VERINT SYSTEMS INC
Form S-1/A
January 05, 2011

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As filed with the Securities and Exchange Commission on January 5, 2011

Registration No. 333-169025

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

Amendment No. 4 to
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933
VERINT SYSTEMS INC.
(Exact name of registrant as specified in its charter)

Delaware	**7373**	**11-3200514**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

330 South Service Road
Melville, NY 11747
(631) 962-9600
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Peter Fante, Esq.
Chief Legal Officer
Verint Systems Inc.
330 South Service Road
Melville, NY 11747
(631) 962-9600
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Randi C. Lesnick, Esq.	**Robert Evans III**
Jones Day	**Shearman & Sterling LLP**
222 East 41st Street	**599 Lexington Avenue**
New York, New York 10017	**New York, New York 10022**
(212) 326-3939	**(212) 848-4000**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(2)
Common Stock, par value $0.001 per share	2,300,000	$31.39	$72,197,000	$8,382.07(3)

(1) Includes common stock issuable upon exercise of the underwriters over allotment option.

(2) Pursuant to Rule 457(c) under the Securities Act of 1933, as amended, the amount of registration fee is based on the average of the high and low prices of the registrant s common stock on December 28, 2010, as quoted on the NASDAQ Global Market.

(3) $4,473.93 was previously paid and $3,908.14 is being paid in connection with this filing.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated January 5, 2011

PRELIMINARY PROSPECTUS

2,000,000 Shares
VERINT SYSTEMS INC.
Common Stock

This prospectus relates to the sale of 2,000,000 shares of our common stock by the sole selling stockholder identified in this prospectus, Comverse Technology, Inc. (Comverse). Comverse is our majority stockholder and, as of December 24, 2010, it beneficially owned 61.3% of our common stock assuming conversion of all of our Series A Convertible Preferred Stock, par value $0.001 per share. We will not receive any of the proceeds from the sale of these shares. Our common stock is traded on the NASDAQ Global Market under the symbol VRNT . On January 4, 2011, the last reported sale price of our common stock on the NASDAQ Global Market was $31.54 per share.

Investing in our common stock involves a high degree of risk. Before buying any shares of our common stock, you should carefully consider the risks set out under Risk Factors , beginning on page 11 of this prospectus.

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to the selling stockholder	$	$

The underwriters have the option to purchase up to 300,000 additional shares from the selling stockholder at the public offering price, less the underwriting discounts and commissions, to cover over-allotments, if any, within 30 days of the date of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares on or about , 2010.

Credit Suisse

Barclays Capital **Morgan Stanley**

RBC Capital Markets **Oppenheimer & Co.**

Prospectus dated , 2010

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We, the selling stockholder, and the underwriters have not authorized any other person to provide you with information different from that contained in this prospectus. The selling stockholder is offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the common stock.

Some of the industry and market data contained in this prospectus are based on independent industry publications or other publicly available information, which we believe is reliable but have not independently verified, while other information is based on our internal sources.

VERINT, the VERINT logo, ACTIONABLE INTELLIGENCE, POWERING ACTIONABLE INTELLIGENCE, INTELLIGENCE IN ACTION, ACTIONABLE INTELLIGENCE FOR A SMARTER WORKFORCE, VERINT VERIFIED, WITNESS ACTIONABLE SOLUTIONS, STAR-GATE, RELIANT, VANTAGE, X-TRACT, NEXTIVA, EDGEVR, ULTRA, AUDIOLOG, WITNESS, the WITNESS logo, IMPACT 360, the IMPACT 360 logo, IMPROVE EVERYTHING, EQUALITY, CONTACTSTORE, EYRETEL, BLUE PUMPKIN SOFTWARE, BLUE PUMPKIN, the BLUE PUMPKIN logo, EXAMETRIC and the EXAMETRIC logo, CLICK2STAFF, STAFFSMART, AMAE SOFTWARE and the AMAE logo are trademarks and registered trademarks of Verint Systems Inc. Other trademarks mentioned in this prospectus are the property of their respective owners.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and may not contain all of the information that may be important to you. You should read this entire prospectus carefully, including the information set forth in Risk Factors and the information incorporated herein by reference, before making an investment decision. In this prospectus, Verint , we , us , and our refer to Verint Systems Inc. and its subsidiaries, unless the context otherwise requires.

Verint Systems Inc.

Our Company

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 Actionable Intelligence 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 solutions are vital to government and commercial organizations in their efforts to protect people and property and neutralize terrorism and crime.

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. Our innovative solutions are developed by approximately 800 employees in research and development, representing approximately one-third of our total employees, and are evidenced by more than 480 patents and patent applications worldwide. In addition, we offer a range of customer services, from initial implementation to ongoing maintenance and support, to maximize the value our customers receive from our Actionable Intelligence solutions and to allow us to extend our customer relationships beyond the initial sale.

Our 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 forms of text communication. We provide our advanced Actionable Intelligence solutions through our Enterprise Workforce Optimization (Workforce Optimization solutions), Video Intelligence (Video Intelligence solutions), and Communications Intelligence and Investigative (Communications Intelligence solutions) segments to enable our customers to collect and analyze large amounts of both structured and unstructured information in order to make better decisions.

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 Internet Protocol (IP) and

Time-Division Multiplexing (TDM) voice recording, quality monitoring, speech and data analytics, workforce management, customer feedback, eLearning and coaching, performance management, and desktop process analytics.

The Workforce Optimization Market and Trends

We believe that customer service is 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 that organizations seek workforce optimization solutions that enable them to strike a balance among driving sales, managing operating costs, and delivering the optimal customer experience.

We believe that key trends driving demand for our Workforce Optimization solutions include:

- Integration of workforce optimization applications to improve collaboration among various functions throughout the enterprise.

- Greater insight through customer interaction analytics to improve the performance of customer service operations.

- Adoption of workforce optimization across the enterprise to enable performance measurement and improvement, consistent with what has historically been done in the contact center.

- Migration to Voice over Internet Protocol (VoIP) technologies, which typically require new deployments of workforce optimization solutions designed to support IP or hybrid TDM/IP environments.

Based on industry sources, we believe that revenue for workforce optimization vendors was at least $1.0 billion in 2009. See Risk Factors 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 Strengths in the Workforce Optimization Market

We believe that the following competitive strengths will enable us to sustain our leadership in the workforce optimization market:

- Our comprehensive, unified suite of workforce optimization applications offers our customers many advantages in terms of both functionality and total cost of ownership.

- Our advanced customer interaction analytics enable our customers to better understand workforce performance, the customer experience, and the factors underlying important business trends.

- Our compelling Workforce Optimization solutions for back-office and branch operations enable the same type of performance measurement and improvement that has historically been available to contact centers.

- Our focus on delivering best-in-class customer service helps enable our customers to derive maximum value from our Actionable Intelligence solutions.

- Our strong Original Equipment Manufacturer (OEM) partner relationships expand our market coverage and provide our customers tighter integration with certain third-party solutions.

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 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 operations without discarding their previous 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. 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 video recording and viewing, to more sophisticated, proactive, network-based IP video systems that use video management software to efficiently collect, manage, and analyze large amounts of video over networks and utilize video analytics.

We participate in the multibillion dollar security industry, which consists of many smaller targeted submarkets, including video intelligence. We believe that video security is going through the aforementioned transition, and companies such as Verint that have a broad IP solution portfolio can benefit by helping customers migrate to and benefit from IP technology.

Our Strengths in the Networked IP Video Market

We believe that the following competitive strengths will enable us to sustain our leadership in the video intelligence market:

- Our broad IP video solutions portfolio enables organizations to generate Actionable Intelligence from video and related data.

- Our open platform facilitates interoperability with our customers existing business and security systems and with complementary third-party products.

- We are able to help our customers cost-effectively migrate to networked IP video without the need to discard their analog CCTV investments.

Our Communications Intelligence Segment

We are a leading provider of Communications Intelligence solutions that help law enforcement, national security, intelligence, and civilian 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, Web intelligence, and tactical communications intelligence.

The Communications Intelligence 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 that key trends driving demand for our Communications Intelligence solutions include:

- Increasingly complex communications networks and growing network traffic, in particular in IP and mobile networks.

- Growing demand for advanced intelligence and investigative solutions that enable law enforcement and government agencies to integrate and analyze information from multiple sources.

Legal and regulatory compliance requirements.

We participate in the multibillion dollar security industry, which consists of many smaller targeted submarkets, including communications intelligence. We believe, because of the trends discussed above, that companies such as Verint that have a broad and scalable communications intelligence portfolio and a deep understanding of customer challenges can benefit by helping law enforcement and government agencies generate Actionable Intelligence.

Our Strengths in the Communications Intelligence Market

We believe that the following competitive strengths will enable us to sustain our leadership in the communications intelligence market:

Our broad Communications Intelligence portfolio is designed to handle massive amounts of unstructured and structured information from different sources (including fixed and mobile networks, IP networks, and the Internet), can quickly make sense of complex scenarios, and can generate evidence and intelligence.

Our solutions can be deployed on a stand-alone basis or provided as part of a comprehensive, large-scale system and can also interface with third-party systems. This flexibility addresses the needs of various government agencies that require advanced, scalable solutions.

Our long-term customer relationships allow us to gain insight into emerging challenges and to develop new security solutions for a broader set of customers.

Our Strategy

Our strategy to further enhance our position as a leading provider of enterprise workforce optimization and security intelligence solutions worldwide includes the following key elements:

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. We intend to continue our leadership in this area and to further drive the adoption of Actionable Intelligence solutions by delivering solutions to the enterprise workforce optimization and security intelligence markets that integrate Actionable Intelligence from unstructured data with data from other sources, including structured data, and that are 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 investments in research and development, protect our intellectual property through patents and other means, and maintain a regular dialogue with our customers in order to understand their business objectives and requirements.

Continue to expand our market presence through partnerships and alliances including OEM relationships. We have expanded our partnerships and alliances with integrators, resellers, distributors, OEMs and others. We believe that these relationships broaden our market coverage and we intend to continue expanding our existing relationships and creating new ones.

Augment our organic growth with acquisitions. 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 these purposes and expect to continue doing so in the future, as strategic opportunities arise.

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Recent Developments

Beginning with our Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2010 filed in June 2010, we resumed making timely filings with the Securities and Exchange Commission (SEC) after an extended filing delay. We have also filed Annual Reports on Form 10-K containing audited financial information for all prior periods for which we had not previously filed reports and Quarterly Reports on Form 10-Q for certain other periods. For more information about our extended filing delay arising from previously announced accounting reviews and internal investigations at our majority stockholder, Comverse Technology, Inc. (Comverse), and at Verint, together with the resulting restatement of certain items and the making of other corrective adjustments to our previously-filed historical financial statements, see our comprehensive Annual Report on Form 10-K for the years ended January 31, 2008, 2007, and 2006 filed on March 17, 2010.

We previously reported that on March 3, 2010, the SEC issued an Order Instituting Proceedings pursuant to Section 12(j) of the Securities Exchange Act of 1934, as amended (Exchange Act) to suspend or revoke the registration of our common stock because of our previous failure to file certain annual and quarterly reports. On May 28, 2010, we entered into an agreement in principle with the SEC s Division of Enforcement regarding the terms of a settlement of the Section 12(j) proceeding, which agreement was subject to approval by the SEC. On June 18, 2010, we satisfied the requirements of such agreement and subsequently submitted an Offer of Settlement to the SEC. On July 28, 2010, the SEC issued an Order accepting our Offer of Settlement and dismissing the Section 12(j) proceeding.

On July 6, 2010, our common stock was relisted on the NASDAQ Global Market under the symbol VRNT .

In July 2010, we amended our credit agreement to, among other things, (i) change the method of calculation of the applicable interest rate margin to be based on Verint s consolidated leverage ratio from time to time, (ii) add a 1.50% London Interbank Offered Rate (LIBOR) floor, (iii) increase the aggregate amount of incremental revolving commitment and term loan increases permitted under the credit agreement from $50.0 million to $200.0 million, and (iv) make certain changes to the negative covenants, including providing covenant relief with respect to the permitted consolidated leverage ratio. Also in July 2010, we amended our credit agreement to increase the revolving credit commitments thereunder from $15.0 million to $75.0 million. In addition, in July 2010 we terminated the interest rate swap we entered into in May 2007 in connection with entry into the credit agreement that had, in effect, fixed our interest exposure with respect to $450.0 million of the term loans thereunder at a 5.18% interest rate. To terminate the swap prior to its May 2011 maturity, we paid approximately $21.7 million to the counterparty, representing the approximate present value of the expected remaining quarterly settlement payments that otherwise were to have been due from us thereafter.

On October 5, 2010, the conversion feature of our Series A Convertible Preferred Stock, par value $0.001 per share (preferred stock), was approved by our stockholders at a special meeting of our stockholders. See Corporate History and Information below for more information on Comverse s ownership of our preferred stock.

In December 2010, we repaid the $15.0 million previously borrowed under our revolving credit facility.

Corporate History and Information

As of December 24, 2010, Comverse beneficially owned 61.3% of our common stock assuming conversion of all of our preferred stock. After giving effect to this offering, Comverse will hold approximately 57.1% of our common stock assuming conversion of all of our preferred stock into shares of our common stock and no exercise of the underwriters over-allotment option and approximately 56.4% of our common stock assuming conversion of all of our preferred stock into shares of our common stock and full exercise of the underwriters over-allotment option. See Principal and Selling Stockholders . Because Comverse holds more than 50% of the voting power for the election of our directors, Comverse exerts a controlling interest on our board of directors, which has determined that we are eligible to and should rely on the controlled company exemption under NASDAQ Listing Rule 5615(c). As a result of our reliance on this exemption, we are not required to have a majority independent board or fully independent standing nominating and compensation committees. See Risk Factors Risks Related to Our Internal Investigation, Restatement, Internal Controls, and Ownership Our stockholders do not have the same protections generally available to stockholders of other NASDAQ-listed companies because we are currently a controlled company within the meaning of the NASDAQ Listing Rules for more information on the risks we face in connection with our status as a controlled company and Risk Factors Risks Related to Our Internal Investigation, Restatement, Internal Controls, and

Ownership Comverse can control our business and affairs, including our board of directors, and will continue to control us after this offering for more information on the risks we face in connection with Comverse s beneficial ownership of a majority of our common stock.

Our principal executive offices are located at 330 South Service Road, Melville, New York 11747. Our telephone number at that address is (631) 962-9600. Our website is www.verint.com. The information contained on, or that can be accessed through, our website is not part of this prospectus, and you should not rely on any such information in making a decision about whether to purchase shares of our common stock.

Risks That We Face

You should consider carefully the risks described under the Risk Factors section and elsewhere in this prospectus. These risks could materially and adversely impact our business, financial condition, operating results, and cash flow, which could cause the trading price of our common stock to decline and could result in a partial or total loss of your investment.

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The Offering

Common stock offered by the selling stockholder	2,000,000 shares
Selling stockholder	Comverse Technology, Inc.
Common stock outstanding (both before and after this offering) (1)	36,791,461 shares
Use of Proceeds	We will not receive any proceeds from the sale of shares by the selling stockholder.
NASDAQ Global Market symbol	VRNT

(1) The common stock to be outstanding after this offering is based on the number of shares outstanding as of December 24, 2010, which excludes:

- approximately 2.1 million shares of common stock issuable upon exercise of stock options outstanding as of such date, at a weighted average exercise price of $26.50 per share;
- approximately 2.4 million shares of common stock issuable upon the vesting of restricted stock units outstanding as of such date;
- approximately 2.2 million shares of common stock reserved as of such date for future issuance under our equity incentive plans; and
- approximately 10.3 million shares of common stock issuable upon the conversion of our preferred stock if it were converted as of such date.

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Summary Consolidated Financial Information

The summary consolidated statements of operations data for the years ended January 31, 2010, 2009 and 2008 and the summary consolidated balance sheet data as of January 31, 2010 and 2009 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated statements of operations data for the three and nine months ended October 31, 2010 and 2009 and summary consolidated balance sheet data as of October 31, 2010 are derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. The unaudited condensed consolidated financial statements were prepared on a basis consistent with our audited consolidated financial statements and include, in the opinion of management, all adjustments necessary for the fair presentation of the financial information contained in those statements. Historical results are not necessarily indicative of results to be expected in the future.

You should read the summary consolidated financial data below together with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus.

Consolidated Statements of Operations Data

	Three Months Ended October 31,		Nine Months Ended October 31,		Year Ended January 31,		
in thousands (except per share data)	2010	2009	2010	2009	2010	2009	2008
Revenue	$186,641	$186,480	$539,930	$530,897	$703,633	$669,544	$ 534,543
Operating income (loss)	30,393	23,735	50,210	73,453	65,679	(15,026)	(114,630)
Net income (loss)	18,388	13,315	15,163	35,369	17,100	(78,577)	(197,545)
Net income (loss) attributable to Verint Systems Inc.	17,174	13,176	12,441	34,408	15,617	(80,388)	(198,609)
Net income (loss) attributable to Verint Systems Inc. common shares	13,582	9,733	1,892	24,297	2,026	(93,452)	(207,290)
Net income (loss) per share attributable to Verint Systems Inc.:							
Basic	$ 0.38	$ 0.30	$ 0.06	$ 0.75	$ 0.06	$ (2.88)	$ (6.43)
Diluted	0.36	0.29	0.05	0.74	0.06	(2.88)	(6.43)
Weighted-average shares:							
Basic	35,368	32,471	33,785	32,465	32,478	32,394	32,222
Diluted	47,679	33,330	36,525	32,879	33,127	32,394	32,222
Other financial data:							
Non-GAAP operating income (1)	$ 53,105	$ 55,240	$141,707	$157,048	$195,627	$120,444	$ 75,405
Non-GAAP net income attributable to Verint Systems Inc. (1)	43,770	42,180	99,917	112,599	132,963	69,627	41,745

Consolidated Balance Sheet Data

	October 31,	January 31,	
in thousands	2010	2010	2009
Total assets	$ 1,353,052	$ 1,396,337	$ 1,337,393
Long-term debt, including current maturities	598,234	620,912	625,000
Preferred stock	285,542	285,542	285,542

Total stockholders equity (deficit)	51,873	(14,567)	(76,070)

(1) Each of non-GAAP operating income and non-GAAP net income attributable to Verint Systems Inc. is a financial measure not prepared in accordance with generally accepted accounting principles (GAAP).

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A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures appears at the end of this summary consolidated financial information. For additional information, see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations .

Non-GAAP financial measures should not be considered in isolation or as a substitute for comparable GAAP financial measures. The non-GAAP financial measures we present have limitations in that they do not reflect all of the amounts associated with our results of operations as determined in accordance with GAAP and these non-GAAP financial measures should only be used to evaluate our results of operations in conjunction with the corresponding GAAP financial measures. These non-GAAP financial measures do not represent discretionary cash available to us to invest in the growth of our business, and we may in the future incur expenses similar to the adjustments made in these non-GAAP financial measures.

We believe that the non-GAAP financial measures we present provide meaningful supplemental information regarding our operating results primarily because they exclude certain non-cash charges or items that we do not believe are reflective of our ongoing operating results when budgeting, planning and forecasting, determining compensation, and when assessing the performance of our business with our individual operating segments or our senior management. We believe that these non-GAAP financial measures also facilitate the comparison by management and investors of results between periods and among our peer companies. However, those companies may calculate similar non-GAAP financial measures differently than we do, limiting their usefulness as comparative measures.

Non-GAAP operating income

We define non-GAAP operating income as operating income (loss) adjusted to eliminate (i) revenue adjustments related to acquisitions, (ii) amortization and impairment of acquired technology, (iii) amortization of other acquired intangible assets, (iv) impairments of goodwill and other acquired intangible assets, (v) in-process research and development, (vi) integration costs, (vii) restructuring costs, (viii) other legal expenses (recoveries), (ix) stock-based compensation expenses, (x) other adjustments, and (xi) expenses related to our filing delay.

The following table provides further information regarding these adjustments and reconciles GAAP operating income (loss) to non-GAAP operating income. The footnotes for this reconciliation appear at the end of this summary consolidated financial information.

	Three Months Ended October 31,		Nine Months Ended October 31,		Year Ended January 31,		
in thousands	2010	2009	2010	2009	2010	2009	2008
GAAP operating income (loss)	$ 30,393	$ 23,735	$ 50,210	$ 73,453	$ 65,679	$ (15,026)	$ (114,630)
Revenue adjustments related to acquisitions (a)						5,890	37,254
Amortization and impairment of acquired technology (b) (c)	2,256	1,973	6,709	6,049	8,021	9,024	8,018
Amortization of other acquired intangible assets (b)	5,376	5,376	16,053	16,892	22,268	25,249	19,668
Impairments of goodwill and other acquired intangible assets (c)						25,961	22,934
In-process research and development (d)							6,682
Integration costs (e)						3,261	10,980
Restructuring costs (f)				24	141	5,685	3,308
Other legal expenses (recoveries) (g)						(4,292)	8,708
Stock-based compensation expenses (h)	13,090	11,682	39,095	31,376	44,245	36,011	31,061
Other adjustments (i)	1,175		2,546		762		
Expenses related to our filing delay (j)	815	12,474	27,094	29,254	54,511	28,681	41,422
Non-GAAP operating income	$ 53,105	$ 55,240	$ 141,707	$ 157,048	$ 195,627	$ 120,444	$ 75,405

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Non-GAAP net income attributable to Verint Systems Inc.

We define non-GAAP net income attributable to Verint Systems Inc. as net income (loss) attributable to Verint Systems Inc. adjusted to eliminate (i) revenue adjustments related to acquisitions, (ii) amortization and impairment of acquired technology, (iii) amortization of other acquired intangible assets, (iv) impairments of goodwill and other acquired intangible assets, (v) in-process research and development, (vi) integration costs, (vii) restructuring costs, (viii) other legal expenses (recoveries), (ix) stock-based compensation expenses, (x) other adjustments, (xi) expenses related to our filing delay, (xii) unrealized gains and losses on investments and derivatives, and (xiii) non-cash tax adjustments.

The following table provides further information regarding these adjustments and reconciles GAAP net income (loss) attributable to Verint Systems Inc. to non-GAAP net income attributable to Verint Systems Inc. The footnotes for this reconciliation appear at the end of this summary consolidated financial information.

	Three Months Ended October 31,		**Nine Months Ended October 31,**		**Year Ended January 31,**		
in thousands	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2008**
GAAP net income (loss) attributable to Verint Systems Inc.	$ 17,174	$ 13,176	$ 12,441	$ 34,408	$ 15,617	$ (80,388)	$ (198,609)
Revenue adjustments related to acquisitions (a)						5,890	37,254
Amortization and impairment of acquired technology (b)(c)	2,256	1,973	6,709	6,049	8,021	9,024	8,018
Amortization of other acquired intangible assets (b)	5,376	5,376	16,053	16,892	22,268	25,249	19,668
Impairments of goodwill and other acquired intangible assets (c)						25,961	22,934
In-process research and development (d)							6,682
Integration costs (e)						3,261	10,980
Restructuring costs (f)				24	141	5,685	3,308
Other legal expenses (recoveries) (g)						(4,292)	8,708
Stock-based compensation expenses (h)	13,090	11,682	39,095	31,376	44,245	36,011	31,061
Other adjustments (i)	1,175		2,546		762		
Expenses related to our filing delay (j)	815	12,474	27,094	29,254	54,511	28,681	41,422
Unrealized gains and losses on investments and derivatives (k)	922	(634)	(6,840)	(4,477)	(8,049)	(1,807)	26,703
Non-cash tax adjustments (l)	2,962	(1,867)	2,819	(927)	(4,553)	16,352	23,616
Non-GAAP net income attributable to Verint Systems Inc.	$ 43,770	$ 42,180	$ 99,917	$ 112,599	$ 132,963	$ 69,627	$ 41,745

(a) Revenue adjustments related to acquisitions represent (1) the impact of fair value adjustments required under GAAP relating to acquired customer support contracts that would have otherwise been recognized on a standalone basis and (2) certain sales concession adjustments relating to accounts receivable balances that existed prior to the acquisition date, in each case with respect to the acquisition of Witness Systems, Inc. (Witness) in May 2007.

(b) Amortization of acquired technology, and amortization of other acquired intangible assets, represent the amortization of intangible assets acquired in business combinations. These expenses are non-cash charges, which are inconsistent in amount and frequency and are significantly impacted by the timing and size of acquisitions.

(c) Impairments of acquired technology, and impairments goodwill and other acquired intangible assets, represent impairments of goodwill and intangible assets acquired in business combinations. These expenses are non-cash charges that we do not believe are reflective of our ongoing operations.

(d) In-process research and development represent the fair value of incomplete research and development projects that had not yet reached technological feasibility and had no known alternative future use as of the date of acquisition. These expenses are non-cash charges that we do not believe are reflective of our ongoing operations.

(e) Integration costs represent expenses directly related to the integration of Witness that we do not believe are reflective of our ongoing operations.

(f) Restructuring costs represent expenses associated with the restructuring of our operations due to internal or external factors that we do not believe are reflective of our ongoing operations.

(g) Other legal expenses (recoveries) represents other legal fees and settlements associated with certain intellectual property litigation assumed in connection with the Witness acquisition that we do not believe are reflective of our ongoing operations.

(h) Stock-based compensation expenses represent expenses related to stock options, restricted stock awards, and units and phantom stock that are primarily non-cash charges. In recent periods we also incurred significant cash-settled stock compensation due to our extended filing delay and restrictions on our ability to issue new shares of common stock to our employees.

(i) Other adjustments represent legal and other professional fees associated with acquisitions and certain extraordinary transactions, in both cases, whether or not consummated, that we do not believe are reflective of our ongoing operations.

(j) Expenses related to our filing delay represent expenses associated with our restatement of previously filed financial statements and our extended filing delay. These expenses included professional fees and related expenses as well as expenses associated with a special cash retention program, in each case that we do not believe are reflective of our ongoing operations.

(k) Unrealized gains and losses on investments and derivatives represent investment write-down in auction rate securities and unrealized gain/(loss) on embedded derivatives, interest rate swaps, and foreign currency derivatives. These gains/(losses) are non-cash charges.

(l) Non-cash tax adjustments represent the difference between the amount of taxes we actually paid and our GAAP tax provision on an annual basis. On a quarterly basis, this adjustment reflects our expected annual effective tax rate on a cash basis.

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RISK FACTORS

You should carefully consider the following risks before investing in our common stock. These risks could materially affect our business, results of operations or financial condition and cause the trading price of our common stock to decline. You could lose part or all of your investment. Other factors currently considered immaterial or unknown to us may have a material adverse impact on our future operations.

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

We face challenges in completing our future SEC filings and cannot assure you that risks associated with our previous extended filing delay have been eliminated or will not adversely affect us.

Although we have filed all periodic reports required by our agreement in principle with the SEC staff, we cannot assure you that we will be able to timely complete our future SEC filings (as discussed in greater detail in the risk factors below), and risks associated with our previous extended filing delay may persist or intensify. Notwithstanding the completion of these filings and the re-listing of our common stock on the NASDAQ Global Market, customers, partners, investors, and employees may have lingering concerns about us or our financial condition in light of our extended filing delay, the recently dismissed SEC administrative proceeding, our previous de-listing, or general reputational harm caused by the foregoing. See We were the subject of an SEC investigation relating to our reserve and stock option accounting practices and an SEC proceeding relating to our failure to timely file required SEC reports . These concerns may result in the potential loss or deferral of business opportunities or relationships or may increase the costs to us of engaging in such opportunities. If we are unable to timely file our future SEC filings or if continuing concerns on the part of customers, partners, investors, or employees persist or intensify, our business, results of operations, financial condition, or stock price may be materially and adversely affected, or our common stock may be de-registered by the SEC and/or again de-listed by NASDAQ.

We have identified material weaknesses in our internal control over financial reporting as of January 31, 2010 that, if not remedied, could result in a failure to prevent or timely detect a material misstatement of our annual or interim financial statements.

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rules 13a-15(e) promulgated under the Exchange Act. Our management evaluated the design and effectiveness of our internal control over financial reporting as of January 31, 2010 and identified material weaknesses related to monitoring, financial reporting, revenue and cost of revenue, and income taxes. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of these material weaknesses, our management concluded that our internal control over financial reporting was not effective as of January 31, 2010. For further information about these material weaknesses, see Controls and Procedures under Item 9A of our Annual Report on Form 10-K for the year ended January 31, 2010 and Item 4 of our Quarterly Reports on Form 10-Q for the quarterly periods ended April 30, 2010, July 31, 2010 and October 31, 2010.

As of the date of this prospectus, we have implemented remedial measures designed to address the material weaknesses identified as of January 31, 2010 related to monitoring, financial reporting, revenue and cost of revenue, and income taxes.

As previously reported under Item 9A Controls and Procedures of our Annual Report on Form 10-K for the year ended January 31, 2010, we implemented the following remedial measures:

Monitoring

- designed and are completing our implementation of analytical procedures to review the financial results at each of our subsidiary locations on a regular basis;

Financial Reporting

- formalized and communicated our critical accounting policies and procedures to ensure worldwide compliance with GAAP;

implemented rigorous policies and procedures related to accounts requiring management estimates, as well as other complex areas, which include multiple levels of review;

appointed a VP of Global Accounting to help ensure accurate consistent application of GAAP;

expanded our accounting policy and controls organization by creating and filling new positions with qualified accounting and finance personnel, increasing significantly the number of persons who are Certified Public Accountants (CPAs) or the CPA international equivalent;

Revenue and Cost of Revenue

expended substantial resources and performed extensive, substantive reviews of our revenue recognition and cost of revenue policies and procedures;

appointed a VP Finance and Global Revenue Controller and Regional Revenue Controllers, and established 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;

significantly increased our investment in the design and implementation of enhanced information technology systems and user applications commensurate with the complexity of our business and our financial reporting requirements, including a broader and more sophisticated implementation of our Enterprise Resource Planning system, particularly in the area of revenue recognition accounting;

provided training to increase our general understanding of revenue recognition principles and enhance awareness of the implications associated with non-standard arrangements requiring specific revenue recognition;

Income Taxes

established a corporate tax department, which now includes a Vice President, Domestic Director, International Director, Tax Manager, and two full-time tax accountants;

engaged external tax advisors to prepare and/or review significant tax provisions for compliance with accounting guidance for income taxes, as well as any changes in local tax law;

implemented a tax software program designed to prepare the consolidated income tax provisions and related footnote disclosures;

engaged subject matter experts with specialized international and consolidated income tax knowledge to assist in creating, implementing, and documenting a consolidated tax process;

implemented policies and procedures related to amounts requiring management estimates, such as uncertain tax positions and valuation allowances, which include multiple levels of review;

implemented policies and procedures designed to standardize tax provision computations and ensure reconciliations of key tax accounts are accurate in all material respects and properly reviewed by management;

trained personnel involved in the preparation and review of income tax accounts; and

formalized internal reporting, monitoring, and oversight of tax compliance and tax audits.

In addition to the remedial efforts described above and as discussed in our Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2010, we have implemented the following remedial measures with respect to revenue and cost of revenue:

- hired additional resources at our subsidiary locations with primary responsibility for revenue recognition;
- implemented additional levels of review over various aspects of the revenue recognition process to ensure proper accounting treatment; and
- conducted detailed training on the complexities of current GAAP related to software revenue recognition.

Further to the discussion in Item 4 of our Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2010, as of the date of this prospectus, we are not able to conclude that the identified material weaknesses have been remediated in these areas because these remedial measures have not been in place or had not been operating for a sufficient period of time or because these remedial measures are not intended to be executed until later in the year, as well as because the operating effectiveness of these measures has not yet been fully tested.

We continue to monitor the operation of these remedial measures as of the date of this prospectus and will perform an evaluation of the operating effectiveness of our internal control over financial reporting as of January 31, 2011. If these remedial measures are not operating effectively, or if additional material weaknesses in our internal controls are discovered in the future, we may fail to meet our future reporting obligations on a timely basis, our financial statements may contain material misstatements, our operating results may be harmed, and we may be subject to litigation. Any failure to remediate the identified material weaknesses or the identification of any additional material weaknesses in our internal controls would also adversely affect the results of future management evaluations regarding the effectiveness of our internal control over financial reporting that are required under Section 404 of the Sarbanes-Oxley Act of 2002. Continuing or future material weaknesses could also cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

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The extraordinary processes underlying the preparation of the financial statements contained in this prospectus 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, 2010, 2009, 2008, 2007, and 2006, the restatement of certain items and the making of other corrective adjustments to our financial statements for periods through January 31, 2005, 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 applicable accounting guidance. 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, relevant accounting rules and pronouncements are subject to ongoing interpretation by the accounting profession and refinement by various organizations responsible for promulgating and interpreting accounting principles. As a result, ongoing interpretations of these rules and pronouncements or the adoption of new rules and pronouncements could require changes in our accounting practices or financial reporting. We cannot assure you that, if such changes arise, we will be able to timely implement them or 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 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, some of the processes underlying the preparation of the financial statements contained in this prospectus were extraordinary. We have now begun to rely and expect, going forward, to increasingly rely on our regular financial statement preparation and reporting processes. In addition to the remedial measures discussed in the risk factors above which are intended to address our identified material weaknesses, we continue to enhance our regular processes as of the date of this prospectus. As a result, until we are able to conclude that all material weaknesses have been remediated and, until other enhancements have been in place and operational for a longer period of time, we cannot assure you that the changes and enhancements made to date are adequate or will operate as expected. In addition, 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 additional material weaknesses in our internal controls over financial reporting will not be identified, or that we will be able to timely comply with our reporting obligations in the future.

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

Generally, companies that have undertaken internal investigations or restatements face greater risk of litigation or other actions. Although we have not been named as a defendant in any shareholder class actions or derivative lawsuits relating to our internal investigation, restatement, or extended filing delay, there can be no assurance that such actions or lawsuits will not be initiated against us or our current or former officers, directors, or other personnel in the future. Comverse and some of its former directors and officers and a current director were named as defendants in several class and derivative actions relating to Comverse s internal investigations. 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. This litigation or any future litigation may be time consuming and expensive, and may distract management from the conduct of our business. Any such litigation 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 an SEC proceeding relating to our failure to timely file required SEC reports.

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 intentional inaccurate presentation of backlog. See Legal Proceedings Comverse Investigation-Related Matters for more information concerning Comverse s SEC investigation and related civil actions.

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 of 1933, as amended (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.

We previously reported that on March 3, 2010 the SEC issued an Order Instituting Proceedings pursuant to Section 12(j) of the Exchange Act to suspend or revoke the registration of our common stock because of our previous failure to file certain annual and quarterly reports. On May 28, 2010, we entered into an agreement in principle with the SEC s Division of Enforcement regarding the terms of a settlement of the Section 12(j) proceeding, which agreement was subject to approval by the SEC. On June 18, 2010, we satisfied the requirements of such agreement and subsequently submitted an Offer of Settlement to the SEC. On July 28, 2010, the SEC issued an Order accepting our Offer of Settlement and dismissing the Section 12(j) proceeding.

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

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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 whether we will face additional government inquiries, investigations, or other actions related to these other matters or the outcome of any current or future matters. An adverse ruling in any regulatory proceeding could impose upon us fines, penalties, or other remedies which could have a material adverse effect on our results of operations and financial condition. Even if we are successful in defending against a regulatory proceeding, such a 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 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.

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, by-laws, 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 that 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.

Our stockholders do not have the same protections generally available to stockholders of other NASDAQ-listed companies because we are currently a controlled company within the meaning of the NASDAQ Listing Rules.

The sole selling stockholder, Comverse, controls a majority of our outstanding common stock. As a result, we are a controlled company within the meaning of NASDAQ Listing Rule 5615(c). As a controlled company, we qualify for and our board of directors, which is comprised of a majority of directors appointed by Comverse, may and intends to rely upon, exemptions from several corporate governance requirements, including requirements that:

- a majority of the board of directors consist of independent directors;
- compensation of officers be determined or recommended to the board of directors by a majority of its independent directors or by a compensation committee comprised solely of independent directors; and
- director nominees be selected or recommended to the board of directors by a majority of its independent directors or by a nominating committee that is composed entirely of independent directors.

Additionally, Comverse has the right to have its nominees represented on our compensation committee and our corporate governance and nominating committee. Accordingly, our stockholders are not and will not be afforded the same protections generally as stockholders of other NASDAQ-listed companies for so long as Comverse s designees to our board of directors represent a majority of our board and determine to rely upon such exemptions. See Risks

Related to Our Internal Investigation, Restatement, Internal Controls, and Ownership Comverse can control our business and affairs, including our board of directors, and will continue to control us after this offering for more information on the risks we face in connection with Comverse s beneficial ownership of a majority of our common stock.

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

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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 carryforwards (NOLs) allocated to us as of our May 2002 initial public offering (IPO), in order to complete the restatement of our historical financial statements, the preparation of our most recent annual financial statements, and associated audits. In addition to our own internal investigation and revenue recognition review, these investigations and reviews required significant time, expense, and management distraction, 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 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 and related announcements regarding its assets, including its ownership interest in our stock, may adversely affect us or 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 United States federal income tax return. Following our IPO, we began filing a separate United States 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 United States federal income tax returns by Comverse on our behalf.

In addition, notwithstanding the terms of the tax sharing agreement, United States federal income tax law provides that each member of a consolidated federal income tax group is 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, United States 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, and will continue to control us after this offering.

Because Comverse beneficially owns and following this offering will continue to beneficially own a majority of our common stock, Comverse effectively controls the outcome of all matters submitted for stockholder action, including the approval of significant corporate transactions, such as certain 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. The conversion feature of the preferred stock was approved by our stockholders at a special meeting of our stockholders on October 5, 2010 and as a result became convertible into shares of our common stock at Comverse s option. As of December 24, 2010, the preferred stock was convertible into approximately 10.3 million shares of our common stock, giving Comverse beneficial ownership of 61.3% of our common stock.

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 to fill vacancies. At present, Comverse has appointed individuals who are officers, executives, or directors 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, if we fail to repurchase the preferred stock as required upon a fundamental change, then the number of

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directors constituting the board of directors will be increased by two and Comverse will have the right to elect two directors to fill such vacancies.

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, engage in certain corporate transactions, including debt financings, 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, the timing and cost of raising capital may be adversely affected.

As a result of the delay in completing our financial statements, we will remain ineligible to use Form S-3 to register securities until we have timely filed all required reports under the Exchange Act for a period of at least 12 calendar months. In the meantime, we would need to continue 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, potentially increasing the time required and costs of raising capital during that period.

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. 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 recent economic conditions, like many companies, we engaged in significant cost-saving measures over the last two years. 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 and related terms are key considerations for many of our customers, we may have to accept less-favorable payment terms, lower the prices of our products and services, and/or reduce our cost structure, including reducing headcount or investment in 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.

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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 may impact and 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.

While we have no single customer that is material to our total revenue, we do have many significant customers in each of our segments, notably in our Video Intelligence segment and our Communications Intelligence segment, 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 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 resellers, including terms relating to pricing, future deliverables, and post-contract customer support (PCS). 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 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 Communications Assistance for Law Enforcement Act (CALEA), in the United States, and standards established by the European Telecommunications Standards Institute (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.

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.

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,

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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. 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.

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

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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.

Regulatory and Government Contracting

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

For the year ended January 31, 2010 and the three and nine months ended October 31, 2010, approximately one quarter of our business was generated from contracts with various governments around the world, including federal, state, and local government agencies. We expect that government contracts will continue to be a significant source of our revenue for the foreseeable future. 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, 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 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.

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.

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. Customers are also increasingly focused on the security of our products. While our customers use of our products in no way affords us access to the customer s sensitive or confidential 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. We also work to ensure the security of our products, including through the use of encryption, access rights, and other customary security features. However, these measures are designed to mitigate the risks associated with handling or processing sensitive data and cannot safeguard against all risks at all times. The improper handling of sensitive data, or even the perception of such mishandling or other security lapses or risks by us or our products, 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.

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

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

Reliance on or 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 redesign our products or remove certain features from our products. See Competition and Markets 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. Additionally, when purchasing or licensing products and services from third parties, we endeavor to negotiate appropriate warranties, indemnities, and other protections. We cannot assure you, however, that all such third-party contracts contain adequate protections or that all such third parties will be able to provide the protections we have negotiated. To the extent we are not able to negotiate adequate protections from these third parties or these third parties are unwilling or unable to provide the protections we have negotiated, our business, financial condition, and results of operations could be materially adversely affected.

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 software (together, open source software) and we anticipate making use of open source software in the future. Open source software is generally covered by license agreements that permit the user to use, copy, modify, and distribute the software without cost, provided that the users and modifiers abide by certain licensing requirements. The original developers of the open source software generally provide no warranties on such software or protections in the event the open source software infringes a third party s intellectual property rights. Although we endeavor to monitor the use of open source software in our product development, we cannot assure you that past, present, or future products will not contain open source software elements that impose unfavorable licensing restrictions or other requirements on our products. In addition, the terms of many open source software 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 software 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 software 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 incurred significant indebtedness in connection with our 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 October 31, 2010, we had outstanding indebtedness of approximately $598.2 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. There can be no assurance that ratings agencies will not downgrade our credit rating, which could impede our ability to refinance existing debt or secure new debt or otherwise increase our future cost of borrowing and could create additional concerns on the part of customers, partners, investors, and employees about our financial condition and results of operations.

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

Our credit agreement contains a financial covenant that requires us to maintain a maximum 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 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, including 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 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.

The credit agreement also includes a requirement that we deliver audited consolidated financial statements to the lenders within 90 days of the end of each fiscal year. In the past we have not timely delivered such financials statements as required by the credit agreement (see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for additional information) and may in the future fail to make such deliveries. If audited consolidated financial statements are not so delivered, and such failure of delivery is not remedied within 30 days thereafter, and an amendment or waiver of such requirement is not obtained, an event of default occurs.

If an event of default occurs 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 seek an amendment of and/or waiver under the credit agreement, sell assets, raise additional capital through an additional 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 an amendment and/or waiver, sale or securities offering or refinancing or restructuring on reasonable terms or at all.

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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;