

VERINT SYSTEMS INC
Form S-1/A
December 15, 2010

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As filed with the Securities and Exchange Commission on December 15, 2010

Registration No. 333-169025

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

**Amendment No. 2 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

(State or other jurisdiction of
incorporation or organization)

7373

(Primary Standard Industrial
Classification Code 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)

11-3200514

(I.R.S. Employer
Identification Number)

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.

Jones Day

222 East 41st Street

New York, New York 10017

(212) 326-3939

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.

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.

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.

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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.

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 Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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 December 15, 2010

PRELIMINARY PROSPECTUS

2,434,783 Shares
 VERINT SYSTEMS INC.
 Common Stock

This prospectus relates to the sale of 2,434,783 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 November 15, 2010, it beneficially owned 61.5% 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 December 14, 2010, the last reported sale price of our common stock on the NASDAQ Global Market was \$32.96 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 365,217 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.

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.

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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

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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

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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.

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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.

Table of Contents**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 \$10.0 million of the \$15.0 million previously borrowed under our revolving credit facility.

Corporate History and Information

As of November 15, 2010, Comverse beneficially owned 61.5% of our common stock assuming conversion of all of our preferred stock. After giving effect to this offering, Comverse will hold approximately 56.3% 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 55.5% 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	2,434,783 shares
Selling stockholder	Comverse Technology, Inc.
Common stock outstanding (both before and after this offering) (1)	36,655,975 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 November 15, 2010, which excludes:	
	approximately 2.2 million shares of common stock issuable upon exercise of stock options outstanding as of such date, at a weighted average exercise price of \$26.19 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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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		Nine Months Ended		Year Ended January 31,		
	October 31,	October 31,	October 31,	October 31,	2010	2009	2008
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

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

Total stockholders equity (deficit)	51,873	(14,567)	(76,070)
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(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 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		Nine Months Ended		Year Ended January 31,		
	October 31, 2010	October 31, 2009	October 31, 2010	October 31, 2009	2010	2009	2008
in thousands							
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

Table of Contents**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		Nine Months Ended		Year Ended January 31,		
	October 31, 2010	2009	October 31, 2010	2009	2010	2009	2008
in thousands							
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.

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- (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;

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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.

Table of Contents**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's 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 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.

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 current 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 November 15, 2010, the preferred stock was convertible into approximately 10.3 million shares of our common stock, giving Comverse beneficial ownership of 61.5% 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 current economic conditions, like many companies, we have 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.

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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.

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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.

Table of Contents**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 debarment 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;

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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.

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

Our products are in some cases used by customers to compile and analyze highly sensitive or confidential information and data, including in some cases, information or data used in intelligence gathering or law enforcement activities. 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

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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 provide 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:

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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 financial 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, 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;

change our lines of business;

make investments, loans, or advances; and

engage in consolidations, mergers, liquidations, or dissolutions.

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

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

In connection with the Witness acquisition, we issued 293,000 shares of preferred stock to Comverse at an aggregate purchase price of \$293.0 million. The issuance of shares of common stock upon conversion of the preferred stock would result in substantial dilution to the other common stockholders. 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 November 15, 2010, the preferred stock was convertible into approximately 10.3 million shares of our common stock. In addition, the terms of the preferred stock include liquidation, dividend, and other rights that are senior to and more favorable than the rights of the holders of our common stock.

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

As part of our growth strategy, we have made a number of acquisitions and investments and expect to continue to make acquisitions and investments in the future. However, as noted above, we are subject to restrictions on our ability to engage in acquisitions and investments under the terms of our credit agreement. Acquisitions or investments that are not immediately accretive to earnings may also make it more difficult for us to maintain compliance with the maximum leverage ratio covenant under the credit agreement.

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

The process of integrating an acquired company's business into our operations and investing in new technologies may result in unforeseen operating difficulties and expenditures, which may require a significant amount of our management's attention that would otherwise be focused on the ongoing operation of our business. Other risks we may encounter with acquisitions include the effect of the acquisition on our financial and strategic positions and our reputation, the inability to obtain the anticipated benefits of the acquisition, including synergies or economies of scale, on a timely basis or at all, or unexpected challenges in reconciling business practices, particularly in foreign geographies. Due to rapidly changing market conditions, we may also find the value of our acquired technologies

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and related intangible assets, such as goodwill, as recorded in our financial statements, to be impaired, resulting in charges to operations. The magnitude of these risks is greater in the case of large acquisitions, such as our 2007 acquisition of Witness. See Note 4, *Business Combinations* to the audited consolidated financial statements included elsewhere in this prospectus. There can be no assurance that we will be successful in making additional acquisitions or that we will be able to effectively integrate any acquisitions we do make or realize the expected benefits for our business.

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

Because we have historically acquired a significant number of companies, goodwill and other intangible assets have represented a substantial portion of our assets. Goodwill and other intangible assets totaled approximately \$898.5 million, or approximately 64% of our total assets, as of January 31, 2010 and approximately \$896.4 million, or approximately 66% of our total assets, as of October 31, 2010. We test our goodwill for impairment at least annually, or more frequently if an event occurs indicating the potential for impairment, and we assess on an as-needed basis whether there have been impairments in our other intangible assets. No events or circumstances indicating the potential for goodwill impairment were identified during the year ended January 31, 2010 or the three and nine months ended October 31, 2010. We make assumptions and estimates in this assessment which are complex and often subjective. These assumptions and estimates can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy or our internal forecasts. We did not record any non-cash impairment charges for the year ended January 31, 2010 or the three and nine months ended October 31, 2010, but we did record non-cash impairment charges for the years ended January 31, 2009 and 2008, totaling \$26.0 million and \$23.4 million, respectively. These non-cash impairment charges related to acquisitions made in our Video Intelligence segment (related to the MultiVision Intelligence Surveillance Limited (MultiVision) acquisition) and in our Workforce Optimization performance management consulting business (related to the Opus Group, LLC acquisition, the CM Insight Limited acquisition, and a portion of the Witness acquisition). To the extent that the factors described above change, we could be required to record additional non-cash impairment charges in the future. Any significant impairment charges would negatively affect our financial condition and results of operations. See Note 5, *Intangible Assets and Goodwill* to the audited consolidated financial statements included elsewhere in this prospectus.

Our international operations subject us to currency exchange risk.

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

Our ability to realize value from and use our NOLs will impact our tax liability.

We have significant deferred tax assets as a result of prior net operating losses. These deferred tax assets can provide us with significant future tax savings if we are able to use them. However, the extent to which we will be able to use these tax benefits may be impacted, restricted, or eliminated by a number of factors including whether we generate sufficient future net income, adjustments to Comverse's tax liability for periods prior to our IPO, changes in tax rates, laws, or regulations that could have retroactive effect, or an ownership change under Section 382 of the Internal Revenue Code. Although we do not believe that this offering should cause an ownership change under Section 382, this offering, coupled with other future issuances or sales of our stock (including certain direct or indirect transactions involving our stock that are outside of our control) could make it more likely that an ownership change might occur in the future. If an ownership change were to occur, it would impose an annual limit on the amount of pre-change NOLs and other losses available to reduce our taxable income and could result in a reduction in the value of our NOL carryforwards or the realizability of other deferred tax assets. To the extent that we are unable to utilize our NOLs or

other losses, our results of operations, liquidity, and financial condition could be adversely affected in a significant manner. When we cease to have NOLs available to us in a particular tax jurisdiction, either through their expiration, disallowance, or utilization, our tax liability will increase in that jurisdiction.

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

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

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

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

Risks Related to Our Common Stock

We do not plan to pay dividends on our common stock for the foreseeable future.

We intend to retain our earnings to support the development and expansion of our business, to repay debt and for other corporate purposes and, as a result, we do not plan to pay cash dividends on our common stock in the foreseeable future. Our payment of any future dividends will be at the discretion of our board of directors after taking into account various factors, including our financial condition, operating results, cash needs, growth plans and the terms of any credit facility or other restrictive debt agreements that we may be a party to at the time or senior securities we may have issued. Our credit facility limits us from paying cash dividends or other payments or distributions with respect to our capital stock. In addition, the terms of any future facility or other restrictive debt credit agreement may contain similar restrictions on our ability to pay any dividends or make any distributions or payments with respect to our capital stock. In addition, holders of our preferred stock are entitled to cumulative dividends before any dividends may be declared or set aside on our common stock.

Furthermore, our ability to pay dividends to our stockholders is subject to the restrictions set forth under Delaware law. We cannot assure you that we will meet the criteria specified under Delaware law in the future, in which case we may not be able to pay dividends on our common stock even if we were to choose to do so.

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The price of our common stock fluctuates significantly, and this may make it difficult for you to resell the common stock when you want to or at prices you find attractive.

There has been significant volatility in the market price and trading volume of equity securities, including our common stock, some of which is unrelated to the financial performance of the companies issuing the securities. The public offering price for the shares of common stock being sold in this offering reflects recent prices of our common stock as reported on the NASDAQ Global Market and may not be indicative of prices that will prevail in the open market following this offering. You may not be able to resell your shares at or above the public offering price due to fluctuations in the market price of our common stock caused by changes in our operating performance or prospects and other factors.

Some specific factors that may have a significant effect on our common stock market price include:

actual or anticipated quarterly fluctuations in our operating and financial results;

developments related to investigations, proceedings, or litigation that involve us;

changes in financial estimates and recommendations by financial analysts;

dispositions, acquisitions, and financings;

actions of our current stockholders, including sales of our common stock by existing stockholders and our directors and executive officers;

success of competitive service offerings or technologies;

fluctuations in the stock price and operating results of our competitors;

investors' general perception of us;

regulatory developments; and

developments related to the industries in which we compete.

Because our common stock has been re-listed on the NASDAQ Global Market only since July 6, 2010, we cannot predict the extent to which investor interest in our company will lead to the development of an active trading market on the NASDAQ Global Market or otherwise or how liquid that market might become. Unless there is an active trading market for our common stock, you may have difficulty selling any shares of our common stock that you purchase. Consequently, you may not be able to sell our common stock at prices equal to or greater than the price you paid in this offering.

Sales or potential sales of our common stock by us or our significant stockholders may cause the market price of our common stock to decline.

We are not restricted from issuing additional shares of common stock, including shares issuable pursuant to securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. As of November 15, 2010, we had 36.7 million shares of common stock outstanding. In addition, as of that date, approximately 4.6 million shares of our common stock were issuable pursuant to outstanding stock options and awards which had not yet vested or which had been previously acquired upon vesting but had not yet been delivered. Additional shares of common stock are also available to be granted under our existing equity plans or may be granted under future equity plans. In addition, under two registration rights agreements that we entered into with Comverse, Comverse has registration rights with respect to its common stock and preferred stock holdings in Verint. As of November 15, 2010, the preferred stock could have been converted into approximately 10.3 million shares of our common stock. The conversion feature of the preferred stock was approved by our stockholders at a special meeting of our stockholders on October 5, 2010.

Also, for the first time since the beginning of our extended filing delay in March 2006, our directors and certain members of management have recently been allowed to resume sales of shares of our common stock in the public markets or in other registered offerings (subject to our securities trading policy and applicable securities law). As a result, these individuals, including each of our named executive officers, have sold and may continue to sell, for personal financial planning and asset diversification purposes, shares of our common stock through block trades in negotiated transactions or by any other lawful methods permitted by applicable registration statements. Please see [Principal and Selling Stockholders](#) for information regarding the beneficial ownership of our common stock by our named executive officers and directors.

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Anti-takeover provisions in Delaware corporate law may make it difficult for our stockholders to replace or remove our current board of directors and could deter or delay third-parties from acquiring us, which may adversely affect the marketability and market price of our common stock.

We are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law (DGCL). Under these provisions, if anyone becomes an interested stockholder, we may not enter into a business combination with that person for three years without special approval, which could discourage a third party from making a takeover offer and could delay or prevent a change of control. For purposes of Section 203, interested stockholder means, generally, someone owning more than 15% or more of our outstanding voting stock or an affiliate of ours that owned 15% or more of our outstanding voting stock during the past three years, subject to certain exceptions as described in Section 203.

Under any change of control, as defined in our credit agreement, the lenders under our credit facility would have the right to require us to repay all of our outstanding obligations under the facility. Upon the occurrence of a Fundamental Change, as defined by the Certificate of Designation setting forth the terms of the preferred stock, and which includes a change of control, the holders of our preferred stock have the right to require us to repurchase their shares of preferred stock at the then current liquidation preference (subject to certain exceptions set forth in the Certificate of Designation).

Holders of our preferred stock have liquidation and other rights that are senior to the rights of the holders of our common stock.

Our board of directors has the authority to designate and issue preferred stock that may have dividend, liquidation and other rights that are senior to those of our common stock. As of November 15, 2010, 293,000 shares of our preferred stock have been issued and are outstanding. The conversion feature of the preferred stock was approved by our stockholders at a special meeting of our stockholders on October 5, 2010. As of November 15, 2010, the preferred stock could have been converted into approximately 10.3 million shares of our common stock. Holders of our preferred stock are entitled to cumulative dividends before any dividends may be declared or set aside on our common stock. Upon our voluntary or involuntary liquidation, dissolution or winding up, before any payment is made to holders of our common stock, holders of our preferred stock are entitled to receive an initial liquidation preference of \$1,000 per share, plus any accrued and unpaid dividends, which liquidation preference was approximately \$335.4 million as of October 31, 2010. This will reduce the remaining amount of our assets, if any, available to distribute to holders of our common stock. See Description of Capital Stock for additional information regarding the rights of our preferred stock.

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CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

Certain statements discussed in this prospectus constitute forward-looking statements, which include financial projections, statements of plans and objectives for future operations, statements of future economic performance, and statements of assumptions relating thereto. Forward-looking statements are often identified by future or conditional words such as will, plans, expects, intends, believes, seeks, estimates, or anticipates, or by variations of such words or by similar expressions. There can be no assurances that forward-looking statements will be achieved. By their very nature, forward-looking statements involve known and unknown risks, uncertainties, and other important factors that could cause our actual results or conditions to differ materially from those expressed or implied by such forward-looking statements. Important risks, uncertainties, and other factors that could cause our actual results or conditions to differ materially from our forward-looking statements include, among others:

risks relating to the filing of our SEC reports, including the occurrence of known contingencies or unforeseen events that could delay our future filings, management distractions, and significant expense;

risks that our credit rating could be downgraded or placed on a credit watch based on, among other things, our financial results or delays in the filing of our periodic reports;

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

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

risks that our financial results will cause us not to be compliant with the leverage ratio covenant under our credit facility or that any delays in the filing of future SEC reports could cause us not to be compliant with the financial statement delivery covenant under our credit facility;

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

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

uncertainties regarding the future impact on our business of our now concluded internal investigation, restatement, and extended filing delay, including customer, partner, employee, and investor concerns, and potential customer and partner transaction deferrals or losses;

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

risks relating to our implementation and maintenance of adequate systems and internal controls for our current and future operations and reporting needs;

risks of possible future restatements if the processes used to produce the financial statements contained in our SEC reports are inadequate;

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risks associated with future regulatory actions or private litigations relating to our internal investigation, restatement, or previous delays in filing required SEC reports;

risks that we will be unable to maintain our listing on the NASDAQ Global Market;

risks associated with Comverse controlling our board of directors and a majority of our common stock (and therefore the results of any significant stockholder vote);

risks associated with significant leverage resulting from our current debt position;

risks due to aggressive competition in all of our markets, including with respect to maintaining margins and sufficient levels of investment in the business and with respect to introducing quality products which achieve market acceptance;

risks created by continued consolidation of competitors or introduction of large competitors in our markets with greater resources than we have;

risks associated with significant foreign and international operations, including exposure to fluctuations in exchange rates;

risks associated with complex and changing local and foreign regulatory environments;

risks associated with our ability to recruit and retain qualified personnel in geographies in which we operate;

challenges in accurately forecasting revenue and expenses;

risks associated with acquisitions and related system integrations;

risks relating to our ability to improve our infrastructure to support growth;

risks that our intellectual property rights may not be adequate to protect our business or that others may make claims on our intellectual property or claim infringement on their intellectual property rights;

risks associated with a significant amount of our business coming from domestic and foreign government customers;

risks that we improperly handle sensitive or confidential information or perception of such mishandling;

risks associated with our dependence on a limited number of suppliers for certain components of our products;

risks that we are unable to maintain and enhance relationships with key resellers, partners, and systems integrators; and

risks that use of our tax benefits may be restricted or eliminated in the future.

These risks, uncertainties and challenges, as well as other factors, are discussed in greater detail in the Risk Factors section of this prospectus. You are cautioned not to place undue reliance on forward-looking statements, which reflect our management's view only as of the date of this prospectus. We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances after the date any such statement is made, except as otherwise required under the federal securities laws. If we were in any particular instance to update or

correct a forward-looking statement, investors and others should not conclude that we would make additional updates or corrections thereafter except as otherwise required under the federal securities laws.

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USE OF PROCEEDS

We will not receive any proceeds from the sale of shares by the selling stockholder. All net proceeds from the sale of the common stock covered by this prospectus will be received by the selling stockholder.

The selling stockholder will pay all underwriting fees, commissions, and discounts, any transfer taxes, and all legal fees and expenses incurred by it in disposing of the shares. We will bear all other costs, fees and expenses incurred in effecting the registration of the shares covered by this prospectus, including, without limitation, all registration and filing fees and fees and expenses of our counsel and our accountants.

Table of Contents**CAPITALIZATION**

The following table sets forth our cash, cash equivalents, restricted cash and bank time deposits and capitalization as of October 31, 2010.

You should read this information, together with our consolidated financial statements and the related notes included elsewhere in this prospectus and the Management's Discussion and Analysis of Financial Condition and Results of Operations section and other financial information contained in this prospectus.

	As of October 31, 2010 (in thousands, except share and per share data)
Cash and cash equivalents	\$ 134,006
Restricted cash and bank time deposits	18,367
Total cash, cash equivalents, restricted cash and bank time deposits	\$ 152,373
Debt:	
Term loan facility	\$ 583,234
Revolving credit facility (1)	15,000
Total debt	598,234
Preferred Stock \$0.001 par value; authorized 2,500,000 shares. Series A convertible preferred stock; 293,000 shares issued and outstanding; aggregate liquidation preference and redemption value of \$335,441	285,542
Stockholders' equity:	
Common stock \$0.001 par value; authorized 120,000,000 shares. Issued 36,875,000 shares and outstanding 36,615,000 shares	36
Additional paid-in capital	504,449
Treasury stock, at cost 260,000 shares	(6,639)
Accumulated deficit	(407,897)
Accumulated other comprehensive loss	(41,267)
Non-controlling interest	3,191
Total stockholders' equity	51,873
Total capitalization	\$ 935,649

(1) Does not reflect a repayment of \$10.0 million in December 2010.

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Our common stock was re-listed on the NASDAQ Global Market and trading in our common stock commenced on the NASDAQ Global Market on July 6, 2010 under the symbol **VRNT**. The following table sets forth, for the periods indicated, the high and low sales prices per share as reported by the NASDAQ Global Market. On December 14, 2010, the last reported sale price of our common stock on the NASDAQ Global Market was \$32.96 per share.

Year Ended	Period	Low	High
January 31, 2011	7/6/10 - 10/31/10	\$19.63	\$32.93
	11/1/10 - 12/14/10	\$30.67	\$34.98

From February 1, 2007 until July 2, 2010 (the last trading day prior to the relisting of our common stock on the NASDAQ Global Market) our common stock traded on the over-the-counter securities market under the symbol **VRNT.PK** with pricing and financial information provided by the Pink Sheets.

The following table sets forth the range of high and low sales prices as reported by the Pink Sheets from February 1, 2008 through July 2, 2010.

Year Ended	Period	Low	High
January 31, 2009	2/1/08 - 4/30/08	\$14.80	\$21.85
	5/1/08 - 7/31/08	\$19.50	\$24.60
	8/1/08 - 10/31/08	\$ 8.95	\$23.20
	11/1/08 - 1/31/09	\$ 5.40	\$13.00
2010	2/1/09 - 4/30/09	\$ 3.10	\$ 6.75
	5/1/09 - 7/31/09	\$ 5.30	\$12.85
	8/1/09 - 10/31/09	\$11.31	\$17.25
	11/1/09 - 1/31/10	\$15.05	\$19.35
2011	2/1/10 - 4/30/10	\$17.73	\$28.00
	5/1/10 - 7/2/10	\$22.20	\$27.00

Holdings

There were 45 holders of record of our common stock at November 15, 2010. Such record holders include holders who are nominees for an undetermined number of beneficial owners.

Dividends

We have not declared or paid and have no current plans to declare or pay any cash dividends on our equity securities. We intend to retain our earnings to finance the development of our business, repay debt, and for other corporate purposes. In addition, the terms of our credit agreement restrict our ability to pay cash dividends on shares of our common or preferred stock. See **Management's Discussion and Analysis of Financial Condition and Results of Operations** **Liquidity and Capital Resources** for a more detailed discussion of these restrictions. Holders of our preferred stock are entitled to cumulative dividends before any dividends may be declared or set aside on our common stock. See **Description of Capital Stock** and **Note 8, Convertible Preferred Stock** to the audited consolidated financial statements included elsewhere in this prospectus for a more detailed discussion of these restrictions. Our preferred stock currently accrues a dividend at the rate of 3.875% per year.

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

Table of Contents**SELECTED FINANCIAL DATA**

The selected consolidated statements of operations data for the years ended January 31, 2010, 2009 and 2008 and the selected 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 selected consolidated statements of operations data for the years ended January 31, 2007 and 2006 and the selected consolidated balance sheet data as of January 31, 2008, 2007 and 2006 are derived from our audited consolidated financial statements not included in this prospectus. The selected consolidated statements of operations data for the three and nine months ended October 31, 2010 and 2009 and the 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 selected 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		Nine Months Ended		Year Ended January 31,				
	October 31,	2009	October 31,	2009	2010	2009	2008	2007	2006
in thousands (except per share data)	2010	2009	2010	2009	2010	2009	2008	2007	2006
Revenue	\$ 186,641	\$ 186,480	\$ 539,930	\$ 530,897	\$ 703,633	\$ 669,544	\$ 534,543	\$ 368,778	\$ 278,778
Operating income (loss)	30,393	23,735	50,210	73,453	65,679	(15,026)	(114,630)	(47,253)	4,111
Income (loss)	18,388	13,315	15,163	35,369	17,100	(78,577)	(197,545)	(39,598)	2,411
Income (loss) attributable to Verint Systems Inc.	17,174	13,176	12,441	34,408	15,617	(80,388)	(198,609)	(40,519)	1,611
Income (loss) attributable to Verint Systems Inc. common shares	13,582	9,733	1,892	24,297	2,026	(93,452)	(207,290)	(40,519)	1,611
Income (loss) per share attributable to Verint Systems Inc.:									
Basic	\$ 0.38	\$ 0.30	\$ 0.06	\$ 0.75	\$ 0.06	\$ (2.88)	\$ (6.43)	\$ (1.26)	\$ 0.00
Diluted	0.36	0.29	0.05	0.74	0.06	(2.88)	(6.43)	(1.26)	0.00
Weighted-average shares:									
Basic	35,368	32,471	33,785	32,465	32,478	32,394	32,222	32,156	31,778
Diluted	47,679	33,330	36,525	32,879	33,127	32,394	32,222	32,156	32,678

Consolidated Balance Sheet Data

	October 31,	2010	2009	January 31,	2007	2006
in thousands	2010	2010	2009	2008	2007	2006
Total assets	\$ 1,353,052	\$ 1,396,337	\$ 1,337,393	\$ 1,492,275	\$ 593,676	\$ 609,558
Long-term debt, including current maturities	598,234	620,912	625,000	610,000	1,058	1,325
Preferred stock	285,542	285,542	285,542	293,663		
	51,873	(14,567)	(76,070)	30,325	198,890	220,569

Total stockholders
equity (deficit)

Certain financial data in these tables for years ended prior to January 31, 2010 has been adjusted to reflect the adoption of a change in accounting for noncontrolling interests, as further discussed in Note 1, Summary of Significant Accounting Policies to the audited consolidated financial statements included elsewhere in this prospectus. During the five-year period ended January 31, 2010, we acquired a number of businesses, the more significant of which were the acquisitions of MultiVision in January 2006, Mercom Systems Inc., in July 2006, and Witness in May 2007. The operating results of acquired businesses have been included in our consolidated financial

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statements since their respective acquisition dates and have contributed to our revenue growth. The May 2007 acquisition of Witness had significant impacts on our revenue and operating results for the years ended January 31, 2010, 2009, and 2008.

Operating results for the period ended January 31, 2010 include:

amortization of intangible assets associated with the acquisition of Witness of \$28.3 million;

interest expense on our term loan and revolving credit agreement of \$22.6 million;

stock-based compensation expense of \$44.2 million;

realized and unrealized losses on our interest rate swap of \$13.6 million; and

approximately \$54 million in professional fees and related expenses associated with our restatement of previously filed consolidated financial statements for periods through January 31, 2005 and our extended filing delay status.

Operating results for the period ended January 31, 2009 include:

a full year's revenue from Witness compared to eight months in the prior year;

amortization of intangible assets associated with the acquisition of Witness of \$31.1 million;

integration costs of \$3.2 million incurred to support and facilitate the combination of Verint and Witness into a single organization;

net proceeds after legal fees of approximately \$4.3 million associated with the settlement of pre-existing litigation between Witness and a competitor;

interest expense on our term loan and revolving credit agreement of \$35.2 million;

stock-based compensation expense of \$36.0 million;

realized and unrealized losses on our interest rate swap of \$11.5 million;

restructuring costs of \$5.7 million and approximately \$28 million in professional fees and related expenses associated with our restatement of previously filed consolidated financial statements for periods through January 31, 2005 and our extended filing delay status; and

non-cash goodwill impairment charges of \$26.0 million.

Operating results for the period ended January 31, 2008 include:

an increase in revenue of \$123.1 million from the Witness business, beginning in the quarter ended July 31, 2007;

amortization of intangible assets associated with the acquisition of Witness of \$22.6 million;

a \$6.7 million charge for in-process research and development;

integration costs of \$11.0 million incurred to support and facilitate the combination of Verint and Witness into a single organization;

legal fees of \$8.7 million associated with pre-existing litigation between Witness and a competitor;

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interest expense on our term loan of \$34.4 million;

restructuring costs of \$3.3 million and approximately \$26 million in professional fees and related expenses associated with our restatement of previously filed consolidated financial statements for periods through January 31, 2005 and our extended filing delay status;

realized and unrealized losses on our interest rate swap of \$29.2 million;

unrealized gains of \$7.2 million on an embedded derivative financial instrument related to the variable dividend feature of our preferred stock;

stock-based compensation expense of \$31.0 million; and

non-cash goodwill and intangible asset impairment charges of \$23.4 million.

Operating results for the year ended January 31, 2007 include:

\$19.2 million for a one-time settlement charge related to our exit from a royalty-bearing program with the OCS; and

approximately \$4 million in professional fees and related expenses associated with our restatement of previously filed consolidated financial statements for periods through January 31, 2005 and our extended filing delay status.

Operating results for the year ended January 31, 2006 include a \$2.6 million charge in connection with a customer dispute.

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

Business Overview

Verint is a global leader in Actionable Intelligence solutions and value-added services. Our solutions enable organizations of all sizes to make timely and effective decisions to improve enterprise performance and make the world a safer place. More than 10,000 organizations in over 150 countries including over 80% of the Fortune 100 use Verint 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 support our customers around the globe directly and with an extensive network of selling and support partners.

Our Business

We serve two markets through three operating segments. Our Workforce Optimization segment serves the enterprise workforce optimization market, while our Video Intelligence segment and Communications Intelligence segment serve the security intelligence market.

In our Workforce Optimization segment, we are a leading provider of enterprise workforce optimization software and services. Our solutions enable organizations to extract and analyze valuable information from customer interactions and related operational data in order to make more effective, proactive decisions for optimizing the performance of their customer service operations, improving the customer experience, and enhancing compliance. Marketed under the Impact 360 brand to contact centers, back offices, branch and remote offices, and public safety centers, these solutions comprise a unified suite of enterprise workforce optimization applications and services that include IP and TDM voice recording and quality monitoring, speech and data analytics, workforce management, customer feedback, eLearning and coaching, performance management, and desktop productivity/application analysis. These applications can be deployed stand-alone or in an integrated fashion. Key business and technology trends driving this segment include a growing interest in a unified workforce optimization suite and sophisticated customer interaction analytics, the adoption of workforce optimization solutions outside contact centers, and the ongoing upgrade of TDM voice systems to VoIP telephony infrastructure. For the three and nine months ended October 31, 2010 and the years ended January 31, 2010, 2009, and 2008, this segment represented approximately 57%, 55%, 53%, 53%, and 49% of our total revenue, respectively.

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

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Intelligence segment include increased demand for advanced security solutions due to ongoing terrorism and security threats around the world and the transition from relatively passive analog CCTV video systems to more sophisticated network-based IP video solutions. For the three and nine months ended October 31, 2010 and the years ended January 31, 2010, 2009, and 2008, this segment represented approximately 16%, 18%, 21%, 19%, and 28% of our total revenue, respectively.

In our Communications Intelligence segment, we are a leading provider of communications intelligence and investigative solutions that help law enforcement, national security, intelligence, and 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. These solutions can be deployed stand-alone or collectively, as part of a large-scale system to address the needs of large government agencies that require advanced, comprehensive solutions. Key business and technology trends in this segment include the demand for innovative communications intelligence and investigative solutions due to terrorism, criminal activities, and other security threats, an expanding range of communication and information media, the increasing complexity of communications networks and growing network traffic, and legal and compliance requirements. For the three and nine months ended October 31, 2010 and the years ended January 31, 2010, 2009, and 2008, this segment represented approximately 27%, 27%, 26%, 28%, and 23% of our total revenue, respectively.

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

Key Trends and Developments in Our Business

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

Information technology spending. During the global recession, information technology spending has decreased, and the market for our products and services has been adversely affected. Our growth and results depend in part on the pace of economic recovery and spending on information technology.

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

Our capital structure may impact our financing activities, investments, and growth. We have a majority stockholder that can effectively control our business and affairs. We also are subject to various restrictive covenants under our credit facility, as well as a leverage ratio financial covenant. As a result, our current capital structure limits our ability to issue equity, incur additional debt, or make certain investments in our business. These limitations may impede our ability to execute upon our business strategy.

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

Table of Contents**Critical Accounting Policies and Estimates**

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

Revenue Recognition

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

The majority of our software license arrangements contain multiple elements including software, hardware, PCS, and professional services, such as installation, consulting, and training. We allocate revenue to delivered elements of the arrangement using the residual value method (Residual Method), whereby revenue is allocated to the undelivered elements based on vendor specific objective evidence of the fair value (VSOE), of the undelivered elements with the remaining arrangement fee allocated to the delivered elements and recognized as revenue assuming all other revenue recognition criteria are met. If we are unable to establish VSOE for the undelivered elements of the arrangement, revenue recognition is deferred for the entire arrangement until all elements of the arrangement are delivered. However, if the only undelivered element is PCS, we recognize the arrangement fee ratably over the PCS period. Our policy for establishing VSOE for installation, consulting, and training is based upon an analysis of separate sales of services, which are then compared with the fees charged when the same elements are included in a multiple-element arrangement.

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

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

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

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have a renewal rate below the minimum substantive VSOE rate are deemed to contain a more than insignificant discount element, for which VSOE cannot be established. We recognize revenue for these arrangements over the period that the customer is entitled to renew their PCS at the discounted rate, but not to exceed the estimated economic life of the product. We evaluate many factors in determining the estimated economic life of our products, including the support period of the product, technological obsolescence, product roadmaps, and customer expectations. We have concluded that our software products have estimated economic lives of from five to seven years.

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

For shipment of products which include embedded firmware that has been deemed incidental, we recognize revenue provided that persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed or determinable, and collectability of the fee is reasonably assured. For shipments of hardware products, delivery is considered to have occurred upon shipment, provided that the risks of loss, and title in certain jurisdictions, have been transferred to the customer.

Some of our arrangements require significant customization of the product to meet the particular requirements of the customer. For these arrangements, revenue is recognized under contract accounting methods, typically using the percentage of completion (POC), method. Under the POC method, revenue recognition is generally based upon the ratio of hours incurred to date to the total estimated hours required to complete the contract. Profit estimates on long-term contracts are revised periodically based on changes in circumstances, and any losses on contracts are recognized in the period that such losses become evident. Generally, the terms of long-term contracts provide for progress billings based on completion of milestones or other defined phases of work. Significant judgment is often required when estimating total hours and progress to completion on these arrangements, as well as whether a loss is expected to be incurred on the contract due to several factors including the degree of customization required and the customer's existing environment. If the range of profitability cannot be estimated but some level of profit is assured, revenue is recognized to the extent of costs incurred, until such time that the project's profitability can be estimated or the services have been completed. In addition, if VSOE does not exist for the contract's PCS element, but some level of profit is assured, the zero gross margin approach of applying percentage of completion accounting is used based on the extent of costs incurred. Once the services are completed, the remaining unrecognized portion of the arrangement fee is recognized ratably over the remaining PCS period. In the event some level of profitability on a contract cannot be assured, the completed-contract method of revenue recognition is applied. We use historical experience, project plans, and an assessment of the risks and uncertainties inherent in the arrangement to establish these estimates. Uncertainties in these arrangements include implementation delays or performance issues that may or may not be within our control.

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

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

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

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periodically on the basis of updated customer financial statement information, payment performance, and other factors.

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

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

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

Allowance for Doubtful Accounts

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

Accounting for Business Combinations

Business acquisitions completed prior to January 31, 2009 have been accounted for using purchase method standards effective prior to that date. New purchase accounting standards were effective for us on February 1, 2009. Under purchase accounting standards, we allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed as well as to in-process research and development costs based upon their estimated fair values at the acquisition date. These fair values are typically estimated with assistance from independent valuation specialists. The purchase price allocation process requires our management to make significant estimates and assumptions, especially at the acquisition date with respect to intangible assets, contractual support obligations assumed, and pre-acquisition contingencies.

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

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

future expected cash flows from software license sales, support agreements, consulting contracts, other customer contracts, and acquired developed technologies;

expected costs to develop the in-process research and development into commercially viable products and estimated cash flows from the projects when completed;

the acquired company's brand and competitive position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company's product portfolio;

cost of capital and discount rates; and

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

Impairment of Goodwill and Other Intangible Assets

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

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

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

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

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lived asset exceeds its fair value. The impairment loss recognized is the amount