materially adversely affect our results of operations.

Table of Contents

Regulatory and Government Contracting

We are dependent on contracts with governments around the world for a significant portion of our revenue. These contracts expose us to additional business risks and compliance obligations.

A significant portion of our business is generated from sales under government contracts around the world. We expect that government contracts will continue to be a significant source of our revenue for the foreseeable future. We must comply with domestic and foreign laws and regulations relating to the formation, administration, and performance of government contracts. These laws and regulations affect how we do business with government agencies in various countries and may impose added costs on our business. Our business generated from government contracts may be materially adversely affected if:

- our reputation or relationship with government agencies is impaired;
- we are suspended or otherwise prohibited from contracting with a domestic or foreign government or any significant law enforcement agency;
- levels of government expenditures and authorizations for law enforcement and security related programs decrease or shift to programs in areas where we do not provide products and services;
- we are prevented from entering into new government contracts or extending existing government contracts based on violations or suspected violations of laws or regulations, including those related to procurement;
- we are not granted security clearances that are required to sell our products to domestic or foreign governments or such security clearances are deactivated;
- there is a change in government procurement procedures; or
- there is a change in political climate that adversely affects our existing or prospective relationships.

As a result of the consent judgment we entered into with the SEC relating to our reserves accounting practices, we and our subsidiaries are required, for three years from the date of the settlement, to disclose that this civil judgment was rendered against us in any proposals to perform new government work for U.S. federal agencies. In addition, we and our subsidiaries must amend our representations in existing grants and contracts with U.S. federal agencies to reflect the civil judgment. While this certification does not bar us from receiving government grants or contracts from U.S. federal agencies, each government procurement official has the discretion to determine whether it considers us and our subsidiaries responsible companies for purposes of each transaction. The government procurement officials may also seek advice from government agency debarring officials to determine if we and our subsidiaries should be considered for suspension or debarment from receiving government contracts or grants from U.S. federal agencies.

In addition, our government contracts may contain, or under applicable law may be deemed to contain, provisions not typically found in private commercial contracts, including provisions enabling the government party to:

- terminate or cancel existing contracts for convenience;
- in the case of the U.S. federal government, suspend us from doing business with a foreign government or prevent us from selling our products in certain countries;
- audit and object to our contract-related costs and expenses, including allocated indirect costs; and
- unilaterally change contract terms and conditions, including warranty provisions, schedule, quantities, and scope of work, in advance of our agreement on corresponding pricing adjustments.

The effect of these provisions may significantly increase our cost to perform the contract or defer our ability to recognize revenue from such contracts. In some cases, this may mean that we must begin recording expenses on a contract in advance of being able to recognize the corresponding revenue. If a government customer terminates a contract with us for convenience, we may not recover our incurred or committed costs, receive any settlement of expenses, or earn a profit on work completed prior to the termination. If a government customer terminates a contract for default, we may not recover these amounts, and, in addition, we may be liable for any costs incurred by the government customer in procuring undelivered items and services from another source. Further, an agency within a government may share information regarding our termination with other agencies. As a result, our ongoing or prospective relationships with other government agencies could be impaired.

Table of Contents

We may not be able to receive or retain the necessary licenses or authorizations required for us to export some of our products that we develop or manufacture in specific countries.

We are required to obtain export licenses or qualify for other authorizations from the United States, Israel, and other governments to export some of the products that we develop or manufacture in these countries and, in any event, are required to comply with applicable export control laws of each country generally. There can be no assurance that we will be successful in obtaining or maintaining the licenses and other authorizations required to export our products from applicable government authorities. In addition, export laws and regulations are revised from time to time and can be extremely complex in their application; if we are found not to have complied with applicable export control laws, we may be fined or penalized by, among other things, having our ability to obtain export licenses curtailed or eliminated, possibly for an extended period of time. Our failure to receive or maintain any required export licenses or authorizations or our penalization for failure to comply with applicable export control laws would hinder our ability to sell our products and could materially adversely affect our business, financial condition, and results of operations.

U.S. and foreign governments could refuse to buy our Communications Intelligence solutions or could deactivate our security clearances in their countries thereby restricting or eliminating our ability to sell these solutions in those countries and perhaps other countries influenced by such a decision.

Some of our subsidiaries maintain security clearances in the United States and other countries in connection with the development, marketing, sale, and support of our Communications Intelligence solutions. These clearances are reviewed from time to time by the applicable government agencies in these countries and following these reviews, our security clearances are either maintained or deactivated. Our security clearances can be deactivated for many reasons, including that the clearing agencies in some countries may object to the fact that we do business in certain other countries or the fact that our local subsidiary is affiliated with or controlled by an entity based in another country. In the event that our security clearances are deactivated in any particular country, we would lose the ability to sell our Communications Intelligence solutions in that country for projects that require security clearances. Additionally, any inability to obtain or maintain security clearances in a particular country may affect our ability to sell our Communications Intelligence solutions in that country generally (even for non-secure projects). We have in the past, and may in the future, have our security clearances deactivated. Any inability to obtain or maintain clearances can materially adversely affect our results of operations.

Whether or not we are able to maintain our security clearances, law enforcement and intelligence agencies in certain countries may decline to purchase Communications Intelligence solutions if they were not developed or manufactured in that country. As a result, because our Communications Intelligence solutions are developed or manufactured in whole or in part in Israel or in Germany, there may be certain countries where some or all of the law enforcement and intelligence agencies are unwilling to purchase our Communications Intelligence solutions. If we are unable to sell our Communications Intelligence solutions in certain countries for this reason, our results of operations could be materially adversely affected.

Table of Contents

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

Our products are in some cases used by customers to compile and analyze highly sensitive or confidential information and data, including in some cases, information or data used in intelligence gathering or law enforcement activities. While our customers use of our products in no way affords us access to this information or data, we may come into contact with such information or data when we perform services or support functions for our customers. We have implemented policies and procedures to help ensure the proper handling of such information and data, including background screening of services personnel, non-disclosure agreements, access rules, and controls on our information technology systems. However, these measures are designed to mitigate the risks associated with handling sensitive data and cannot safeguard against all risks at all times. The improper handling of sensitive data, or even the perception of such mishandling or other security lapses or risks, whether or not valid, could reduce demand for our products or otherwise expose us to financial or reputational harm.

Intellectual Property

Our intellectual property may not be adequately protected.

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

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

Preventing unauthorized use or infringement of our intellectual property rights is difficult. The laws of certain countries do not protect our proprietary rights to the same extent as the laws of the United States. Therefore, in certain jurisdictions we may be unable to protect our intellectual property adequately against unauthorized third-party use or infringement, which could adversely affect our competitive position.

Table of Contents

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

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

Loss of third-party licensing agreements could materially adversely affect our business, financial condition, and results of operations.

While most of our products are developed internally, we also purchase technology, license intellectual property rights, and oversee third-party development and localization of certain products or components. If we lose or are unable to maintain licenses or distribution rights, we could incur additional costs or experience unexpected delays until an alternative solution can be internally developed or licensed from another third party and integrated into our products or we may be forced to re-design our products or remove certain features from our products. See For certain products and components, we rely on a limited number of suppliers and manufacturers and if these relationships are interrupted we may not be able to obtain substitute suppliers or manufacturers on favorable terms or at all above for additional information.

Table of Contents

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

Some of our products contain free or open source (collectively, open source) software and we anticipate making use of open source software in the future. Open source software is generally covered by license agreements that permit the user to use, copy, modify, and distribute the software without cost, provided that the users and modifiers abide by certain licensing requirements. The original developers of the open source software generally provide no warranties on such software. Although we endeavor to monitor the use of open source software in our product development, we cannot assure you that past, present, or future products will not contain open source elements which impose unfavorable licensing restrictions or other requirements on our products. In addition, the terms of many open source licenses have not yet been interpreted by U.S. or foreign courts and as a result there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on products that use such software. The introduction of certain kinds of open source software into our products or a court decision construing an open source license in an unexpected way could require us to seek licenses from third parties in order to continue offering affected products, to re-engineer affected products, to discontinue sales of affected products, or to release all or portions of the source code of affected products under the terms of the applicable open source licenses. Any of these developments could materially adversely affect our business, financial condition, and results of operations.

Risks Related to Our Capital Structure and Finances

We have incurred significant indebtedness as a result of the acquisition of Witness, which makes us highly leveraged, subjects us to restrictive covenants, and could adversely affect our operations.

Risks associated with being highly leveraged.

At February 28, 2010, we had outstanding indebtedness of approximately $620 million. As a result of our significant indebtedness, we are highly leveraged. Our leverage position may, among other things:

- limit our ability to obtain additional debt financing in the future for working capital, capital expenditures, acquisitions, or other general corporate purposes;
- require us to dedicate a substantial portion of our cash flow from operations to debt service, reducing the availability of our cash flow for other purposes;
- require us to repatriate cash for debt service from our foreign subsidiaries resulting in dividend tax costs or require us to adopt other disadvantageous tax structures to accommodate debt service payments; or
- increase our vulnerability to economic downturns, limit our ability to capitalize on significant business opportunities, and restrict our flexibility to react to changes in market or industry conditions.

In addition, because our indebtedness bears interest at a variable rate, we are exposed to risk from fluctuations in interest rates. While we have hedged a portion of this exposure under our term loan, this interest rate swap does not cover all of our term loan indebtedness, it expires prior to the maturity date of our term loan, and it subjects us to above-market interest rates at any time that prevailing rates drop below the rate fixed by the swap.

On January 29, 2010, S&P announced that our credit rating had been placed on CreditWatch Developing, and there can be no assurance that S&P or Moody s will not downgrade our credit rating.

Table of Contents

Risks associated with our leverage ratio and financial statement delivery covenants.

Our credit agreement contains a financial covenant that requires us to maintain a minimum consolidated leverage ratio and a covenant requiring us to deliver audited financial statements to the lenders each year as provided below. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources under Item 7 for additional information.

Our ability to comply with the leverage ratio covenant is highly dependent upon our ability to continue to grow earnings from quarter to quarter, which requires us to increase revenue while limiting increases in expenses or, if we are unable to increase or maintain revenue, to reduce expenses. Our ability to satisfy our debt obligations and our leverage ratio covenant will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business, and other factors, many of which are beyond our control. Alternatively, we may seek to maintain compliance with the leverage ratio covenant by reducing our outstanding debt by raising additional funds through a number of means, including, but not limited to, securities offerings or asset sales. There can be no assurance that we will be able to grow our earnings, reduce our expenses, and/or raise funds to reduce our outstanding debt to the extent necessary to maintain compliance with this covenant. In addition, any expense reductions undertaken to maintain compliance may impair our ability to compete by, among other things, limiting research and development or hiring of key personnel. The complexity of our revenue accounting and the continued shift of our business to the end of the quarter (discussed in greater detail above) has also increased the difficulty in accurately forecasting quarterly revenue and therefore in predicting whether we will be in compliance with the leverage ratio requirements at the end of each quarter.

Because our revenue recognition review resulted in changes in the way we recognize revenue from the way we did so at the time the credit agreement was put in place, it may be more difficult for us to maintain compliance with our leverage ratio covenant on a prospective basis than we expected at the time we entered into the credit agreement since the leverage ratio covenant is based on our earnings before interest, taxes, depreciation, and amortization (EBITDA), which is affected by revenue. In addition, because U.S. generally accepted accounting principles (GAAP) require us to continue to refine our accounting for open periods until the financial statements for such periods are filed, it is also possible that we may determine that we were not in compliance with the leverage ratio covenant in periods subsequent to January 31, 2008, until such time as we file the financial statements for such periods.

Following an event of default under the credit agreement, our lenders could declare all amounts outstanding to be immediately due and payable. In that event, we may be forced to sell assets, raise additional capital through a securities offering, or seek to refinance or restructure our debt. In such a case, there can be no assurance that we will be able to consummate such a sale, securities offering, or refinance or restructure our debt on reasonable terms or at all.

The credit agreement also includes a requirement that we submit audited consolidated financial statements to the lenders within 90 days of the end of each fiscal year beginning with the year ending January 31, 2010, which for the year ended January 31, 2010 is May 1, 2010. If audited consolidated financial statements are not so delivered and such failure of delivery is not remedied within 30 days thereafter, an event of default occurs.

Table of Contents

Limitations resulting from the restrictive covenants in the credit agreement.

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

- incur additional indebtedness or liens or issue preferred stock;
- pay dividends or make other distributions or repurchase or redeem our stock or subordinated indebtedness;
- engage in transactions with affiliates;
- engage in sale-leaseback transactions;
- sell certain assets;
- change our lines of business;
- make investments, loans, or advances; and
- engage in consolidations, mergers, liquidations, or dissolutions.

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

The rights of the holders of shares of our common stock are subject to, and may be adversely affected by, the rights of holders of the preferred stock that we issued to Comverse in connection with the Witness acquisition.

In connection with the Witness acquisition, we issued 293,000 shares of preferred stock to Comverse at an aggregate purchase price of $293.0 million. The issuance of shares of common stock upon conversion of the preferred stock (after the conversion feature of the preferred stock has been approved by our stockholders) will result in substantial dilution to the other common stockholders. In addition, the terms of the preferred stock include liquidation, dividend, and other rights that are senior to and more favorable than the rights of the holders of our common stock.

Our business could be materially adversely affected as a result of the risks associated with acquisitions and investments.

As part of our growth strategy, we have made a number of acquisitions and investments and expect to continue to make acquisitions and investments in the future. However, so long as we remain delayed with our SEC filings and our common stock remains de-listed, our ability to use our common stock to raise capital for acquisitions will continue to be severely restricted.

Future acquisitions or investments, if any, could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities, and amortization expenses related to intangible assets, any of which could have a material adverse effect on our operating results and financial condition. In addition, investments in immature businesses with unproven track records and technologies have a high degree of risk, with the possibility that we may lose the value of our entire investments and potentially incur additional unexpected liabilities.

The process of integrating an acquired company s business into our operations and investing in new technologies may result in unforeseen operating difficulties and expenditures, which may require a significant amount of our management s attention that would otherwise be focused on the ongoing operation of our business. Other risks we may encounter with acquisitions include the effect of the acquisition on our financial and strategic positions and our reputation, the inability to obtain the anticipated benefits of the acquisition, including synergies or economies of scale, on a timely basis or at all, or unexpected challenges in reconciling business practices, particularly in foreign geographies. Due to rapidly changing market conditions, we may also find the value of our acquired technologies and related intangible assets, such as goodwill, as recorded in our financial statements, to be impaired, resulting in charges to operations. The magnitude of these risks is greater in the case of large acquisitions, such as our 2007 acquisition of Witness. See Note 5, Business Combinations to the consolidated financial statements included in Item 15. There can be no assurance that we will be successful in making additional acquisitions or that we will be able to effectively integrate any acquisitions we do make or realize the expected benefits for our business.

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

Because we have historically acquired a significant number of companies, goodwill and other intangible assets have represented a substantial portion of our assets. As of January 31, 2008, goodwill and other intangible assets totaled approximately $1.0 billion, or approximately 70% of our total assets. At a minimum, we assess annually whether there has been impairment in the carrying amount of our goodwill or indefinite-lived intangible assets. In determining fair value, we make significant judgments and estimates, including assumptions about our strategic plans with regard to our operations, as well as current economic indicators and market valuations. We have recorded non-cash impairment charges related to our Video Intelligence business (the MultiVision acquisition) and our Workforce Optimization performance management consulting business (the Opus, CM Insight, and a portion of the Witness acquisitions) for the years ended January 31, 2008 and 2007, totaling $23.4 million, and $24.7 million, respectively. In addition, we expect to record a material non-cash impairment charge for the year ended January 31, 2009 in the range of $11 million to $46 million. To the extent economic conditions that would impact the future fair value of our reporting units worsen, we would be required to record an additional non-cash charge. Any significant goodwill or intangible asset impairment would negatively affect our financial condition and results of operations. See Note 6, Intangible Assets and Goodwill and Note 19, Subsequent Events to the consolidated financial statements included in Item 15 for more information.

Table of Contents

Our international operations subject us to currency exchange risk.

Most of our revenue is denominated in U.S. Dollars, while a significant portion of our operating expenses, primarily labor expenses, is denominated in the local currencies where our foreign operations are located, principally Israel, Germany, the United Kingdom, and Canada. As a result, we are exposed to the risk that fluctuations in the value of these currencies relative to the U.S. Dollar could increase the U.S. Dollar cost of our operations in these countries and which could have a material adverse effect on our results of operations. In addition, since a portion of our sales are made in foreign currencies, primarily the British Pound and the Euro, fluctuations in the value of these currencies relative to the U.S. Dollar could impact our revenue (on a U.S. Dollar basis) and materially adversely affect our results of operations.

Our ability to realize value from and use our net operating losses will impact our results and tax liability.

We have significant deferred tax assets as a result of prior net operating losses. These deferred tax assets can provide us with significant future tax savings if we are able to use them. However, the extent to which we will be able to use these tax benefits may be impacted, restricted, or eliminated by a number of factors including whether we generate sufficient future net income, a future ownership change, adjustments to Comverse s tax liability for periods prior to our IPO, or changes in tax rates, laws, or regulations that could have retroactive effect. To the extent that we are unable to utilize our net operating losses, our results of operations, liquidity, and financial condition could be adversely affected in a significant manner. When we cease to have net operating loss carry forwards available to us in a particular tax jurisdiction, either through their expiration, disallowance, or utilization, our effective tax rate will increase in that jurisdiction, thereby impacting our overall effective tax rate. Our effective tax rate in any given year is also dependent on the relative mix of jurisdictions (and corresponding local tax rates) in which we operate.

Research and development and tax benefits we receive in Israel may be reduced or eliminated in the future and our receipt of these benefits subjects us to certain restrictions.

We receive grants from the OCS for the financing of a portion of our research and development expenditures in Israel. The availability in any given year of these OCS grants depends on OCS approval of the projects and related budgets we submit to the OCS each year. In addition, in recent years, the Government of Israel has reduced the benefits available under these programs and these programs may be discontinued or curtailed in the future. The continued reduction in these benefits or the termination of our eligibility to receive these benefits may adversely affect our financial condition and results of operations.

The Israeli law under which these OCS grants are made also limits our ability to manufacture products, or transfer technologies, developed using these grants outside of Israel. This may limit our ability to engage in certain outsourcing or business combination transactions involving these products. We may seek permission from the OCS to manufacture these products or transfer these technologies out of Israel, but we cannot assure you that any such request would be approved, and even if approved, we may be required to pay significant royalties or fees to the OCS. If we fail to comply with these restrictions, we may be required to repay the grants we received from the OCS and could also become subject to monetary or criminal penalties.

Table of Contents

Our facility in Israel has been granted approved enterprise status and we are therefore eligible for tax benefits under the Israeli Law for Encouragement of Capital Investments. The Government of Israel may reduce or eliminate the tax benefits available to approved enterprise programs such as the programs provided to us. There can be no assurance that these tax benefits will continue in the future at their current levels or at all. If these tax benefits are reduced or eliminated, the amount of tax that we pay in Israel will increase. In addition, if we fail to comply with any of the conditions and requirements of the investment programs, the tax benefits we have received may be rescinded and we may be required to disgorge the amount of the tax benefit received, together with interest and penalties.

Item 1b. Unresolved Staff Comments

None.

Item 2. Properties

The following describes our leased and owned properties as of the date of this report.

Leased Properties

We lease a total of approximately 260,900 square feet of office space in the United States. Our corporate headquarters is located in a leased facility in Melville, New York, and consists of approximately 45,800 square feet under a lease that expires in May 2013. The facility is primarily used by our administrative, sales, marketing, customer support, and services groups. We lease approximately 91,600 square feet at a facility in Roswell, Georgia under a lease that expires in November 2012. The Roswell, Georgia facility is used primarily by the administrative, marketing, product development, support, and sales groups for our Workforce Optimization operations.

We occupy additional leased facilities in the United States, including offices located in Columbia, Maryland and Denver, Colorado which are primarily used for product development, sales, training, and support for our Video Intelligence operations; an office in Chantilly, Virginia used primarily for supporting our Communications Intelligence operations; and offices in Santa Clara, California; Lyndhurst, New Jersey; San Diego, California; and Norwell, Massachusetts which are primarily used for product development, sales, training, and support for our Workforce Optimization operations.

Outside of the United States, we occupy approximately 176,000 square feet at a facility in Herzliya, Israel under a lease that expires in October 2015. The Herzliya, Israel facility is used primarily for manufacturing, storage, development, sales, marketing and support related to our Communications Intelligence operations. We also occupy approximately 34,500 square feet at a leased facility in Laval, Quebec, which is used primarily for our manufacturing, product development, support, and sales for our Video Intelligence operations. The lease in Laval, Quebec expires in June 2011. We occupy approximately 21,000 square feet at a facility in Leatherhead, the United Kingdom under a lease which expires in March 2014. The Leatherhead facility is used primarily for administrative, marketing, product development, support, and sales groups for our Workforce Optimization and Video Intelligence operations. Additionally, we occupy leased facilities outside of the United States in Weybridge, the United Kingdom; Sao Paulo, Brazil; Mexico City, Mexico; Hong Kong, China; Tokyo, Japan; Sydney, Australia; Taguig, Philippines; Singapore (through our joint venture); and Gurgaon and Bangalore, India, which are used primarily by our administrative, product development, sales, and support functions for our Workforce Optimization, Communications Intelligence and Video Intelligence operations.

In addition to the leases noted above, we also lease executive office space throughout the world for our local sales, support and services needs. For additional information regarding our lease obligations, see Note 17, Commitments and Contingencies to the consolidated financial statements included in Item 15.

Owned Properties

We own approximately 12.3 acres of land, including 40,000 square feet of office space in Durango, Colorado, which we have historically used to support our Video Intelligence operations. We owned an additional 12.7 acres of adjacent land which we sold on October 10, 2006 to a third party. Additionally, on October 10, 2006, we entered into a 10-year lease with the same third party for 6.5 acres of the 12.3 acres we own, all of which was undeveloped and not being used by us. The remaining 5.8 acres, including the office space, are subject to a mortgage under the term loan and credit agreement entered into by us in connection with the acquisition of Witness.

We also own approximately 35,000 square feet of office and storage space for sales, manufacturing, support, and development for our Communications Intelligence operations in Bexbach, Germany.

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

Table of Contents

Item 3. Legal Proceedings

Comverse Investigation-Related Matters

On December 17, 2009, Comverse entered into agreements to settle the following lawsuits previously disclosed by Comverse relating to the matters involved in the Comverse Special Committee investigation which had been brought against Comverse and certain former officers and directors of Comverse: (i) a consolidated shareholder class action before the United States District Court for the Eastern District of New York, *In re Comverse Technology, Inc. Securities Litigation*; (ii) a shareholder derivative action before the United States District Court for the Eastern District of New York, *In re Comverse Technology, Inc. Derivative Litigation*; and (iii) a shareholder derivative action before the New York State Supreme Court, Appellate Division, First Department, *In re Comverse Technology, Inc. Derivative Litigation*.

Verint was not named as a defendant in any of these suits. Igal Nissim, our former Chief Financial Officer, was named as a defendant in the federal and state shareholder derivative actions in his capacity as the former Chief Financial Officer of Comverse, and Dan Bodner, our Chief Executive Officer, was named as a defendant in the federal and state shareholder derivative actions in his capacity as the Chief Executive Officer of Verint (i.e., as the president of a significant subsidiary of Comverse). Mr. Nissim and Mr. Bodner were not named in the shareholder class action suit.

The federal shareholder derivative suit alleged that the defendants breached their fiduciary duties beginning in 1994 by: (i) allowing and participating in a scheme to backdate the grant dates of employee stock options to improperly benefit Comverse s executives and certain directors; (ii) allowing insiders, including certain of the defendants, to personally profit by trading Comverse s stock while in possession of material inside information; (iii) failing to properly oversee or implement procedures to detect and prevent such improper practices; (iv) causing Comverse to issue materially false and misleading proxy statements, as well as causing Comverse to file other false and misleading documents with the SEC; and (v) exposing Comverse to civil liability. The plaintiffs originally filed suit on April 20, 2006. The Consolidated, Amended, and Verified Shareholder Derivative Complaint, filed on October 6, 2006, sought unspecified damages, injunctive relief, including restricting the proceeds of the defendants trading activities and other assets, setting aside the election of the defendant directors to the Comverse board of directors, and costs and attorneys fees. On December 21, 2007, motions to dismiss the federal shareholder derivative suit were fully briefed on behalf of Comverse as well as the individual defendants, including Mr. Nissim and Mr. Bodner. No decision had been rendered on these motions to dismiss as of the signing of the settlement agreements or as of the filing date of this report.

The state shareholder derivative suit made similar allegations to the federal shareholder derivative suit. The plaintiffs first filed suit on April 11, 2006. The Consolidated and Amended Shareholder Derivative Complaint, which was filed on September 18, 2006, sought unspecified damages, injunctive relief, such as restricting the proceeds of the defendants trading activities and other assets, and costs and attorneys fees.

Table of Contents

The agreements in settlement of the above-mentioned actions are subject to notice to Comverse s shareholders and approval by the federal and state courts in which such proceedings are pending. Neither we nor Mr. Nissim or Mr. Bodner is responsible for making any payments or relinquishing any equity holdings under the terms of the settlement.

Comverse was also the subject of a SEC investigation and resulting civil action regarding the improper backdating of stock options and other accounting practices, including the improper establishment, maintenance, and release of reserves, the reclassification of certain expenses, and the calculation of backlog of sales orders. On June 18, 2009, Comverse announced that it had reached a settlement with the SEC on these matters without admitting or denying the allegations of the SEC complaint.

Verint Investigation-Related Matters

On July 20, 2006, we announced that, in connection with the SEC investigation into Comverse s past stock option grants which was in process at that time, we had received a letter requesting that we voluntarily provide to the SEC certain documents and information related to our own stock option grants and practices. We voluntarily responded to this request. On April 9, 2008, as we previously reported, we received a Wells Notice from the staff of the SEC arising from the staff s investigation of our past stock option grant practices and certain unrelated accounting matters. These accounting matters were also the subject of our internal investigation. On March 3, 2010, the SEC filed a settled enforcement action against us in the United States District Court for the Eastern District of New York relating to certain of our accounting reserve practices. Without admitting or denying the allegations in the SEC s Complaint, we consented to the issuance of a Final Judgment permanently enjoining us from violating Section 17(a) of the Securities Act, Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder. The settled SEC action did not require us to pay any monetary penalty and sought no relief beyond the entry of a permanent injunction. The SEC s related press release noted that, in accepting the settlement offer, the SEC considered our remediation and cooperation in the SEC s investigation. The settlement was approved by the United States District Court for the Eastern District of New York on March 9, 2010.

On December 23, 2009, as we previously reported, we received an additional Wells Notice from the staff of the SEC relating to our failure to timely file our periodic reports under the Exchange Act. Under the SEC s Wells process, recipients of a Wells Notice have the opportunity to make a Wells Submission before the SEC staff makes a recommendation to the SEC regarding what action, if any, should be brought by the SEC. On January 15, 2010, we submitted a Wells Submission to the SEC in response to this Wells Notice. On March 3, 2010, the SEC issued an OIP pursuant to Section 12(j) of the Exchange Act to suspend or revoke the registration of our common stock because of our failure to file an annual report on either Form 10-K or Form 10-KSB since April 25, 2005 or quarterly reports on either Form 10-Q or Form 10-QSB since December 12, 2005. An Administrative Law Judge will consider the evidence in the Section 12(j) proceeding and has been directed in the OIP to issue an initial decision within 120 days of service of the OIP. We are currently evaluating the Section 12(j) OIP, including available procedural remedies and intend to defend against the possible suspension or revocation of the registration of our common stock.

Table of Contents

On March 26, 2009, a motion to approve a class lawsuit action (the Labor Motion) and the class action lawsuit itself (the Labor Class Action) (Labor Case No. 4186/09) were filed against our subsidiary, Verint Systems Limited (VSL) by a former employee of VSL, Orit Deutsch in the Tel Aviv Labor Court. Mrs. Deutsch purports to represent a class of our employees and ex-employees, who were granted options to buy shares of Verint, and to whom allegedly, damages were caused as a result of the blocking of the ability to exercise Verint options by our employees or ex-employees. The Labor Motion and the Labor Class Action both claim that we are responsible for the alleged damages due to our status as employer and that the blocking of Verint options from being exercised constitutes default of the employment agreements between the members of the class and VSL. The Labor Class Action seeks compensatory damages for the entire class in an unspecified amount. On July 9, 2009, we filed a motion for summary dismissal and alternatively for the stay of the Labor Motion. A preliminary session was held on July 12, 2009. Mrs. Deutsch filed her response to our response on November 10, 2009. On February 8, 2010, the Tel Aviv Labor Court dismissed the case for lack of material jurisdiction and ruled that it will be transferred to the District Court in Tel Aviv.

Witness Investigation-Related Matters

At the time of our May 25, 2007 acquisition of Witness, Witness was subject to a number of proceedings relating to a stock options backdating internal investigation undertaken and publicly disclosed by Witness prior to the acquisition. The following is a summary of those proceedings and developments since the date of the acquisition.

On August 29, 2006, A. Edward Miller filed a shareholder derivative lawsuit in the U.S. District Court for the Northern District of Georgia (Atlanta Division) naming Witness as a nominal defendant and naming all of Witness directors and a number of its officers as defendants (*Miller v. Gould, et al.*, Civil Action No. 1:06-CV-2039 (N.D. Ga.)). The complaint alleged purported violations of federal and state law, and violations of certain antifraud provisions of the federal securities laws (including Sections 10(b) and 14(a) of the Exchange Act and Rules 10b-5 and 14a-9 thereunder) in connection with certain stock option grants made by Witness. The complaint sought monetary damages in unspecified amounts, disgorgement of profits, an accounting, rescission of stock option grants, imposition of a constructive trust over the defendants stock options and proceeds derived therefrom, punitive damages, reimbursement of attorneys fees and other costs and expenses, an order directing Witness to adopt or put to a stockholder vote various proposals relating to corporate governance, and other relief as determined by the court. On March 11, 2009, the Court granted defendants motion to dismiss the complaint in its entirety, with prejudice. Plaintiff did not file an appeal and the time to do so under the federal rules has elapsed.

On August 14, 2006, a class action securities lawsuit was filed by an individual claiming to be a Witness stockholder naming Witness and certain of its directors and officers as defendants in connection with certain stock option grants made by Witness (*Rosenberg v. Gould, et al.*, Civil Action No. 1:06-CV-1894 (N.D. Ga.)). The complaint, filed in the U.S. District Court for the Northern District of Georgia, alleged violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. The complaint sought unspecified damages, attorneys fees and other costs and expenses, unspecified extraordinary, equitable and injunctive relief, and other relief as determined by the court. On March 31, 2008, the Court granted defendants motion to dismiss the complaint in its entirety, with prejudice. On April 29, 2008, plaintiff filed a notice of appeal and on January 9, 2009, the 11th Circuit affirmed the lower court s dismissal of the complaint. Plaintiff has not pursued further appeal of this decision and the time to do so under the federal rules has elapsed.

Table of Contents

On October 27, 2006, Witness received notice from the SEC of an informal non-public inquiry relating to the stock option grant practices of Witness from February 1, 2000 through the date of the notice. On July 12, 2007, we received a copy of the Formal Order of Investigation from the SEC relating to substantially the same matter as the informal inquiry. We and Witness have fully cooperated, and intend to continue to fully cooperate, if called upon to do so, with the SEC regarding this matter. In addition, the U.S. Attorney s Office for the Northern District of Georgia was also given access to the documents and information provided by Witness to the SEC. Our last communication with the SEC with respect to the matter was in June 2008.

Verint Patent and General Litigation Matters

On December 18, 2006, Trover Group, Inc. (Trover) filed a patent infringement suit seeking monetary damages and injunctive relief in the U.S. District Court for the Eastern District of Texas against us, Target Corporation, and The Home Depot, Inc. based on claims of U.S. Patent Nos. 5,751,345 and 5,751,346 (the Trover Patents). Trover dismissed Home Depot and Target without prejudice on April 17, 2008 and on April 25, 2008, respectively. Trover also commenced separate patent infringement suits in the U.S. District Court for the Eastern District of Texas against Diebold Incorporated, one of our customers, and against Regions Bank, a user of our video security and surveillance products. On July 21, 2008, we entered into a settlement agreement with Trover. The settlement agreement provides protections to us and other parties that have or had purchased or used certain of our products, including the products at issue in the foregoing litigations. On July 23, 2008, the court dismissed with prejudice all claims asserted against us by Trover.

On October 18, 2005, the Administrative Court of Appeals of Athens entered a final, non-appealable verdict against our wholly-owned subsidiary, Verint Systems UK Ltd. (formerly Comverse Infosys UK Limited) (Verint UK), in a dispute between Verint UK and its former customer, the Greek Civil Aviation Authority, which began in June 1999. The Greek Civil Aviation Authority had claimed that the equipment provided to it by Verint UK did not operate properly. The verdict did not contain a calculation of the monetary judgment, but as of October 31, 2009, we estimated the amount at approximately $2.6 million based on an earlier decision in the case, exclusive of any interest which may be assessed on the judgment based on the passage of time. The Greek government must seek enforcement of this judgment in the United Kingdom. To date this judgment has not been enforced and we have made no payments.

Table of Contents

Witness Patent and General Litigation Matters

At the time of our May 25, 2007 acquisition of Witness, Witness was subject to a number of patent and general litigations that were publicly disclosed by Witness prior to the acquisition. The following is a summary of those proceedings and developments since the date of the acquisition:

Knowlagent

On December 11, 2002, Witness filed a lawsuit in the United States District Court for the Northern District of Georgia, Atlanta Division, against Knowlagent, Inc. (Knowlagent), which is the assignee of U.S. Patent Nos. 6,324,282 B1 and 6,459,787 B2. Witness sought a declaration that it did not infringe either of these two patents and a declaration that these patents were invalid and unenforceable. We subsequently reached a settlement agreement with Knowlagent and the case was terminated on August 31, 2007.

Blue Pumpkin

On March 14, 2007, Witness was served with a complaint by Doron Aspitz, the former Chief Executive Officer of Blue Pumpkin Software, Inc. (Blue Pumpkin), in California Superior Court for the County of Santa Clara. The complaint named Witness as defendant and asserted eight causes of action, including promissory estoppel and negligent misrepresentation, in connection with Witness s 2005 acquisition of Blue Pumpkin. The complaint sought over $5.0 million in compensatory damages as well as other unquantified punitive and exemplary damages. On August 10, 2007, Witness successfully removed the suit from the California Superior Court to the Southern District of New York and on August 14, 2007, the plaintiff voluntarily dismissed the suit.

NICE Systems Settlement Agreement

On August 1, 2008, we reached a settlement agreement with NICE to resolve all patent litigations between NICE and Witness in existence at that time. The following is a summary of these litigations, each of which was formally terminated by the applicable court between August 8, 2008 and August 13, 2008:

- Suit filed on July 20, 2004, in the U.S. District Court for the Southern District of New York by STS Software Systems Ltd. (STS Software), a wholly-owned subsidiary of NICE and declaratory judgment action filed the same day by Witness against STS Software in the U.S. District Court for the Northern District of Georgia. These two cases were consolidated to the Northern District of Georgia, where STS Software asserted that certain Witness recording products infringed on claims of U.S. Patent Nos. 6,122,665; 6,865,604; 6,871,229; and 6,880,004 relating to VoIP technology and sought only injunctive relief. A bench trial was held from March 17-21, 2008. On May 23, 2008, the court entered a judgment of non-infringement in our favor.
- Suit filed on August 30, 2004, in the U.S. District Court for the Northern District of Georgia, Atlanta Division, by Witness against NICE Systems, Inc., a wholly-owned subsidiary of NICE. Witness asserted that NICE s screen capture products infringed on claims of U.S. Patent Nos. 5,790,790 and 6,510,220. The case was consolidated with a separate February 24, 2005 suit filed by Witness against NICE alleging infringement on the same patents. We were waiting on the court to assign a trial date at the time of the settlement.

Suit filed on January 19, 2006, in the U.S. District Court for the Northern District of Georgia, Atlanta Division, by Witness against NICE. Witness asserted that NICE s speech analytics products infringed on claims of U.S. Patent No. 6,404,857. A jury trial was held from May 12-16, 2008 and the jury returned a verdict in our favor and against NICE on the claims of infringement. The jury also awarded us $3.3 million in damages; however, this award was superseded by the terms of the settlement agreement disclosed above.

Suit filed on May 10, 2006, in the U.S. District Court for the District of Delaware by NICE against Witness seeking monetary damages and injunctive relief. NICE asserted that various Witness recording products infringed on claims of U.S. Patent Nos. 5,274,738; 5,396,371; 5,819,005; 6,249,570; 6,728,345; 6,775,372; 6,785,370; 6,870,920; 6,959,079; and 7,010,109. These patents cover various aspects for recording customer interaction communications and traditional call logging. A jury trial was held from January 14-22, 2008, and the jury was unable to reach a verdict, resulting in a mistrial.

Declaratory judgment action filed on December 27, 2006, in the U.S. District Court for the Northern District of Georgia by NICE against Witness seeking a declaration that the claims of U.S. Patent No. 6,757,361 (relating to speech analytics) were invalid and that NICE has not infringed this patent. The Court granted our motion to dismiss the case for lack of subject matter jurisdiction on August 10, 2007.

From time to time we or our subsidiaries may be involved in other legal proceedings and/or litigation arising in the ordinary course of our business that might impact our financial position, our results of operations, or our cash flows.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Table of Contents

PART II

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

Market Information

Since February 1, 2007, our common stock has traded on the over-the-counter securities market under the symbol VRNT.PK with pricing and financial information provided by the Pink Sheets. Prior to February 1, 2007, our common stock traded on NASDAQ under the symbol VRNT . However, as a result of the delay in filing our periodic reports with the SEC, we were unable to comply with the listing standards of NASDAQ and our common stock was suspended from trading effective February 1, 2007 and formally de-listed effective June 4, 2007.

The following table sets forth the range of high and low intra-day sales prices of our common stock as reported on NASDAQ for the period from February 1, 2005 through January 31, 2007 and high and low quotations as reported by the Pink Sheets from February 1, 2007 through January 31, 2008. The bid quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission, and may not necessarily reflect actual transactions:

Year Ended January 31,	Quarter		Low		High
2006	2/1/05 4/30/05	$	29.74	$	40.80
	5/1/05 7/31/05	$	30.18	$	39.59
	8/1/05 10/31/05	$	36.48	$	42.73
	11/1/05 1/31/06	$	33.21	$	39.77
2007	2/1/06 4/30/06	$	31.86	$	37.98
	5/1/06 7/31/06	$	25.14	$	33.89
	8/1/06 10/31/06	$	26.50	$	33.05
	11/1/06 1/31/07	$	32.09	$	36.67
2008	2/1/07 4/30/07	$	28.40	$	32.80
	5/1/07 7/31/07	$	28.40	$	33.25
	8/1/07 10/31/07	$	23.50	$	30.25
	11/1/07 1/31/08	$	13.35	$	25.10

Holders

There were 98 holders of record of our common stock at February 28, 2010. Such record holders include holders who are nominees for an undetermined number of beneficial owners.

Table of Contents

Dividends

We have not declared or paid any cash dividends on our equity securities and have no current plans to pay any dividends on our equity securities. We intend to retain our earnings to finance the development of our business, repay debt, and for other corporate purposes. In addition, the terms of our credit agreement restrict our ability to pay cash dividends on shares of our common or preferred stock. See Management s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources under Item 7, for a more detailed discussion of these limitations. Our ability to pay dividends on our common stock is also limited by the terms of our outstanding shares of preferred stock which ranks senior to our common stock with respect to the payment of dividends and bears a preferred dividend which currently accrues at the rate of 3.875% per year. See Note 9, Convertible Preferred Stock to the consolidated financial statements included in Item 15 for a more detailed discussion of these restrictions.

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

Securities Authorized for Issuance Under Equity Compensation Plans

See Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters - Equity Compensation Plan Information under Item 12.

Table of Contents

Stock Performance Graph

The following table compares the cumulative total stockholder return on our common stock with the cumulative total return on the NASDAQ Composite Index and the NASDAQ Computer & Data Processing Services Index, assuming an investment of $100 on May 16, 2002, the date of our IPO, through January 31, 2008, and the reinvestment of any dividends. The comparisons in the graph below are based upon historical data based upon closing sale prices on NASDAQ for our common stock for each day prior to the year ended January 31, 2007 and the high and low closing bid quotations (as reported by the Pink Sheets) for each day during the year ended January 31, 2008 and are not indicative of, nor intended to forecast, future performance of our common stock.

	May 16, 2002	January 31, 2003	January 31, 2004	January 31, 2005	January 31, 2006	January 31, 2007	January 31, 2008
Verint Systems Inc.	**$ 100**	**$ 128.50**	**$ 169.77**	**$ 263.15**	**$ 250.17**	**$ 228.09**	**$ 127.67**
NASDAQ Composite Index	**$ 100**	**$ 90.60**	**$ 159.14**	**$ 152.93**	**$ 183.47**	**$ 181.75**	**$ 178.73**
NASDAQ Computer & Data Processing Index	**$ 100**	**$ 85.53**	**$ 113.76**	**$ 121.70**	**$ 131.70**	**$ 147.19**	**$ 150.86**

Table of Contents

Recent Sales of Unregistered Securities

Preferred Stock

On May 25, 2007, we entered into a Securities Purchase Agreement (the Securities Purchase Agreement) with Comverse, pursuant to which Comverse purchased, for cash, an aggregate of 293,000 shares of our preferred stock, at an aggregate purchase price of $293.0 million. Proceeds from the issuance of the preferred stock were used, together with the proceeds of the term loan under our credit agreement, described in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources under Item 7 and in Note 7, Long-term Debt to the consolidated financial statements included in Item 15, and cash on hand, to finance the acquisition of Witness.

The preferred stock was issued at a purchase price of $1,000 per share and ranks senior to our common stock. Commencing 180 days after we become compliant with our SEC reporting requirements, and provided that the underlying shares of our common stock have been approved for issuance by our common stockholders, Comverse will have demand and customary piggyback registration rights with respect to the preferred stock. See Certain Relationships and Related Transactions, and Director Independence Comverse Preferred Stock Financing Agreements under Item 13 for additional information. The preferred stock does not have voting or conversion rights until the underlying shares of common stock are approved for issuance by a vote of holders of a majority of our common stock, at which time each share of preferred stock will be entitled to a number of votes equal to the number of shares of our common stock into which such preferred stock would have been convertible at the Conversion Rate (as defined below) in effect on the date the preferred stock was issued to Comverse. Following receipt of stockholder approval for the issuance of the underlying shares, each share of preferred stock will be convertible at the option of the holder thereof into a number of shares of our common stock equal to the liquidation preference then in effect divided by the conversion price then in effect. The initial conversion price is set at $32.66 and the initial conversion rate is set at 30.6185 shares of common stock for each share of preferred stock that is converted. We also have the right in certain circumstances to cause the mandatory conversion of the preferred stock into shares of common stock at the then-applicable conversion rate.

The terms of the preferred stock also provide that upon a fundamental change, as defined in the certificate of designation, the holders of the preferred stock will have the right to require us to repurchase the preferred stock for 100% of the liquidation preference then in effect. If we fail to repurchase the preferred stock as required upon a fundamental change, then the number of directors constituting the board of directors will be increased by two, and the holders of the preferred stock will have the right to elect two directors to fill such vacancies. Upon repurchase of the preferred stock subject to the fundamental change repurchase right, the holders of the preferred stock will no longer have the right to elect additional directors, the term of office of each additional director will terminate immediately upon such repurchase, and the number of directors will, without further action, be reduced by two. In addition, in the event of a fundamental change, the conversion rate will be increased to provide for additional shares of common stock issuable to the holders of the preferred stock upon conversion, based on a sliding scale depending on the acquisition price, as defined in the certificate of designation, ranging from zero to 3.7 additional shares of common stock for every share of preferred stock converted into common stock following a fundamental change. The preferred stock was issued in a private placement in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended.

Table of Contents

Equity Grants

As a result of our inability to file required SEC reports during our extended filing delay period, we ceased using our registration statement on Form S-8 to make equity grants to employees. As a result, on March 27, 2006, we suspended option exercises under our equity incentive plans and terminated purchases under our employee stock purchase plan for all employees, including executive officers. In addition, we did not make any equity awards to employees, including executive officers, during the year ended January 31, 2007.

On May 24, 2007, we received a no-action letter from the SEC upon which we relied to make a broad-based equity grant to employees under a no-sale theory. The stock option committee of our board of directors approved this grant on July 2, 2007. On this same date, the board of directors and the stock option committee also approved an equity grant to our directors, executive officers, and certain other executives who were accredited investors in reliance upon a private placement exemption from the federal securities laws.

We have continued to rely on our no-action relief to make broad-based equity grants during our extended filing delay period, while simultaneously making grants to our executive officers and directors under a private placement exemption. We believe that these continued broad-based equity awards have been an important part of our retention initiatives and have also helped to incentivize participants and build long-term commitment and goodwill to the company.

The following summarizes various time-based equity awards approved by the stock option committee on the dates listed below since the beginning of the year ended January 31, 2007 under the application of the no-sale theory to employees (excluding directors and executive officers) in the United States and elsewhere throughout the world:

- July 2, 2007 and August 23, 2007 equity awards representing an aggregate of approximately 669,000 shares;
- December 7, 2007 equity awards representing approximately 235,000 shares;
- April 10, 2008 and May 28, 2008 equity awards representing an aggregate of approximately 717,000 shares;
- March 4, 2009 equity awards representing approximately 585,000 shares; and
- May 20, 2009 equity awards representing approximately 458,000 shares.

Table of Contents

The following summarizes various time-based and performance-based equity awards approved by the board of directors or the stock option committee on the dates listed below since the beginning of the year ended January 31, 2007 under a private placement exemption to directors, executive officers, or other employees qualifying as accredited investors:

- July 2, 2007 equity awards representing approximately 602,000 shares;
- December 6, 2007 equity awards representing approximately 262,000 shares;
- May 28, 2008 equity awards representing approximately 524,000 shares;
- March 4, 2009 equity awards representing approximately 768,000 shares;
- March 19, 2009 equity awards representing approximately 20,000 shares; and
- May 20, 2009 equity awards representing approximately 72,000 shares.

All grants were made under a stockholder-approved equity compensation plan or contain vesting conditions which require that we receive stockholder approval of a new equity compensation plan or have additional share capacity under an existing stockholder-approved equity compensation plan for the awards to stock vest. All grants were compensatory in nature and were issued without cost to the employee. For a more detailed discussion of equity granted to our executive officers, see Executive Compensation Compensation Discussion and Analysis under Item 11.

Issuer Purchases of Equity Securities

All of the purchases in the table below reflect shares withheld upon vesting of restricted stock to satisfy statutory minimum tax withholding obligations. The shares that were withheld were deposited in our treasury and a corresponding cash payment was made by us to the tax authorities. Due to the extended period covered by this report, the table below only includes those months in which purchases were made (no purchases were made in the months omitted from the table). Purchases subsequent to January 31, 2008, which are not included in the table below, are as follows (repurchase prices correspond to the closing prices of our common stock on the Pink Sheets on the relevant vesting dates (or the trading date immediately preceding the vesting date)): February 16, 2008 (2,000 shares at $17.69 per share), May 16, 2008 (2,000 shares at $23.50 per share), May 16, 2009 (8,000 shares at $6.20 per share), and January 11, 2010 (2,913 shares at $19.00 per share). From time to time, we may also foreclose on shares of our common stock pledged to us by non-officer employees as security for tax-related loans associated with equity vestings if the employee defaults on his or her repayment obligations.

Table of Contents

Issuer Purchases of Equity Securities

Period	(a) Total number of shares (or units) purchased	(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
December 2005	12,340	$ 38.22	N/A	N/A
December 2006	15,976	$ 33.82	N/A	N/A
July 2007	7,500	$ 30.77	7,500[1]	N/A[1]
August 2007	3,000	$ 27.55	3,000[1]	N/A[1]
November 2007	2,500	$ 21.00	2,500[1]	N/A[1]

1 On June 28, 2007, our board of directors approved a limited stock repurchase program (the Director Repurchase Program) to enable us to automatically repurchase, upon vesting, 40% of the shares of restricted stock otherwise deliverable to the independent directors of our board of directors (and such other directors as our board of directors may from time to time designate) upon such vesting in order to enable these directors to make required tax

payments. The Director Repurchase Program is effective through the date we become compliant with our SEC reporting obligations. Based on all grants made eligible for the Director Repurchase Program as of the filing date of this report, assuming that the Director Repurchase Program is still in effect at the time of vesting and that all grants vest, the maximum number of shares yet to be repurchased is currently 8,000. In addition, on November 24, 2009, our board of directors approved a limited stock repurchase program (the Officer Repurchase Program) to enable us to offer to repurchase from each executive officer the number of shares necessary to satisfy such officer s minimum tax withholding obligation in connection with equity vesting-related tax events that occur during a company-imposed trading blackout. Our executive officers are not obligated to participate in the Officer Repurchase Program, which is effective through the date we file our Annual Report on Form 10-K for the year ending January 31, 2010 and is not limited to a set number of shares.

Item 6. Selected Financial Data

The following selected consolidated financial data as of and for the years ended January 31, 2008, 2007, and 2006 has been derived from our audited consolidated financial statements included elsewhere in this report. The selected consolidated financial data as of and for the years ended January 31, 2005 and 2004, has been derived from our restated unaudited consolidated financial statements, which are not contained in this report. Our historical results should not be viewed as indicative of results expected for any future period.

The financial information as of and for the years ended January 31, 2005 and 2004 has been restated to reflect adjustments to our financial statements as discussed in Explanatory Note in the forepart of this report, in Management s Discussion and Analysis of Financial Condition and Results of Operations under Item 7 and in Note 2, Corrections of Errors in Previously Issued Consolidated Financial Statements to the consolidated financial statements included in Item 15.

Table of Contents

We have not amended our previously-filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by the restatement. The financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this report, and the financial statements and related financial information contained in such previously-filed reports should no longer be relied upon.

Five-Year Selected Financial Highlights:

Consolidated Statements of Operations Data

	For the Years Ended January 31,				
(in thousands, except per share data)	**2008**	**2007**	**2006**	**2005 (Restated)**	**2004 (Restated)**
Revenue	$ 534,543	$ 368,778	$ 278,754	$ 214,038	$ 174,132
Operating income (loss)	$ (114,630)	$ (47,253)	$ 4,112	$ (15,074)	$ 5,609
Net income (loss)	$ (198,609)	$ (40,519)	$ 1,664	$ 19,027	$ 2,276
Net income (loss) applicable to common shares	$ (207,290)	$ (40,519)	$ 1,664	$ 19,027	$ 2,276
Net income (loss) per share:					
Basic	$ (6.43)	$ (1.26)	$ 0.05	$ 0.62	$ 0.08
Diluted	$ (6.43)	$ (1.26)	$ 0.05	$ 0.59	$ 0.08
Weighted-average shares:					
Basic	32,222	32,156	31,781	30,881	27,831
Diluted	32,222	32,156	32,620	32,175	29,083

We have never declared a cash dividend to common stockholders.

Consolidated Balance Sheet Data

	As of January 31,				
(in thousands)	**2008**	**2007**	**2006**	**2005 (Restated)**	**2004 (Restated)**
Total assets	$ 1,492,275	$ 593,676	$ 609,558	$ 529,761	$ 414,639
Long-term debt, including current maturities	610,000	1,058	1,325	1,823	1,889
Preferred stock	293,663				
Total stockholders equity	29,298	197,604	219,632	203,074	151,045

During the five year period ended January 31, 2008, we acquired a number of businesses, the more significant of which were the acquisitions of MultiVision in January 2006, Mercom in July 2006, and Witness in May 2007. The operating results of acquired businesses have been included in our consolidated financial statements since their respective acquisition dates and have contributed to our revenue growth.

Table of Contents

The May 2007 acquisition of Witness had significant impacts to our operating results for the year ended January 31, 2008, including the following:

- an increase in revenue of $123.1 million;
- additional amortization of intangible assets of $22.6 million;
- a $6.4 million charge for in-process research and development;
- integration costs of $11.0 million incurred to support and facilitate the combination of Verint and Witness into a single organization;
- legal fees of $8.7 million associated with pre-existing litigation between Witness and a competitor;
- interest expense on our term loan of $34.4 million;
- realized and unrealized losses on our interest rate swap of $29.2 million; and
- unrealized gains of $7.2 million on an embedded derivative financial instrument related to the variable dividend feature of our preferred stock.

Operating results for the years ended January 31, 2008 and 2007 include non-cash impairment charges related to the MultiVision acquisition of $9.4 million and $21.6 million, respectively, and non-cash impairment charges related to the Opus, CM Insight, and a portion of the Witness acquisitions of $14.0 million and $3.1 million, respectively.

Operating results for the year ended January 31, 2008 include $3.3 million in restructuring costs and approximately $26 million in professional fees and related expenses associated with our restatement of previously filed financial statements and our extended filing delay status.

Operating results for the years ended January 31, 2008 and 2007 include stock-based compensation expense associated with our adoption of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payments* (SFAS No. 123(R)), of $31.0 million and $18.6 million, respectively.

Operating results for the year ended January 31, 2007 include a $19.2 million one-time settlement charge related to our exit from a royalty-bearing program with the OCS.

More detailed information regarding these transactions appears in Management s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7.

Table of Contents

The following unaudited tables present the impact of the restatement adjustments to selected financial data previously presented in our Annual Report on Form 10-K for the years ended January 31, 2005 and 2004. We have derived this data from our unaudited consolidated financial statements not contained within this report:

Condensed Consolidated Statements of Operations

	For the Years Ended January 31,					
	2005			2004		
(in thousands, except per share data)	**As Reported**	**Adjustments**	**As Restated**	**As Reported**	**Adjustments**	**As Restated**
Revenue	$ 249,824	$ (35,786)	$ 214,038	$ 192,744	$ (18,612)	$ 174,132
Cost of revenue	112,774	(494)	112,280	89,302	(6,075)	83,227
Gross profit	137,050	(35,292)	101,758	103,442	(12,537)	90,905
Operating expenses:						
Research and development, net	31,961	(2,644)	29,317	23,233	(3,676)	19,557
Selling, general and administrative	83,070	1,291	84,361	63,020	2,719	65,739
In-process research and development	3,154		3,154			
Acquisition-related write-downs (1)	1,481	(1,481)				
Total operating expenses	119,666	(2,834)	116,832	86,253	(957)	85,296
Operating income (loss)	17,384	(32,458)	(15,074)	17,189	(11,580)	5,609
Other income, net	3,618	374	3,992	2,670	82	2,752
Income (loss) before income taxes	21,002	(32,084)	(11,082)	19,859	(11,498)	8,361
Provision for (benefit from) income taxes	1,930	(32,039)	(30,109)	1,921	4,164	6,085
Net income (loss)	$ 19,072	$ (45)	$ 19,027	$ 17,938	$ (15,662)	$ 2,276
Net income (loss) per share						
Basic	$ 0.62	$	$ 0.62	$ 0.65	$ (0.57)	$ 0.08
Diluted	$ 0.58	$ 0.01	$ 0.59	$ 0.61	$ (0.53)	$ 0.08
Weighted average common shares outstanding						
Basic	30,894	(13)	30,881	27,690	141	27,831
Diluted	32,626	(451)	32,175	29,437	(354)	29,083

(1) $1.5 million of acquisition-related write-downs was reclassified to cost of revenue to correctly present the acquisition-related write-downs in accordance with GAAP.

Table of Contents

Condensed Consolidated Balance Sheets

	As of January 31,					
	2005			2004		
(in thousands)	As reported	Adjustments	As Restated	As reported	Adjustments	As Restated
Assets						
Cash and cash equivalents	$ 45,100	$ (177)	$ 44,923	$ 77,516	$ (76)	$ 77,440
Restricted cash and bank time deposits		177	177		76	76
Short-term investments	195,314		195,314	151,197		151,197
Accounts receivable, net	39,072	(6,309)	32,763	31,856	(8,790)	23,066
Inventories	17,267	994	18,261	15,833	2,499	18,332
Receivables from affiliates		1,221	1,221	1,824	3,922	5,746
Property and equipment, net	17,540	(49)	17,491	14,129	(7)	14,122
Goodwill	49,625	44	49,669	14,364	293	14,657
Intangible assets, net	12,026	(83)	11,943	2,051	(27)	2,024
Capitalized software development costs, net (1)	9,728	86	9,814	10,815	172	10,987
Other assets	13,306	134,879	148,185	9,121	87,871	96,992
Total assets	$ 398,978	$ 130,783	$ 529,761	$ 328,706	$ 85,933	$ 414,639
Liabilities and Stockholders Equity						
Accounts payable and accrued expenses	$ 67,012	$ 16,517	$ 83,529	$ 49,564	$ 9,380	$ 58,944
Deferred revenue	41,086	184,865	225,951	26,701	151,560	178,261
Liabilities to affiliates	2,154	(768)	1,386	1,178	(26)	1,152
Other liabilities (2)	5,351	10,470	15,821	6,595	18,642	25,237
Total liabilities	115,603	211,084	326,687	84,038	179,556	263,594
Stockholders Equity:						
Common stock	32		32	30		30
Additional paid-in capital	282,364	39,576	321,940	262,472	24,844	287,316
Unearned stock-based compensation	(3,395)		(3,395)	(1,615)		(1,615)
Retained earnings (accumulated deficit)	2,155	(116,902)	(114,747)	(16,917)	(116,857)	(133,774)
Accumulated other comprehensive income (loss)	2,219	(2,975)	(756)	698	(1,610)	(912)

Total stockholders equity	283,375	(80,301)	203,074	244,668	(93,623)	151,045
Total liabilities and stockholders equity	$ 398,978	$ 130,783	$ 529,761	$ 328,706	$ 85,933	$ 414,639

(1) Previously presented within Other assets.

(2) Includes liability of $2,125 and $1,586 for severance pay as of January 31, 2005 and 2004, respectively, and a convertible note of $2,200 as of January 31, 2004, all previously reported separately.

Table of Contents

The following table presents the cumulative effect of the unaudited restatement adjustments on our accumulated deficit for all periods through January 31, 2003. Our restated accumulated deficit as of January 31, 2003 is $136.1 million.

Accumulated deficit as originally reported January 31, 2003	$ (34,855)
Restatement adjustments:	
Phase I Stock-based compensation	(18,135)
Phase II Other restatement adjustments	4,376
Revenue recognition	(145,176)
Cost of revenue	54,479
Other restatement adjustments	1,064
	(103,392)
Income tax benefit	2,197
Total impact of restatement on opening accumulated deficit	(101,195)
Accumulated deficit as restated January 31, 2003	$ (136,050)

The restatement adjustments recorded to the financial statements for the years ended January 31, 2005 and 2004 include the following:

Revenue adjustments reflect the net impact of the recognition of revenue over longer periods of time than originally recorded for those multiple element arrangements for which we were unable to determine the fair value of undelivered elements, or where the criteria for revenue recognition was otherwise not met;

Adjustments to cost of revenue reflect the net impact of the deferral or recognition of the cost of revenue associated with the corresponding revenue adjustments;

Cost of revenue has also been adjusted to reflect the reclassification of certain expenses previously classified as research and development expenses into cost of revenue. These adjustments also account for the reduction in research and development expenses;

Cost of revenue and operating expenses have been adjusted to reflect adjustments to stock-based compensation expense, relating to grants by Comverse of options to acquire Comverse common stock, pursuant to the Phase I review performed by Comverse s Special Committee;

Cost of revenue and operating expenses have been adjusted to reflect adjustments to reserves and accruals pursuant to the Phase II investigation performed by our audit committee;

Table of Contents

The provision for (benefit from) income taxes has been adjusted to reflect the anticipated income tax consequences of all restatement adjustments;

Certain restricted cash balances have been reclassified from cash and cash equivalents and into restricted cash and time deposits;

Accounts receivable has been adjusted as a result of our revenue recognition corrections, primarily to present accounts receivable net of related deferred revenue;

Certain previously recognized cost of revenue deferrals have been reclassified from inventories to deferred cost of revenue within other assets;

Property and equipment, net, goodwill, intangible assets, net, and capitalized software development costs, net, have been adjusted to reflect the impact of correcting misstatements identified during our restatement process.

We have recorded sizeable increases in deferred revenue and deferred cost of revenue resulting from our revenue recognition corrections. Deferred cost of revenue is reflected within other assets;

Accounts payable and accrued expenses have been adjusted to reflect adjustments to reserves and accruals pursuant to the Phase II investigation performed by our audit committee. Accounts payable and accrued expenses have also been adjusted to reflect the impact of correcting misstatements identified during our restatement process.

Additional paid-in capital has been corrected to reflect adjustments to stock-based compensation expense pursuant to the Phase I review performed by Comverse s Special Committee;

The changes to accumulated deficit reflect the cumulative impact of all corrections to our statement of operations for periods up to and through the balance sheet date;

The changes to accumulated other comprehensive income (loss) reflect the impact of foreign currency translation on corrected balance sheet accounts with functional currencies other than the U.S. Dollar.

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

The following management s discussion and analysis of our financial condition and results of operations should be read in conjunction with the Explanatory Note at the beginning of this report, Business under Item 1, Selected Financial Data under Item 6, and the consolidated financial statements and the related notes thereto which appear elsewhere 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 Risk Factors under Item 1A.

Table of Contents

Investigation and Restatement

Background

Since our IPO in May 2002, we have been a majority-owned subsidiary of Comverse, and prior thereto we were a wholly-owned subsidiary of Comverse.

Phase I Review

While we were a wholly-owned subsidiary of Comverse, our employees received from Comverse options to purchase Comverse common stock, which we accounted for under the then-applicable accounting and disclosure rules of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123) and Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees* (APB No. 25). We did not recognize any compensation expense for stock options granted to employees during the periods when we were a wholly-owned subsidiary as we believed that the exercise price of the options granted was equivalent to the market price of the common stock on the date of grant. We provided the pro forma disclosures of stock-based compensation in accordance with SFAS No. 123. Since May 2002, none of our employees have received any compensatory awards from Comverse, other than in connection with a repricing of Comverse stock options initiated by Comverse in June 2002.

On March 14, 2006, Comverse announced that its board of directors had formed the Comverse Special Committee, composed of their outside directors, to review matters relating to stock option granting practices of Comverse including the accuracy of the option grant dates.

On April 17, 2006, the Comverse Special Committee announced its preliminary conclusion that the actual dates of measurement for certain Comverse stock option grants differed from the recorded dates. As a result of this announcement, we determined that, until completion of the Comverse review, we could not determine the impact that such review would have on our historical compensation expense or our previous disclosures made in accordance with SFAS No. 123 and APB No. 25. As a result, on April 17, 2006, we announced that our historical financial statements should not be relied on. In addition, we concluded at that time, that without better visibility into the results of the Comverse investigation, we could not disclose any current financial information (other than selected unaudited information, such as revenue data, which would not be impacted by the potential stock-based compensation charges) since that information could ultimately prove to be materially incorrect, incomplete, or misleading.

Table of Contents

Although there were no allegations or evidence suggesting that the measurement dates we used for options we granted after our IPO date were incorrect, at the request of our audit committee, our management conducted an internal review of our stock option grant practices to determine whether the actual dates of measurement for any stock options granted following our IPO differed from the recorded dates. No such differences were uncovered and the evidence supported all grant dates. Although it was not the focus of the Phase II investigation, our audit committee subsequently uncovered no evidence of improper stock option backdating.

On September 6, 2006, we announced that the Comverse Special Committee had provided us with preliminary measurement dates for the Comverse stock options granted to our employees, including preliminary calculations of the additional stock-based compensation expense attributable to those grants. We also announced that, based on this information, we had determined that the non-cash, stock-based compensation expense we would possibly need to record was material for certain periods, our expectation was that we would restate certain of our historical financial statements since our IPO, that periods prior to the year ended January 31, 2002 could be affected and that, in addition to such expense, we also expected to record certain material tax charges, make various tax payments, and pay third-party fees and expenses resulting from the improper accounting for certain Comverse stock options.

Phase II Investigation

On November 14, 2006, Comverse announced that the Comverse Special Committee had expanded its investigation into certain non-option related accounting matters, including possible revenue recognition errors, errors in recording of certain deferred tax assets, expense misclassification, misuse of accounting reserves, and understatement of backlog. As a result, our audit committee initiated its own internal investigation into certain of these non-option accounting issues, including accounting reserves, income statement expense classification, and revenue recognition. Our internal investigation of these other accounting issues was conducted by our audit committee with the assistance of Loeb & Loeb LLP, special independent counsel, and BDO Seidman, LLP, forensic accountants, as well as various technology experts. Over 5 million documents were collected and, after filtering the documents for relevance, more than half a million documents were reviewed. Our audit committee and special independent counsel conducted interviews with 27 current and former employees, as well as personnel of our auditors. In addition, representatives of our audit committee interfaced frequently with our personnel worldwide. The review initially covered the year ended January 31, 1998 through the year ended January 31, 2006, but was later expanded to include the year ended January 31, 2007.

VSOE/Revenue Recognition Review

Separate and distinct from the Phase I review and the Phase II investigation, in connection with the audits of our open and prior accounting periods at the time, we announced on November 5, 2007 that we had also undertaken reviews of our accounting treatment for revenue recognition under complex contractual arrangements pursuant to SOP 97-2, SOP 81-1, and related accounting guidance. As part of this review, we completed a comprehensive review of our license and sales agreements, and re-performed our analysis associated with, among other things, the establishment of VSOE of fair value in accordance with SOP 97-2. VSOE of fair value calculations involve making determinations regarding the fair value of our maintenance, professional and implementation services, as well as the application of the residual method to allocate revenue to each element of our bundled hardware and software arrangements.

On March 20, 2008, we announced the completion and key results of the Phase I review and Phase II investigation, which are described more fully below. The VSOE/revenue recognition review has also been completed as described below.

The adjustments recorded in connection with these restatements to our previously filed historical financial statements are set forth below under - Restatement Adjustments .

Summary of Findings

Phase I Review

The investigation by the Comverse Special Committee determined that Comverse s historical stock option granting practices were not in accordance with U.S. GAAP. On that basis, we determined that our previous disclosures made in accordance with SFAS No. 123 and APB No. 25 needed to be restated and that amounts of compensation expense and income tax benefits previously recorded by us were understated, as more fully described below under - Restatement Adjustments .

During the course of our management review, no evidence of any differences between the actual dates of measurement and the recorded dates of measurement with respect to Verint stock option grants was discovered. In addition, although it was not the focus of the Phase II investigation discussed below, our audit committee also uncovered no evidence of improper stock option backdating and we believe that the accounting related to these stock options was correct. As a result, no accounting adjustments were required to be recorded.

Phase II Investigation

Issues Resulting in Restatement Adjustments

Reserves Adjustments

Our audit committee found that, prior to the year ended January 31, 2003, accounting reserves were intentionally overstated. Our audit committee found that this practice of overstating reserves was not systemic within Verint but rather was done on an ad hoc basis by a small number of employees, including our former Chief Financial Officer and certain other former employees who directly or indirectly reported to him. Moreover, although this practice of overstating reserves (and the subsequent release of these overstated reserves) necessarily had an impact on our published earnings, our audit committee found no evidence that the purpose of the individuals involved in overstating reserves was to cause any particular effect on earnings. Rather, our audit committee found that the apparent intent of these individuals in overstating reserves was to build a conservative reserve to protect against unanticipated future expenses or erroneous judgments. Our audit committee also concluded that the overstated reserves had resulted in large measure from a simple lack of rigorous and diligent accounting. Our audit committee found no evidence indicating that reserves were intentionally overstated in any period subsequent to the year ended January 31, 2003.

Table of Contents

As a result of these findings, we have made adjustments to our historical accounting reserves for those periods as more fully described below under - Restatement Adjustments .

Other Phase II Findings

Our audit committee determined that our personnel, including sales teams and senior executives, were focused on the need to meet or exceed budgeted revenue projections on a quarterly basis. In that regard, our audit committee found evidence of the practice of seeking customer agreement to accept delivery of products either earlier or later than originally scheduled delivery dates, depending on our budget needs in a particular quarter. Our audit committee concluded that these actions did not constitute fraud or other unlawful conduct and that the accounting treatment was appropriate and, therefore, the audit committee did not propose any adjustments. However, our audit committee concluded that it was not the best business practice to have delivery decisions influenced by revenue recognition factors. As a result of our audit committee s conclusions, we have revised our policies and procedures regarding revenue recognition and have established a set of enhanced practices for quarter-end transactions.

Our audit committee found evidence that during the tenure of our former Chief Financial Officer, our finance department s practices with regard to documenting transactions and conclusions with respect to judgments made by management and the retention of documentation were significantly deficient, which impeded its investigation. As a result, our audit committee determined that enhancement of our record retention practices was necessary. As a result, we have revised our policies and procedures regarding the manner in which transactions are to be documented, the level of support required for documenting management s judgments, and related document retention procedures.

Our audit committee also investigated the alleged manipulation of backlog and improper expense classifications. The investigation revealed that we did not manipulate our backlog, but we did misclassify certain expenses. The review of statement of operations classifications found that in certain periods, certain royalties and license fees were misclassified as either selling expenses, general and administrative expenses or research and development expenses, and instead should have been classified as components of cost of revenue. We have concluded that such misclassifications were the result of error and did not have a material impact on our previously issued financial statements. However, these reclassifications are included in the Phase II adjustments included in the table entitled Summary of Restatement Adjustments below.

Our audit committee also concluded that neither Dan Bodner, our Chief Executive Officer, nor any other of our current executive officers, participated in unlawful activities or wrongful conduct.

Table of Contents

With respect to our former Chief Financial Officer, Igal Nissim, our audit committee found Mr. Nissim responsible for, among other things: (i) deficiencies in the finance department s documentation of transactions and conclusions with respect to management judgment and in failing to retain sufficient documentation; (ii) manipulation of our reserves as described above; and (iii) a failure to properly document revenue recognition policies in a manner that allowed evaluation of compliance with SOP 97-2. Based on its findings, the audit committee recommended that Mr. Nissim be terminated without bonus or severance, subject to contractual obligations and applicable law. At the time of the audit committee s recommendation in March 2008, we had already completed the transition of the Chief Financial Officer role from Mr. Nissim to Douglas Robinson in December 2006, at which time Mr. Nissim had ceased to be a director or an executive officer, or to have any role in the preparation of our financial statements or public disclosures. In addition, based on previous guidance from our board of directors, we had already notified Mr. Nissim in October 2007 of our intention to formally terminate his employment for cause. Mr. Nissim s employment officially ended on January 31, 2008 at the conclusion of his employment term.

The audit committee also recommended that we terminate our relationship with three other finance personnel based on the audit committee s finding that these individuals had participated in the misconduct described above. We subsequently implemented this recommendation.

VSOE/Revenue Recognition Review

The VSOE/revenue recognition review revealed that the requirement to prepare contemporaneous documentation analyzing and supporting the adoption of SOP 97-2 was not adequately performed and that we had prepared limited documentation analyzing our initial and ongoing compliance with SOP 97-2. Errors in recognition of revenue related to many of our contracts, including errors related to the determination of VSOE, were discovered, requiring corrective adjustments to both revenue and cost of revenue as described below under - Restatement Adjustments . We have revised and enhanced our revenue recognition policies and controls as part of our remediation efforts, as more fully described below in Controls and Procedures under Item 9A.

Restatement Adjustments

Comverse Stock Options Phase I Review

Comverse s Special Committee investigation determined that Comverse s historical stock option granting practices were not in accordance with GAAP and required the restatement of prior period financial information. Based upon the results of the Comverse Special Committee investigation, we determined that our previous disclosures made in accordance with SFAS No. 123 and APB No. 25 needed to be restated and that the amounts of compensation expense previously recorded by us were understated.

The restatements in this report reflect additional stock-based compensation expense and related tax effects under APB No. 25, and restated pro forma disclosures pursuant to the requirements of SFAS No. 123, which were the standards under which we recorded our stock-based compensation through January 31, 2006.

Table of Contents

Based on the results of the Comverse Special Committee investigation, we determined that our previously recorded stock-based compensation was understated. As a result, we recorded a pre-tax charge of $18.1 million to our opening retained earnings balance as of February 1, 2003, reflecting the cumulative effect of the Phase I review corrections impacting periods through that date. In addition, the restatements in this report reflect additional non-cash, stock-based compensation expense related to past Comverse stock option grants of approximately $0.1 million and $0.1 million for the years ended January 31, 2005 and 2004, respectively. These adjustments are included within the restatement adjustments of prior financial statements for all periods through October 31, 2005.

Additionally, the Phase I review resulted in additional stock-based compensation expenses in financial statements for periods not previously reported. In addition to stock-based compensation expense resulting from the Phase I review, we recorded non-cash, stock-based compensation charges of approximately $0.6 million in the year ended January 31, 2007 related to a modification of Comverse stock options held by our employees, which extended the exercise periods during the period Comverse was delayed in its financial reporting with the SEC. We also recorded non-cash, stock-based compensation charges of $2.0 million and $2.6 million for the years ended January 31, 2008 and 2007, respectively, related to a modification of Verint stock options which extended their exercise periods during the period we were delayed in our periodic filings with the SEC.

Phase II Investigation Reserves

Following the publication of our audit committee s report, we carefully reviewed our historic reserve accounts in light of our audit committee s findings and found that some reserves lacked adequate supporting documentation. Where documentation was lacking, reviews of actual transactions subsequent to the establishment of the reserves were performed. For certain reserves, the actual subsequent transactions were significantly different than the recorded reserves, even when allowing for modest differences to be expected when an estimated reserve is recorded, and did not justify the amounts of the original reserves. Accordingly, we have restated these accounts to reflect appropriate and supportable balances. As a result, we recorded an increase of $4.4 million to our opening retained earnings balance as of February 1, 2003, reflecting the cumulative pre-tax effect of the Phase II investigation corrections impacting periods through that date. In addition, we recorded Phase II investigation corrections to increase pre-tax earnings by $0.1 million for the nine months ended October 31, 2005, and reduce pre-tax earnings by $1.5 million and $2.2 million for the years ended January 31, 2005 and January 31, 2004, respectively.

VSOE/Revenue Recognition and Cost of Revenue

Following the completion of our revenue recognition review, we determined that in many of the arrangements reviewed, we were unable to determine the fair value of post-contract support (PCS) and installation services for undelivered elements within multiple element arrangements, as defined by the guidance in SOP 97-2. As a result, the fair values of the elements of many of these arrangements were not appropriately determined and documented, which affected the timing of the revenue we recognized under these arrangements. Generally, these restatement adjustments resulted in the recognition of revenue over a longer period of time than originally recorded. These restatement adjustments do not, however, impact the overall amount of revenue we will ultimately record and relate only to the proper allocation of this revenue among accounting periods, other than the impact of foreign currency exchange rates on certain revenue now reported and translated into U.S. Dollars in different accounting periods and certain transactions now reported on a gross rather than net basis of accounting. We have corrected these errors in revenue recognition, along with the related cost of revenue, over the period from the year ended January 31, 2001 through October 31, 2005 for these bundled arrangements.

Other Adjustments

The financial statements contained in this report also reflect other accounting adjustments to correct misstatements identified during our restatement process that were not related to historical stock option practices, reserves, or revenue recognition.

Summary of Adjustments

The table below summarizes the aggregate impact of all of the accounting adjustments described above to our historical financial statements for the first nine months of the year ended January 31, 2006 and for the years ended January 31, 2005 and 2004, and reflects the cumulative effect of each type of adjustment for periods prior to and including the year ended January 31, 2003. As no financial statements for periods subsequent to the three months ended October 31, 2005 have previously been filed by us as a result of the various accounting reviews, there are no adjustments or restatements for those periods.

Summary of Restatement Adjustments

	Impact of Restatement							
(in thousands)	Revenue (1)	Cost of Revenue (2)	Phase I Adjustments (3)	Phase II Adjustments (4)	Other Adjustments (5)	Total Adjustments, Before Taxes	Income Tax Effect of All Adjustments	Total Adjustments, Net of Taxes
	Increase (Decrease) to Earnings							
Period:								
Cumulative effect on February 1, 2003 opening retained earnings	$ (145,176)	$ 54,479	$ (18,135)	$ 4,376	$ 1,064	$ (103,392)	$ 2,197	$ (101,195)
Year ended January 31, 2004	(20,873)	10,421	(111)	(2,170)	1,235	(11,498)	(4,164)	(15,662)
Year ended January 31, 2005	(37,422)	7,234	(57)	(1,486)	(353)	(32,084)	32,039	(45)
Cumulative effect on February 1, 2005 opening retained earnings	(203,471)	72,134	(18,303)	720	1,946	(146,974)	30,072	(116,902)
Nine month period ended October 31, 2005	(36,722)	11,611	(28)	99	626	(24,414)	2,736	(21,678)
Total adjustments	$ (240,193)	$ 83,745	$ (18,331)	$ 819	$ 2,572	$ (171,388)	$ 32,808	$ (138,580)

1) Because they do not affect our reported income (loss) before income tax and noncontrolling interest or net income (loss) in any period, these restatement adjustments do not reflect the impact of certain transactions now reported on a gross rather than net basis of accounting.

2) Includes cost of revenue as well as certain operating costs that vary directly with revenue. These adjustments do not reflect the impact of certain transactions now reported on a gross rather than net basis of accounting.

3) Includes impact of errors identified in the Phase I review. Further details of these adjustments by year are presented in the table below.

4) Includes impact of errors identified in the Phase II investigation, primarily relating to impacts to reserves, as well as certain revenue recognition matters unrelated to our VSOE/revenue recognition review and account classifications.

5) Includes adjustments to correct misstatements identified during our restatement process that were not related to historical stock option practices, reserves, or revenue recognition.

As indicated in the above table, we have restated our reported revenue so that $240 million of revenue that was previously reported through October 31, 2005 is being deferred into subsequent periods. Below is an illustration of when the revenue recognition criteria will be met and therefore how revenue deferred in the restatement is expected to be recognized other than the impact of foreign currency exchange rates on certain revenue now reported and translated into U.S. Dollars in different accounting periods:

- $26 million in the three-month period ended January 31, 2006;
- $84 million in the year ended January 31, 2007;
- $48 million in the year ended January 31, 2008;
- $34 million in the year ended January 31, 2009;
- $25 million in the year ended January 31, 2010;
- $12 million in the year ending January 31, 2011; and
- $11 million thereafter.

Table of Contents

A breakdown of the adjustments by period relating to the Phase I review, to record stock-based compensation expense, is provided below.

Impact of Phase I Adjustments by Period
(in thousands)

Year ended January 31, 1991	$ 3
Year ended January 31, 1992	5
Year ended January 31, 1993	94
Year ended January 31, 1994	34
Year ended January 31, 1995	95
Year ended January 31, 1996	171
Year ended January 31, 1997	184
Year ended January 31, 1998	15
Year ended January 31, 1999	393
Year ended January 31, 2000	2,147
Year ended January 31, 2001	5,829
Year ended January 31, 2002	3,881
Year ended January 31, 2003	5,284
Cumulative effect on February 1, 2003 opening retained earnings	18,135
Year ended January 31, 2004	111
Year ended January 31, 2005	57
Cumulative effect on February 1, 2005 opening retained earnings	18,303
Nine-month period ended October 31, 2005	28
Total Adjustments	$ 18,331

Cost of Accounting Investigation and Related Restatements
We have incurred substantial expense for accounting assistance, audit, legal, tax, and other professional services in connection with the accounting reviews and preparation of this report, and the ongoing preparation of our other outstanding periodic reports, including our restatement of previously filed financial statements and our extended filing delay status. Certain of these expenses are difficult to quantify, as we are unable to specifically segregate accounting and tax expenses related to the accounting reviews and related restatement activities from such expenses associated with customary and ongoing accounting and tax services. Billing for these services did not provide this level of differentiation as the services were often commingled. However, we estimate that expenses associated with our restatement of previously filed financial statements and expenses related to our extended filing delay status were approximately $26 million and $4 million in the years ended January 31, 2008 and 2007, respectively, including our best estimate of the associated accounting and tax expenses. Of these amounts, expenses related specifically to the Phase II investigation were approximately $17 million and $3 million in the years ended January 31, 2008 and 2007, respectively. We estimate that we incurred approximately $29 million of expenses associated with our restatement of previously filed financial statements and our extended filing delay status during the year ended January 31, 2009, including approximately $4 million related specifically to the Phase II investigation. We estimate that we incurred approximately $55 million of expenses associated with our restatement of previously filed financial statements and our extended filing delay status during the year ended January 31, 2010. In addition, during our extended filing delay period, we incurred approximately $15 million of expenses associated with a special retention program in the year ended January 31, 2008. We expect to continue to incur significant expenses in connection with completing our

periodic reports at least until the time we begin to timely file our SEC filings.

Table of Contents

Remedial Efforts

As a result of the Phase I review, the Phase II investigation, and the VSOE/revenue recognition review, and our internal controls testing, we have identified the material weaknesses set forth in Controls and Procedures under Item 9A and have implemented several remedial measures relating to corporate governance, training, ethics and corporate culture, internal controls and compliance. Such measures include:

- establishing an Internal Audit Department, which reports directly to our audit committee;
- updating our Employee Code of Business Conduct and Ethics and implementing a new Finance and Accounting Code of Conduct that serves as a set of guiding principles emphasizing our commitment to integrity in financial and accounting reporting, as well as transparency and robust and complete communications with, and disclosures to, internal and external auditors;
- revising and enhancing our revenue recognition policies and controls, including
  - appointing a VP Finance and Global Revenue Controller and Regional Revenue Controllers, and establishing a centralized revenue recognition department to address complex revenue recognition matters and to provide oversight and guidance on the design of controls and processes to enhance and standardize revenue recognition accounting application; and
  - designing and implementing enhanced information technology systems and user applications, including a broader and more sophisticated implementation of our Enterprise Resource Planning system;
- engaging external subject matter experts to assist in developing, implementing, and/or enhancing accounting and finance-related policies and procedures, including
  - advising on the accounting for and disclosure of stock-based compensation matters;
  - assisting in developing and implementing a formal remediation plan; and
  - assisting in developing, implementing and/or enhancing revenue recognition, account reconciliations, journal entry review/approval procedures, end-user computing, fixed assets, and reserve and accrual analyses;

Table of Contents

- revising our policies and procedures regarding the manner in which transactions are to be documented, the level of support required for documenting management s judgments and related document retention procedures, including
  - implementing a record retention program to centralize global finance documentation in a standard repository;
  - engaging external subject matter experts with specialized international and consolidated income tax knowledge to assist in creating, implementing, and documenting a consolidated tax process; and
- expanding our accounting policy and controls organization by creating and filling new positions with qualified accounting and finance personnel, including a new Chief Financial Officer, a new Senior Vice President Finance and Corporate Controller, and a Vice President of Global Accounting as well as creating the position of Chief Compliance Officer.

Business Overview

Verint is a global leader in Actionable Intelligence® solutions and value-added services. Our solutions enable organizations of all sizes to make timely and effective decisions to improve enterprise performance and make the world a safer place. More than 10,000 organizations in over 150 countries including over 80% of the Fortune 100 use Verint solutions to capture, distill, and analyze complex and underused information sources, such as voice, video, and unstructured text.

In the enterprise market, our Workforce Optimization solutions help organizations enhance customer service operations in contact centers, branches, and back-office environments to increase customer satisfaction, reduce operating costs, identify revenue opportunities, and improve profitability. In the security intelligence market, our video intelligence, public safety, and communications intelligence and investigative solutions are vital to government and commercial organizations in their efforts to protect people and property and neutralize terrorism and crime.

We support our customers around the globe directly and with an extensive network of selling and support partners.

Table of Contents

Background

Shift in Our Business

For the year ended January 31, 2005, our security solutions represented approximately 75% of our revenue, while our business intelligence solutions represented the remainder of our revenue, and we reported those results in a single operating segment. Since that time our revenue mix and financial profile have shifted significantly, primarily as a result of the Witness acquisition in May 2007, but also as the result of the additional changes to our business, each of which is described in more detail below:

- The Workforce Optimization segment (comprising our legacy business intelligence solutions business and Witness entire business) became, and continues to be, our largest business, as measured by revenue and assets. As of January 31, 2008, our Workforce Optimization segment represented approximately 49% of our revenue;
- the acquisition of Witness increased the software portion of our product mix, which increased our gross margins and has provided us with more recurring maintenance revenue;
- our customer base has increased to more than 10,000 organizations;
- we incurred approximately $650.0 million of indebtedness to finance a portion of the Witness acquisition. See - Liquidity and Capital Resources Requirements below; and
- we issued 293,000 shares of preferred stock to Comverse at an aggregate purchase price of $293.0 million to finance a portion of the Witness acquisition, which increased Comverse s majority ownership position in us to approximately 67% (assuming conversion of all of the preferred stock into common stock). See Certain Relationships and Related Transactions, and Director Independence under Item 13.

How We View Our Business

We participate in the enterprise workforce optimization and security intelligence markets through three operating segments: Workforce Optimization, Video Intelligence and Communications Intelligence.

In our Workforce Optimization segment, we are a leading provider of enterprise workforce optimization software and services. Our solutions enable organizations to extract and analyze valuable information from customer interactions and related operational data in order to make more effective, proactive decisions for optimizing the performance of their customer service operations, improving the customer experience, and enhancing compliance. Marketed under the Impact 360® brand to contact centers, back offices, branch and remote offices, and public safety centers, these solutions comprise a unified suite of enterprise workforce optimization applications and services that include IP and TDM voice recording and quality monitoring, speech and data analytics, workforce management, customer feedback, eLearning and coaching, performance management and desktop productivity/application analysis. These applications can be deployed stand-alone or in an integrated fashion. Key business and technology trends driving this segment include a growing interest in a unified workforce optimization suite and sophisticated customer interaction analytics, the adoption of workforce optimization solutions outside contact centers, and the ongoing upgrade of legacy voice (TDM) systems to VoIP telephony infrastructure. For the years ended January 31, 2008, 2007, and 2006, this segment represented approximately 49%, 34%, and 25% of our total revenue, respectively.

Table of Contents

In our Video Intelligence segment, we are a leading provider of networked IP video solutions designed to optimize security and enhance operations. Our Video Intelligence solutions portfolio includes IP video management software and services, edge devices for capturing, digitizing, and transmitting video over different types of wired and wireless networks, video analytics, and networked DVRs. Marketed under the Nextiva® brand, this portfolio enables organizations to deploy an end-to-end IP video solution with analytics or evolve to IP video operations without discarding their investments in analog CCTV technology. Key business and technology trends in the Video Intelligence segment include increased demand for advanced security solutions due to ongoing terrorism and security threats around the world and the transition from relatively passive analog CCTV video systems to more sophisticated networked-based IP video solutions. For the years ended January 31, 2008, 2007, and 2006, this segment represented approximately 28%, 33%, and 37% of our total revenue, respectively.

In our Communications Intelligence segment, we are a leading provider of communications intelligence and investigative solutions that help law enforcement, national security, intelligence, and other government agencies effectively detect, investigate, and neutralize criminal and terrorist threats. Our solutions are designed to handle massive amounts of unstructured and structured information from different sources, quickly make sense of complex scenarios, and generate evidence and intelligence. Our portfolio includes solutions for communications interception, service provider compliance, mobile location tracking, fusion and data management, financial crime investigation, web intelligence, integrated video monitoring, and tactical communications intelligence. These solutions can be deployed stand-alone or collectively, as part of a large-scale system to address the needs of large government agencies that require advanced, comprehensive solutions. Key business and technology trends in this segment include the demand for innovative communications intelligence and investigative solutions due to terrorism, criminal activities, and other security threats, an expanding range of communication and information media, the increasing complexity of communications networks and growing network traffic, and legal and regulatory compliance requirements. For the years ended January 31, 2008, 2007, and 2006, this segment represented approximately 23%, 33%, and 38% of our total revenue, respectively.

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

Table of Contents

Our Strategy

There are several elements to our strategy, including:

Continue to drive the development of Actionable Intelligence solutions for unstructured data. We were a pioneer in the development of solutions that help businesses and governmental organizations derive intelligence from unstructured data (such as telephone conversations, video streams, email and Internet communications, etc.) to help them make better decisions. We believe that traditional business intelligence solutions, which have generally been designed for structured data stored in relational databases, cannot easily analyze this unstructured information and that the market opportunity for Actionable Intelligence solutions is still in its early stages. We intend to continue to drive the adoption of Actionable Intelligence solutions by delivering solutions to the workforce optimization and security intelligence markets designed to provide a high return on investment.

Maintain market leadership through innovation and customer centricity. We believe that to compete successfully we must continue to introduce solutions that better enable customers to derive Actionable Intelligence from their unstructured data. In order to do this, we intend to continue to make significant investment in research and development and to protect our intellectual property through patents and other means. We must continue to be in regular dialog with our customer base in order to understand their business objectives and requirements.

Grow through acquisitions, in addition to organic growth. Companies in our markets continue to consolidate, and we believe this trend will continue. We examine acquisition opportunities regularly as a means to add technology, increase our geographic presence, enhance our market leadership, or expand into adjacent markets. Historically, we have engaged in acquisitions for all of these purposes and expect to continue to do so in the future when strategic opportunities arise.

Expand our market presence through OEM and partner relationships. We offer our products and solutions to customers both directly and indirectly. For our indirect sales, we have expanded our relationships with OEMs and other channel partners. We believe these relationships broaden our market coverage, particularly in the SMB portion of the market, though in these arrangements, the partner has the primary relationship with the customer. We believe this is an important part of our growth strategy and intend to expand existing relationships while creating new relationships.

Table of Contents

Key Trends and Developments in Our Business

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

Completion of our outstanding SEC filings. The prolonged period of being a delayed filer has limited the information we have been able to provide to the public and other interested parties, including customers, partners, and bank lenders. This has had an adverse impact upon relationships with customers and partners and, we believe, upon our actual results.

Decreased information technology spending. During the current global recession, information technology spending has decreased, and the market for our products and services has been adversely affected. Customers are delaying, reducing, and eliminating their spending on information technology, and we believe this has adversely affected our results.

Market acceptance of Actionable Intelligence for unstructured data, particularly analytics. We are in an early stage market where the value of certain aspects of our products and solutions is still in the process of market acceptance. We believe that our future growth depends in part on the continued and increasing acceptance of the value of our data analytics across our product offerings.

Our ownership and capital structure constrains investment and growth. We have a majority stockholder that can effectively control our business and affairs. We also are subject to various restrictive covenants under our credit facility, as well as a leverage ratio financial covenant. As a result, our current capital structure limits our ability to issue equity, incur additional debt or make certain investments in our business. We are also limited in our ability to raise additional capital until such time that we have filed certain additional late periodic reports. These limitations may impede our ability to execute upon our business strategy.

See also Risk Factors under Item 1A for a more complete description of these and other risks that may impact future revenue and profitability.

Critical Accounting Policies and Estimates

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

Table of Contents

Revenue Recognition

Our revenue recognition policy is a critical component of determining our operating results and is based on a complex set of accounting rules that require us to make significant judgments and estimates. We derive revenue primarily from two sources: product revenue, which includes revenue from hardware and software products; and service and support revenue, which includes revenue from installation services, PCS, project management, hosting services, and training services. Our customer arrangements typically include several of these elements. Revenue recognition for a particular arrangement is dependent upon such factors as the level of customization within the solution and the contractual delivery, acceptance, payment and support terms with the customer. Significant judgment is required to conclude whether collectability of fees is considered probable and whether fees are fixed or determinable. In addition, our multiple element arrangements must be carefully reviewed to determine whether the fair value of each element can be established, which is a critical factor in determining the timing of the arrangement s revenue recognition.

The majority of our software license arrangements contain multiple elements including software, hardware, PCS, and professional services, such as installation, consulting, and training. We allocate revenue to delivered elements of the arrangement using the residual value method, whereby revenue is allocated to the undelivered elements based on VSOE of the fair value of the undelivered elements as prescribed in SOP 97-2 with the remaining arrangement fee allocated to the delivered elements and recognized as revenue assuming all other revenue recognition criteria are met. If we are unable to establish VSOE of fair value for the undelivered elements of the arrangement, revenue recognition is deferred for the entire arrangement until all elements of the arrangement are delivered. However, if the only undelivered element is PCS, we recognize the arrangement fee ratably over the PCS period.

Our policy for establishing VSOE of fair value for installation, consulting, and training is based upon an analysis of separate sales of services, which are then compared with the fees charged when the same elements are included in a multiple element arrangement.

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

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

Under the substantive renewal rate approach, we believe it is necessary to evaluate whether both the support renewal rate and term are substantive, and whether the renewal rate is being consistently applied to subsequent renewals for a particular customer. We establish VSOE under this approach through analyzing the renewal rate stated in the customer agreement and determining whether that rate is above the minimum substantive VSOE renewal rate established for that particular PCS offering. The minimum substantive VSOE rate is determined based upon an analysis of revenue associated with historical PCS contracts. Typically, renewal rates of 15% for PCS plans that provide when and if available upgrades, and 10% for plans that do not provide for when and if available upgrades, would be deemed to be minimum substantive renewal rates. For contracts that do not contain a stated renewal rate, revenue associated with the entire bundled arrangement is recognized ratably over the PCS term. Contracts that have a renewal rate below the minimum substantive VSOE rate are deemed to contain a more than insignificant discount element, for which VSOE cannot be established. We recognize revenue for these arrangements over the period that the customer is entitled to renew their PCS at the discounted rate, but not to exceed the estimated economic life of the product. We evaluate many factors in determining the estimated economic life of our products, including the support period of the product, technological obsolescence, product roadmaps, and the customer s expectations. We have concluded that our software products have estimated economic lives of from five to seven years.

Table of Contents

For certain of our products, we do not have an explicit obligation to provide PCS but as a matter of business practice have provided implied PCS. The implied PCS is accounted for as a separate element for which VSOE of fair value does not exist. Arrangements that contain implied PCS are recognized over the period the implied PCS is provided, but not to exceed the estimated economic life of the product.

For shipment of products which include embedded firmware that has been deemed incidental, we recognize revenue in accordance with Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition* (SAB No. 104), and EITF Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF No. 00-21). EITF No. 00-21 addresses the accounting for arrangements that may involve the delivery or performance of multiple products, services, and/or rights to use assets. Under the terms of SAB No. 104, revenue is recognized provided that persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable, and collectability of the fee is reasonably assured. For shipments of hardware products, delivery is considered to have occurred upon shipment, provided that the risks of loss, and title in certain jurisdictions, have been transferred to the customer.

Some of our arrangements require significant customization of the product to meet the particular requirements of the customer. For these arrangements, revenue is recognized in accordance with Accounting Research Bulletin No. 45, *Long-Term Construction-Type Contracts*, and the relevant guidance contained within SOP 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts,* typically using the percentage of completion (POC) method. Under the POC method, revenue recognition is generally based upon the ratio of hours incurred to date to the total estimated hours required to complete the contract. Profit estimates on long-term contracts are revised periodically based on changes in circumstances, and any losses on contracts are recognized in the period that such losses become evident. Generally, the terms of long-term contracts provide for progress billings based on completion of milestones or other defined phases of work. Significant judgment is often required when estimating total hours and progress to completion on these arrangements, as well as whether a loss is expected to be incurred on the contract due to several factors including the degree of customization required and the customer s existing environment. If the range of profitability cannot be estimated but some level of profit is assured, revenue is recognized to the extent of costs incurred, until such time that the project s profitability can be estimated or the services have been completed. In addition, if VSOE of fair value does not exist for the contract s PCS element, but some level of profit is assured, the zero gross margin approach of applying percentage of completion accounting is used based on the extent of costs incurred. Once the services are completed, the remaining unrecognized portion of the arrangement fee is recognized ratably over the remaining PCS period. In the event some level of profitability on a contract cannot be assured, the completed-contract method of revenue recognition is applied. We use historical experience, project plans, and an assessment of the risks and uncertainties inherent in the arrangement to establish these estimates. Uncertainties in these arrangements include implementation delays or performance issues that may or may not be within our control.

Table of Contents

In certain of our arrangements accounted for under SOP 81-1, the fee is contingent on the return on investment our customers receive from our products and services. Revenue from these arrangements is recognized under the completed contract method of accounting when the contingency is resolved and collectability is assured, which in most cases is upon final receipt of payment.

If an arrangement includes customer acceptance criteria, revenue is not recognized until we can objectively demonstrate that the software or services meet the acceptance criteria, or the acceptance period lapses, whichever occurs earlier. If a software license arrangement obligates us to deliver specified future products or upgrades, revenue is recognized when the specified future products or upgrades are delivered, or when the obligation to deliver specified future products expires, whichever occurs earlier.

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

We record provisions for estimated product returns in accordance with SFAS No. 48, *Revenue Recognition When Right of Return Exists* (SFAS No. 48), in the same period in which the associated revenue is recognized. We base these estimates of product returns upon historical levels of sales returns and other known factors. Actual product returns could be different from our estimates and current or future provisions for product returns may differ from historical provisions. Concessions granted to customers are recorded as reductions to revenue in the period in which they were granted and have been minimal in both amount and frequency.

Product revenue derived from shipments to resellers and OEMs who purchase our products for resale are generally recognized when such products are shipped (on a sell-in basis). This policy is predicated on our ability to estimate sales returns as well as the other criteria outlined in SFAS No. 48 regarding these customers. We are also required to evaluate whether our resellers and OEMs have the ability to honor their commitment to make fixed or determinable payments, regardless of whether they collect payment from their customers. In this regard, we assess whether our resellers and OEMs are new, poorly capitalized, or experiencing financial difficulty, and whether they have a pattern of not paying as amounts become due on previous arrangements or seeking payment terms longer than those provided to end customers. If we were to change any of these assumptions or judgments, it could cause a material change to the revenue reported in a particular period. We have historically experienced insignificant product returns from resellers and OEMs, and our payment terms for these customers are similar to those granted to our end-users. Our policy also presumes that we have no significant performance obligations in connection with the sale of our products by our resellers and OEMs to their customers. If a reseller or OEM develops a pattern of payment delinquency, or seeks payment terms longer than generally granted to our resellers or OEMs, we defer the recognition of revenue from transactions with that reseller or OEM until the receipt of cash.

For multiple element arrangements for which we are unable to establish VSOE of fair value of one or more elements, we use various available indicators of fair value and apply our best judgment to reasonably classify the arrangement s revenue into product revenue and service revenue. For these arrangements, we review our VSOE for training, installation and PCS services from similar transactions, stand-alone service arrangements and prepare comparisons to peers, in order to determine reasonable and consistent approximations of fair values of service revenue for income statement classification purposes with the remaining amount being allocated to product revenue. Installation services associated with our Communications Intelligence arrangements recognized under SOP 97-2 are included within product revenue as such amounts are not considered material.

Allowance for Doubtful Accounts

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

Accounting for Business Combinations

Business acquisitions completed prior to January 31, 2009 have been accounted for under the provisions of SFAS No. 141, *Business Combinations* (SFAS No. 141). Pursuant to SFAS No. 141, we allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed as well as to in-process research and development costs based upon their estimated fair values at the acquisition date. These fair values are typically estimated with assistance from independent valuation specialists. The purchase price allocation process requires our management to make significant estimates and assumptions, especially at the acquisition date with respect to intangible assets, contractual support obligations assumed, and pre-acquisition contingencies.

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

Table of Contents

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

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

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

Impairment of Goodwill and Other Intangible Assets

We perform our goodwill impairment test on an annual basis, as of November 1, or more frequently, if changes in facts and circumstances indicate that impairment in the value of goodwill may exist. Our goodwill impairment evaluation is based upon comparing the fair value to the carrying value of our reporting units containing goodwill. To test for potential impairment, we first perform an assessment of the fair value of our reporting units. We utilize three primary approaches to determine fair value: (i) an income based approach, using projected discounted cash flows, (ii) a market based approach using multiples of comparable companies, and (iii) a transaction based approach using multiples for recent acquisitions of similar businesses made in the marketplace.

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

Table of Contents

The fair value of each reporting unit is compared to its carrying value to determine whether there is an indication of impairment in value. If an indication of impairment exists, we perform a second analysis to measure the amount of impairment, if any.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we review intangible assets that have finite useful lives and other long-lived assets when an event occurs indicating the potential for impairment. If any indicators are present, we perform a recoverability test by comparing the sum of the estimated undiscounted future cash flows attributable to the assets in question to their carrying amounts. If the undiscounted cash flows used in the test for recoverability are less than the long-lived assets carrying amount, we determine the fair value of the long-lived asset and recognize an impairment loss if the carrying amount of the long-lived asset exceeds its fair value.

During the years ended January 31, 2008 and 2007, we recorded non-cash charges to recognize impairments of goodwill and other intangible assets of $23.4 million and $24.7 million, respectively.

The assumptions and estimates used in this process are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy or our internal forecasts. Although we believe the assumptions, judgments, and estimates we have used are reasonable and appropriate, changes in any of our assumptions could trigger impairments not originally identified or could result in a material change to impairments identified.

Income Taxes

We account for income taxes using a balance sheet approach in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109). Under this approach, deferred taxes are recorded for the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial statement and tax bases of our assets and liabilities, and are adjusted for changes in tax rates and tax laws when changes are enacted. The effects of future changes in income tax laws or rates are not anticipated.

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

We evaluate the realizability of our deferred tax assets for each jurisdiction in which we operate at each reporting date. SFAS No. 109 requires a valuation allowance to be established when it is more likely than not that all or a portion of our deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income of the same character and in the same jurisdiction. We consider all available positive and negative evidence in making this assessment, including but not limited to, the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. In circumstances where there is sufficient negative evidence indicating that our deferred tax assets are not more-likely-than-not realizable, we establish a valuation allowance.

On February 1, 2007, we implemented the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 requires a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate tax positions taken or expected to be taken in a tax return by assessing whether, based solely on their technical merits, they are more-likely-than-not sustainable upon examination and including resolution of any related appeals or litigation process. The second step is to measure the associated tax benefit of each position as the largest amount that we believe is more-likely-than-not realizable. Differences between the amount of tax benefits taken or expected to be taken in our income tax returns and the amount of tax benefits recognized in our financial statements, determined by applying the prescribed methodologies of FIN 48, represent our unrecognized income tax benefits, which we either record as a liability or as a reduction of the deferred tax asset for net operating loss carryovers. This interpretation also provides guidance on de-recognition, financial statement classification, interest and penalties, accounting in interim periods, disclosure and transition. Our policy is to include interest and penalties related to unrecognized income tax benefits as a component of income tax expense.

Contingencies

We account for claims and contingencies in accordance with SFAS No. 5, *Accounting for Contingencies*, which requires the recognition of an estimated loss from a claim or loss contingency when information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accounting for claims and contingencies requires the use of significant judgment and estimates. One notable potential source of loss contingencies is pending or threatened litigation. Legal counsel and other advisors and experts are consulted on issues related to litigation as well as on matters related to contingencies occurring in the ordinary course of business.

Accounting for Stock-Based Compensation

On February 1, 2006, we adopted SFAS No. 123(R) and related interpretative guidance issued by the FASB and the SEC. SFAS No. 123(R) requires the recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements and measurement of such cost based on the grant-date fair value of the award.

The application of SFAS No. 123(R) requires companies to estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model. We use the Black-Scholes option-pricing model, which requires the input of significant assumptions including an estimate of the average period of time employees will retain stock options before exercising them, the estimated volatility of our common stock price over the expected term, the number of options that will ultimately be forfeited before completing vesting requirements, and the risk-free interest rate. Changes in the assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense recognized. The assumptions we use in calculating the fair value of stock-based payment awards represent our best estimates, which involve inherent uncertainties and the application of judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

Table of Contents

For information regarding the correction of errors in previously issued financial statements associated with certain option awards made in years prior to the adoption of SFAS No. 123(R), please see - Investigation and Restatement .

Impact of Our VSOE/Revenue Recognition Policies on Our Results of Operations

In our Annual Report on Form 10-K for the year ended January 31, 2005, we disclosed that we generally recognized revenue at the time of shipment for sales of systems which did not require significant customization and when collection of the resulting receivable was deemed probable by us. We also disclosed that revenue from certain long-term contracts (i.e., systems that did require significant customization) was recognized under the POC method. In addition, we disclosed that customers could engage in maintenance contracts and that revenue from maintenance contracts was recognized ratably over the term of the maintenance period. In arrangements where customers placed a single order for products and maintenance, we disclosed that we used VSOE of fair value to determine the fair value of the maintenance portion of the purchase (also referred to as post contract support or PCS) and that the fair value of the maintenance portion was recognized over the term of the maintenance period. In accordance with SOP 97-2, VSOE is used in transactions or arrangements that involve multiple bundled elements to determine the value of undelivered elements of a transaction or arrangement. We also believed we had established VSOE of fair value for our professional services, including installation, consulting, and training. Professional services revenue was recognized upon the performance of the services.

As explained above, in our previously filed annual and quarterly reports, we generally recognized product revenue at the time of the shipment, except for certain long-term contracts. Our last annual filing was for the year ended January 31, 2005, our last quarterly filing was for the quarter ended October 31, 2005 and we last reported revenue on a Form 8-K for the quarter ended July 31, 2007.

On November 5, 2007, we publicly announced in a Form 8-K the review of our revenue recognition practices in accordance with SOP 97-2 and related accounting pronouncements, including performing additional analysis associated with the establishment of VSOE. At that time, we stated that if we were unable to determine the fair value of an undelivered element within a multiple element arrangement, revenue for the entire arrangement would be deferred until all elements had been delivered. Our revenue recognition review was unrelated to the Phase I review or Phase II investigation described in this report and our prior SEC filings.

Table of Contents

In reviewing our revenue recognition practices, we examined our two primary sources of revenue: (i) product revenue, including hardware and software products; and (ii) service revenue, including implementation, training, consulting, maintenance, and warranty. A significant portion of customer arrangements contain multiple elements which include bundling products and services in a single arrangement with a customer.

When VSOE does not exist for all delivered elements of an arrangement, SOP 97-2, as modified by SOP 98-9, *Modification of SOP 97-2, Software Revenue Recognition with Respect to Certain Transactions*, requires revenue to be recognized under the residual value method (Residual Method). The fair value of our products is derived by ascertaining the fair value of all undelivered elements (i.e., PCS and other services) and subtracting the value of the undelivered elements from the total arrangement consideration. If the fair value of all undelivered elements cannot be determined, revenue recognition is deferred for all elements, including delivered elements, until all elements are delivered. However, if the only undelivered element is PCS, the entire arrangement fee is recognized ratably over the PCS period.

During our revenue recognition review, we determined that for many of the arrangements we examined, we were unable to determine the fair value of all or some of the elements within the multiple element arrangement, as required by SOP 97-2. The result of this conclusion is that a significant amount of our product revenue that was previously recognized upon delivery (and assuming payment had been received or was then due) is now being deferred to later periods and in many cases being recognized ratably over several quarters or years. For an approximation of revenue shifting from previously reported periods into later periods, see the Explanatory Note.

Following is a general overview of how we previously reported revenue (through October 31, 2005) and how we now recognize revenue for arrangements that were affected by our revenue review:

Workforce Optimization Segment

We determined in our review that, in certain circumstances, revenue originally recognized by our Workforce Optimization segment should have been deferred to later periods. These circumstances primarily related to contractual arrangements involving multiple deliverables, for which VSOE was not adequately established for certain of the arrangement s elements.

Our review determined that VSOE of the fair value for professional services was not adequately established for a majority of our Workforce Optimization transactions. As a result, product revenue previously recognized upon delivery has been restated, with such revenue now being deferred until all professional services associated with the arrangement are completed and the only remaining element is PCS. This could result in revenue recognition being deferred for one quarter or several quarters depending on the nature of the arrangement. We are in the process of implementing more sophisticated time tracking processes for our professional services to be used for establishing VSOE.

Our review also determined that certain Workforce Optimization arrangements previously believed to have appropriate VSOE of the fair value of PCS services, in fact did not meet the VSOE criteria required by SOP 97-2. As a result, previously recognized product revenue has been restated to be recognized ratably over the period that the customer is entitled to renew its PCS, but not to exceed the estimated economic life of the software product.

In addition, several of our Workforce Optimization PCS service plans provided for significant and incremental discounts on future when-and-if available version upgrades, which resulted in the restatement adjustments to recognize the entire arrangement fee over the term of the PCS period.

Over the last three years based on how we now recognize revenue in our Workforce Optimization segment, approximately 55% of our revenue is recognized using the Residual Method and approximately 40% is recognized ratably over either the PCS term or the period that the customer is entitled to renew its PCS but not to exceed the estimated economic life of the product (Ratable Method) and approximately 5% is recognized under the provisions of SOP 81-1 (Contract Accounting Method) primarily using the completed contract method.

Video Intelligence Segment

Certain of our Video Intelligence arrangements include support services which we previously had concluded did not qualify as PCS as defined in SOP 97-2 but were instead accounted for as warranties. However, upon reconsideration of the support provided in these arrangements, including software upgrades and telephone support, we concluded that such support qualifies as implied PCS and requires VSOE of fair value for separate revenue recognition of the element. We were unable to adequately establish VSOE of fair value for these implied PCS services. Accordingly, we have restated the recognition of revenue for these arrangements over the support period, limited to the estimated economic life of the product.

We now offer PCS service plans to our Video Intelligence customers, but due to the lack of the actual subsequent renewal arrangements, we have been unable to establish VSOE of fair value for these services and therefore, revenue for these services will continue to be recognized over the support period. Additionally, we are implementing improved processes which will allow us to identify Video Intelligence customers under PCS service plans and appropriately monitor and provide the contracted support such that implied PCS for our significant arrangements are not provided beyond the contractual terms.

Over the last three years based on how we now recognize revenue in our Video Intelligence segment, approximately 55% of our revenue is recognized using the Residual Method and approximately 45% is recognized using the Ratable Method.

Communications Intelligence Segment

Our review determined that certain Communications Intelligence contracts included professional services, for which VSOE of fair value was not adequately established, in circumstances similar to those described previously for the Workforce Optimization segment. As a result, certain previously recognized revenue for these contracts has been restated with such revenue now being deferred until all professional services associated with the arrangement are completed and the only remaining element is PCS. In addition, several of our Communications Intelligence contracts require substantial customization, and are therefore accounted for under the provisions of SOP 81-1. Our review determined that certain of these arrangements were bundled with PCS for which we were unable to establish VSOE of fair value. Revenue for those contracts was restated accordingly.

Over the last three years based on the way we now recognize revenue in our Communications Intelligence segment, approximately 50% of our revenue is recognized using the Residual Method, approximately 25% is recognized using the Ratable Method and approximately 25% is recognized under the Contract Accounting Method primarily using the POC method.

The restatement adjustments described above primarily relate to correcting the timing of the recognition of revenue over accounting periods, and do not impact the aggregate amount of cash flows or the aggregate amount of revenue we will ultimately record, other than the impact of foreign currency exchange rates on certain revenue now reported and translated into U.S. Dollars in different accounting periods and certain transactions moving from net to gross accounting. However, the effect of these restatement adjustments extends beyond the restated periods. As a result, revenue arrangements that were previously recognized in a single year are now being recognized ratably over a period as long as seven years. For example, revenue for an arrangement that was previously recognized entirely in the year ended January 31, 2005 may now be recognized ratably over a period through the year ended January 31, 2012, thereby reducing revenue in the year ended January 31, 2005 and adding to revenue in later periods.

In addition, as part of restating revenue for a particular arrangement, we have also restated certain cost of revenue associated with the arrangement. In accordance with applicable provisions of GAAP, we have made an accounting policy election whereby the product cost of revenue, including hardware and third-party software license fees, is capitalized and amortized over the same period that product revenue is recognized, while installation and other service costs are generally expensed as incurred, except for certain contracts recognized according to contract accounting. For example, in a multiple element arrangement where revenue is now being recognized over a seven year period, the cost of revenue associated with the product is capitalized upon product delivery and amortized over that same seven year period. However, the cost of revenue associated with the services is expensed as incurred in the period in which the services are performed. In addition, we expense customer acquisition and origination costs to selling, general and administrative expense, including sales commissions, as incurred, with the exception of certain sales referral fees in our communications intelligence business which are capitalized and amortized ratably over the revenue recognition period.

As a result of the issues discussed above, revenue recognized in each of the years ended January 31, 2008, 2007, and 2006 relates to products and services that were delivered in that year as well as products and services that were delivered in prior years. Beginning in the year ended January 31, 2009 and more so in the year ending January 31, 2010, we believe that, in most cases, we have or will have changed our business processes and systems in a way that will enable us to establish fair value for each undelivered element in our offerings. These changes are intended to enable us to recognize revenue from product and services upon delivery instead of deferring all revenue over the PCS period and as a result we expect the amount of revenue that we will recognize in future periods that originated from prior periods will diminish over time. However, we believe that we will, in certain situations, continue to enter into arrangements that will require revenue to be deferred over longer periods of time.

Because the application of SOP 97-2 is extremely technical and complex, we have made a variety of changes in our business and our financial reporting systems during our extended filing delay period to appropriately allow separate recognition of revenue for the various elements of our solutions in accordance with the requirements of SOP 97-2. Many of those changes involve strengthening our internal controls and processes and systems in order to better ensure that we have the technical expertise and business processes to properly establish VSOE and apply SOP 97-2. In addition to improvements to our controls and processes, we have made changes to our standard business practices in an effort to adjust past business practices that prevented us from establishing VSOE. These chang