

VERINT SYSTEMS INC
Form 10-K
April 02, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended January 31, 2012

Commission File Number 001-34807

VERINT SYSTEMS INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

11-3200514
(I.R.S. Employer
Identification No.)

330 South Service Road, Melville, New York
(Address of principal executive offices)

11747
(Zip code)

Registrant's telephone number, including area code: **(631) 962-9600**

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

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

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

None

Title of class

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

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The aggregate market value of common stock held by non-affiliates of the registrant, based on the closing price for the registrant's common stock on the NASDAQ Global Market on the last business day of the registrant's most recently completed second fiscal quarter (July 31, 2011) was approximately \$762,054,000.

There were 38,989,555 shares of the registrant's common stock outstanding on March 15, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement to be filed under Regulation 14A within 120 days of the end of the registrant's fiscal year ended January 31, 2012 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Cautionary Note on Forward-Looking Statements

Certain statements discussed in this report 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 anticipated 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:

- uncertainties regarding the impact of general economic conditions in the United States and abroad, particularly in information technology spending and government budgets, on our business;
- risks associated with our ability to keep pace with technological changes and evolving industry standards in our product offerings and to successfully develop, launch, and drive demand for new and enhanced, innovative, high-quality products that meet or exceed customer needs;
- risks due to aggressive competition in all of our markets, including with respect to maintaining margins and sufficient levels of investment in our business;
- risks created by the continued consolidation of our competitors or the introduction of large competitors in our markets with greater resources than we have;
- risks associated with our ability to successfully compete for, consummate, and implement mergers and acquisitions, including risks associated with capital constraints, costs and expenses, maintaining profitability levels, management distraction, post-acquisition integration activities, and potential asset impairments;
- risks associated with Comverse Technology, Inc. (Comverse) controlling our board of directors and 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;
- risks associated with Comverse's strategic plans and related speculation and announcements, such as its recently announced plan to eliminate its holding company structure either simultaneously with or shortly after the completion of a spin-off of its Comverse, Inc. subsidiary;

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

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- risks relating to our ability to effectively and efficiently execute on our growth strategy, including managing investment in our business and operations and enhancing and securing our internal and external operations;

- risks relating to our ability to successfully implement and maintain adequate systems and internal controls for our current and future operations and reporting needs and related risks of financial statement omissions, misstatements, restatements, or filing delays;

- risks associated with the mishandling or perceived mishandling of sensitive or confidential information, security lapses, or with information technology system failures or disruptions;

- risks associated with our ability to efficiently and effectively allocate limited financial and human resources to business, development, strategic, or other opportunities that may not come to fruition or produce satisfactory returns;

- risks associated with significant international operations, including, among others, in Israel, Europe, and Asia, exposure to regions subject to political or economic instability, and fluctuations in foreign exchange rates;

- risks associated with complex and changing local and foreign regulatory environments in the jurisdictions in which we operate;

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

- challenges associated with selling sophisticated solutions, long sales cycles, and emphasis on larger transactions, including in accurately forecasting revenue and expenses and maintaining profitability;

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

- risks that our products may contain undetected defects, which could expose us to substantial liability;

- risks associated with a significant amount of our business coming from domestic and foreign government customers, including the ability to maintain security clearances for certain projects;

- risks associated with our dependence on a limited number of suppliers or original equipment manufacturers (OEMs) for certain components of our products, including companies that may compete with us or work with our competitors;

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- risks that our customers or partners delay or cancel orders or are unable to honor contractual commitments due to liquidity issues, challenges in their business, or otherwise;
- risks that we may experience liquidity or working capital issues and related risks that financing sources may be unavailable to us on reasonable terms or at all;
- risks associated with significant leverage resulting from our current debt position, including with respect to covenant limitations and compliance, fluctuations in interest rates, and our ability to maintain our credit ratings;
- risks associated with being a consolidated, controlled subsidiary of Comverse and formerly part of Comverse's consolidated tax group;
- risks relating to our ability to timely implement new accounting pronouncements or new interpretations of existing accounting pronouncements and related risks of future restatements or filing delays; and
- risks associated with changing tax rates, tax laws and regulations, and the continuing availability of expected tax benefits.

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

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PART I

Item 1. Business

Our Company

Verint® Systems Inc. (together with its consolidated subsidiaries, Verint, the Company, we, us, and our, unless the context indicates otherwise) is a global leader in Actionable Intelligence® solutions and value-added services. Our solutions enable organizations of all sizes to make more 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 85 percent 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 intelligence market, our workforce optimization and voice of the customer 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 communications and cyber intelligence, video and situation intelligence, and public safety solutions help 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 intelligence and security intelligence markets by leveraging our core competency in developing highly scalable, enterprise-class solutions with advanced, integrated analytics for both unstructured and structured information. Our innovative solutions are developed by approximately 1,000 employees and contractors in research and development, representing approximately one-third of our total headcount, and are evidenced by more than 520 patents and patent applications worldwide, including over 60 allowed or granted patents worldwide for the year ended January 31, 2012. We offer a range of customer services, from initial implementation to consulting to ongoing maintenance and support, to maximize the value our customers receive from our Actionable Intelligence solutions and allow us to extend our customer relationships.

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

Our Markets Enterprise Intelligence and Security Intelligence

We deliver our Actionable Intelligence solutions to the enterprise intelligence 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 such as social media sites, customer surveys, email, and other text communications. Our advanced Actionable Intelligence solutions enable our customers to collect and analyze large amounts of both structured and unstructured information in order to make better decisions.

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

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

Company Background

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

In May 2002, we completed our initial public offering (IPO), and, as of January 31, 2012, Comverse held approximately a 54.4% beneficial ownership position in us assuming conversion of all of our Series A Convertible Preferred Stock, par value \$0.001 per share (preferred stock), into common stock. Since our IPO, we have acquired a number of companies that have strengthened our position in both the enterprise intelligence and security intelligence markets.

We participate in the enterprise intelligence and security intelligence markets through three operating segments: Enterprise Intelligence Solutions (Enterprise Intelligence), Video and Situation Intelligence Solutions (Video Intelligence), and Communications and Cyber Intelligence Solutions (Communications Intelligence), each of which is described in greater detail below and in Management's Discussion and Analysis of Financial Condition and Results of Operations under Item 7. See also Note 17, Segment, Geographic, and Significant Customer Information to our consolidated financial statements included in Item 15 of this report for additional information and financial data about each of our operating segments and geographic regions.

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

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Our Strengths

Enterprise Intelligence

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

- *Comprehensive, unified suite of workforce optimization solutions.* A core part of our product strategy has been to unify our workforce optimization solutions through targeted, predefined integrations. Our comprehensive, unified suite of workforce optimization solutions offers many advantages in terms of both functionality and total cost of ownership, and we believe that this approach helps further differentiate us in the enterprise intelligence market.
- *Advanced voice of the customer analytics.* We were an early innovator of speech analytics for contact centers, and today we offer an advanced suite of Voice of the Customer Analytics , which includes speech, text, and enterprise feedback management solutions. We believe that these solutions are attractive to a broad set of customers, enabling them to better understand the customer experience, customer sentiment, workforce performance, and the factors underlying important business trends by collecting customer intelligence across the enterprise.
- *Compelling workforce optimization solutions for back-office and branch operations.* Workforce optimization solutions have traditionally been deployed in contact centers. However, many customer service employees work in other areas of the enterprise, such as the back office and branch and remote office locations. We believe that enterprises are interested in deploying workforce optimization solutions outside the contact center to enable the same type of performance measurement and improvement that has historically been available to contact centers, and we have built a portfolio of solutions specifically for this opportunity.
- *Focus on delivering best-in-class customer service.* A core part of our strategy is to help enable our customers to derive maximum value from our Actionable Intelligence solutions. We believe that a combination of our unified Enterprise Intelligence solutions and focus on customer service has been a major factor in our success.
- *Strong OEM partner relationships.* We have increased our focus on partners, including resellers and OEMs, which is a core element of our go-to-market strategy. We believe that this investment has strengthened our relationships with our partners, expanded our market coverage and provided our customers with tighter integration of certain third-party solutions.

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Video and Situation Intelligence

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

- *Broad networked IP video and situation intelligence portfolio.* Our Video and Situation Intelligence portfolio includes Internet Protocol (IP) video management software and services, edge devices for capturing, digitizing, and transmitting video over different types of wired and wireless networks, video analytics, network video recorders, and physical security information management solutions. Our broad portfolio allows organizations to deploy an end-to-end IP video solution with analytics or evolve to networked IP video solutions over time; view, correlate, and analyze information from various security systems and sensors; and generate Actionable Intelligence from video and related data.
- *Open platform.* Designed on an open platform, our solutions facilitate interoperability with our customers' business and security systems and with complementary third-party products, such as cameras, video analytics, video management software, command and control systems, and access control systems.
- *Ability to help our customers cost-effectively migrate to networked IP video.* While the security market is evolving to networked IP video solutions, many organizations have already made significant investments in analog technology. Our video solutions help our customers cost effectively migrate to networked IP video without discarding their existing analog closed circuit television (CCTV) investments.

Communications and Cyber Intelligence

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

- *Broad portfolio.* Our broad Communications and Cyber Intelligence portfolio includes solutions for communications interception, service provider compliance, mobile location tracking, open source Web intelligence, and tactical communications intelligence, as well as solutions being developed for cyber intelligence. Our 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), quickly make sense of complex scenarios, and generate evidence and intelligence.
- *Highly scalable solutions for a broad range of communications.* Our solutions can be deployed stand-alone or collectively as part of a large-scale system to address the needs of large government agencies, law enforcement, and communications service providers that require advanced, comprehensive solutions. Our solutions can process very large amounts of information, enabling the interception, monitoring, and analysis of information collected from a wide range of communications networks, including fixed and mobile networks, IP networks, and the Internet.

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- *High-quality, long-term customer relationships.* We have security customers around the world, including large and sophisticated government organizations, as well as commercial companies that are leaders in their respective markets. We have long-term relationships with many of these customers that allow us to gain insight into their challenges and 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 intelligence 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 to drive the adoption of Actionable Intelligence solutions designed to provide a high return on investment by delivering software and services to the enterprise intelligence and security intelligence markets.
- *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 dialog with our customer base in order to understand their business objectives and requirements.
- *Continue to expand our market presence through OEM and partner relationships.* We have expanded our relationships with OEMs and other channel partners. We believe that these relationships broaden our market coverage, and we intend to continue expanding our existing relationships, while 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 of these purposes and expect to continue doing so in the future when strategic opportunities arise.

The Enterprise Intelligence Solutions Segment

We are a leading provider of enterprise intelligence 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 facilitating compliance, and enhancing products and services. We market these solutions primarily under the Impact 360® brand to contact center, back-office, and branch and remote office operations, to other customer-facing departments such as sales and marketing that also seek to distill insights

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from the voice of their customers, and to public safety centers. These solutions comprise a unified suite of enterprise workforce optimization and voice of the customer solutions and services that include IP and Time Division Multiplexing (TDM) voice recording, quality monitoring, voice of the customer analytics (speech, text, and enterprise feedback management), workforce management, eLearning and coaching, performance management, and desktop and process analytics. These solutions can be deployed stand-alone or in an integrated fashion.

The Enterprise Intelligence 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 center, back-office, and branch operations. Consistent with this trend, we believe that organizations seek workforce optimization and voice of the customer solutions that enable them to better understand customer expectations, preferences, and sentiments in order to strengthen customer relationships, efficiently manage their workforce and customer service operations across the enterprise, and strike the right balance among driving sales, managing operating costs, and delivering the optimal customer experience.

In order to make better decisions to achieve these goals, we believe that organizations increasingly seek to leverage valuable data collected from customer interactions and associated operational activities and that using the voice of the customer to drive operational excellence has become a strategic objective for organizations worldwide. However, customer service applications have traditionally been deployed as stand-alone applications, which prevented information from being shared and analyzed across multiple/related applications. These solutions also lacked functionality for analyzing unstructured and structured information, such as the content of phone calls, email, Web chat, customer surveys and social media sites. As a result, organizations historically based their customer service-related business decisions on a fraction of the information available to them.

We believe that customer-centric organizations today seek to gain a holistic view of the customer experience and the effectiveness of their customer service operations through unified, innovative workforce optimization solutions and a voice of the customer analytical platform delivered by a single vendor. We believe that the key business and technology trends driving demand for workforce optimization and voice of the customer solutions include:

Integration of Enterprise Intelligence Solutions

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

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- using integrated speech analytics with quality monitoring, calls can be categorized, allowing organizations to review the interactions that are most significant to the business and identify the underlying causes of customer service issues;
- using integrated voice of the customer solutions, organizations can collect and assess customer feedback from the diverse platforms on which it is provided, including surveys, phone calls, Web chat, emails, and social media;
- contact center managers can receive instant alerts when staff is out of adherence with standards, monitor and record interactions to determine the cause, and act quickly to correct the problem; and
- supervisors can assign and deliver electronic learning material to staff desktops based on training needs automatically identified from quality monitoring evaluation scores and performance management scorecard metrics, and then track courses taken and new skills acquired.

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

Greater Insight through Voice of the Customer Analytics

We believe that customer-centric organizations are increasingly interested in deploying sophisticated and more comprehensive voice of the customer analytics (such as speech, text, and enterprise feedback management) to gain a better understanding of the customer experience, workforce performance, and the factors underlying business trends. Although enterprises have historically captured customer interactions, most were able to extract intelligence only by manually analyzing each customer interaction individually, which generally could be done for only a small percentage of interactions. Today, voice of the customer analytics solutions have evolved to analyze and categorize customer interactions automatically through voice, email, Web chat, customer surveys and social media in order to detect patterns and trends that significantly impact the business. These solutions provide a new level of insight into important areas such as customer satisfaction, customer behavior, customer sentiment, and staff effectiveness, including the underlying cause of business trends in these critical areas.

Adoption of Workforce Optimization Across the Enterprise

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

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Our Enterprise Intelligence Solutions Portfolio

We are a leader in the enterprise intelligence market with Impact 360, a comprehensive, unified portfolio of workforce optimization and voice of the customer solutions. Our solutions are highly scalable and designed to be deployed by small to very large organizations in traditional contact centers and other areas of the enterprise, such as back-office, remote office, and branch operations and other customer-facing departments such as sales and marketing that seek to distill insights from the voice of their customers, and by public safety centers. Historically our enterprise intelligence solutions have been implemented on customer premises; however today we also offer some of our enterprise intelligence solutions on a Software as a Service, or SaaS, basis. Our solutions are generally implemented in industries that have significant customer service operations, such as insurance, banking and brokerage, telecommunications, media, retail, public safety, and hospitality.

The following table summarizes our portfolio of Enterprise Intelligence Solutions.

Solution	Description
Quality Monitoring	Records multimedia interactions based on user-defined business rules and provides sophisticated interaction assessment functionality, including intelligent evaluation forms and automatic delivery of calls for evaluation according to quotas or contact-related criteria, to help enterprises evaluate and improve the performance of customer service staff.
Full-Time and Compliance Recording	Provides contact center recording for compliance, sales verification, and monitoring in IP, traditional TDM, and mixed telephony environments. Includes encryption capabilities to help support the Payment Card Industry Data Security Standard and other regulatory requirements for protecting sensitive data.
Workforce Management	Helps enterprises forecast staffing requirements, deploy the appropriate level of resources, and evaluate the productivity of their customer service staff. Also includes optional strategic planning capabilities to help determine optimal hiring plans.
Voice of the Customer Analytics (Speech, Text, and Enterprise Feedback Management)	<p>Our speech analytics solutions analyze call content for the purpose of proactively identifying business trends, building effective cost containment and customer service strategies, and enhancing quality monitoring programs.</p> <p>Our text analytics analyze structured and unstructured data in multiple text sources, including email, chat sessions, blogs, contact center notes, white mail, survey comments, and social media channels, to provide enterprises with a better understanding of customer sentiment, corporate image, competitors, and other market factors for more effective decision making.</p>

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	Our enterprise feedback management solutions provide enterprise-wide customer feedback capabilities via surveys and online communities to centralize and simplify survey management, deployment, and analysis across multiple survey platforms, including Interactive Voice Response, email, social media, and mobile devices. These solutions provide a more holistic view of customer sentiments, experiences, and behaviors to enable better decisions for increasing customer satisfaction, loyalty, and value.
Performance Management	Provides a comprehensive view of key performance indicators (KPIs), with performance scorecards and reports on customer interactions, customer experience trends, and contact center, back-office, branch, remote office, and customer service staff performance.
eLearning and Coaching	Enables enterprises to deliver Web-based training to customer service staff desktops, including learning clips created from recordings and other customized materials targeted to staff needs and competencies. Automated coaching also provides employees with personalized guidance on how to improve their performance and extend their skills.
Desktop and Process Analytics	Captures information from customer service employee interactions with their desktop applications to provide insights into productivity, training issues, process adherence, and bottlenecks.
Workforce Optimization and Voice of the Customer for Small-to-Medium Sized Businesses	Designed for smaller companies (with contact centers), which increasingly face the same business requirements as their larger competitors. Enables companies of all sizes to boost productivity, reduce attrition, capture and evaluate interactions, and satisfy compliance and risk management requirements in a cost-effective way. Offered on a single, consolidated server with simplified installation and maintenance.
Public Safety	Includes quality assurance, forecasting and scheduling, speech analytics, performance scorecards, citizen surveys, incident investigation and analytics, and full-time and compliance recording solutions under the brand Impact 360 for Public Safety Powered by Audiolog . Our public safety solution allows first responders (police, fire departments, emergency medical services, etc.) in the security intelligence market to deploy workforce optimization solutions to record, manage, and act on incoming assistance requests and related data.

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The Video and Situation Intelligence Solutions Segment

We are a leading provider of networked IP video solutions and a provider of situation intelligence solutions designed to optimize security and enhance operations. Our solutions, marketed under the Nextiva® brand, include IP video management software and services, edge devices for capturing, digitizing, and transmitting video over different types of wired and wireless networks, video analytics, network video recorders, and physical security information management. Our networked IP video portfolio enables organizations to deploy an end-to-end IP video solution with analytics or evolve to IP video solutions without discarding their investments in analog CCTV technology. Our situation intelligence solutions enable organizations to view, correlate, and analyze information from various stand-alone systems and sensors.

The Networked IP Video and Situation Intelligence Market and Trends

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

Consistent with this trend, the video security market continues to experience a technology transition from relatively passive analog CCTV video systems, which use analog equipment and closed networks and generally provide only basic 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 believe this trend, combined with the overall need for improved security by government and commercial organizations globally, is driving interest in both advanced networked IP video intelligence solutions and physical situation information management solutions, which enable organizations to manage and integrate video intelligence with other security system data.

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

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Our Video and Situation Intelligence Solutions Portfolio

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

Solution	Description
IP Video Management Software	Simplifies management of large volumes of video and geographically dispersed video surveillance operations, with a suite of applications that includes automated system health monitoring, policy-based video distribution, networked video viewing, and investigation management. Designed for use with industry-standard servers and storage solutions and for interoperability with other enterprise systems.
Edge Devices	Captures, digitizes, and transmits video across enterprise networks, providing many of the benefits of IP video while using existing analog CCTV investments. Includes IP cameras, bandwidth-efficient video encoders to convert analog images to IP video for transmission over IP networks, and wireless devices that perform both video encoding and wireless IP transmission, facilitating video surveillance in areas too difficult or expensive to wire.
Video Analytics	Analyzes video content to automatically detect anomalies and activities of interest, such as perimeter intrusion, unattended objects, camera tampering, and vehicles moving in the wrong direction. Also includes industry-specific analytics applications focused on the behavior of people in retail and other environments.
Network Video Recorders	Performs networked video recording utilizing secure, embedded operating systems and market-specific data integrations for applications that require local storage, as well as remote networking.
Physical Security Information Management (Situation Intelligence)	Captures and integrates information from various stand-alone security and public safety systems, such as access control, video, intrusion, fire and public safety, first responder, and other mobile device systems, to enable efficient information correlation and analysis and rapid, rules-based alerts and actions.

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

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The Communications and Cyber Intelligence Solutions Segment

We are a leading provider of communications intelligence solutions and a developer of cyber intelligence solutions that help law enforcement, national security, intelligence, and civilian government agencies effectively detect, investigate, and neutralize criminal and terrorist threats and detect and thwart cyber-attacks. 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, open source Web intelligence, cyber 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.

The Communications and Cyber Intelligence Market and Trends

We believe that terrorism, criminal activities, including financial fraud and drug trafficking, cyber-attacks, 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 the key trends driving demand for our Communications Intelligence solutions are:

Increasing Complexity of Communications Networks and Growing Network Traffic

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

Growing Demand for Advanced Intelligence and Investigative Solutions

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

Legal and Regulatory Compliance Requirements

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In many countries, communications service providers are mandated by government regulation to satisfy certain technical requirements for delivering communication content and data to law enforcement and government authorities. For example, in the United States, requirements have been established under the Communications Assistance for Law Enforcement Act (CALEA). In Europe, similar

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requirements have been adopted by the European Telecommunications Standards Institute (ETSI). In addition, many law enforcement and government agencies around the world are mandated to ensure compliance with laws and regulations related to criminal activities, such as financial crimes. We believe that these laws and regulations are creating demand for our Communications Intelligence solutions.

Our Communications and Cyber Intelligence Solutions Portfolio

We are a leader in the market for communications intelligence solutions and a developer of cyber intelligence solutions, which are marketed under the RELIANT , VANTAGE®, STAR-GATE , ENGAGE , FOCALINFO , and CYBERVISION brand names. The following table summarizes our portfolio of Communications and Cyber Intelligence solutions.

Solution	Description
Communications Interception	Enables the interception, monitoring, and analysis of information collected from a wide range of communications networks, including fixed and mobile networks, IP networks, and the Internet. Includes lawful interception solutions designed to intercept specific target communications pursuant to legal warrants and mass interception solutions for investigating and proactively addressing criminal and terrorist threats.
Communications Service Provider Compliance	Enables communication service providers to collect and deliver to government agencies specific call-related and call-content information in compliance with CALEA, ETSI, and other compliance regulations and standards. Includes a scalable warrant and subpoena management system for efficient, cost-effective administration of legal warrants across multiple networks and sites.
Mobile Location Tracking	Tracks the location of mobile network devices for intelligence and evidence gathering, with analytics and workflow designed to support investigative activities. Provides real-time tracking of multiple targets, real-time alerts, and investigative capabilities, such as geospatial fencing and events correlation.
Open Source Web Intelligence	Increases the productivity and efficiency of investigations in which the Internet is the primary source of information. Features advanced data collection, text analysis, data enrichment, advanced analytics, and a clearly defined investigative workflow on a scalable platform.
Tactical Communications Intelligence	Provides portable communications interception and location tracking capabilities for local use or integration with centralized monitoring systems, to support tactical field operations.
Cyber Intelligence	Designed to provide network-based cyber security, including malware detection capabilities for high-speed networks, for national cyber protection organizations.

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Customer Services

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

Implementation, Training, and Consulting

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

Maintenance Support

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

Direct and Indirect Sales

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

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

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Competition, Markets, and Operations If we are unable to maintain our relationship with third parties that market and sell our products, our business and ability to grow could be materially adversely affected under Item 1A.

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Customers

Our solutions are used by more than 10,000 organizations in over 150 countries. In the year ended January 31, 2012, we derived approximately 56%, 18%, and 26% of our revenue from the sale of our Enterprise Intelligence solutions, Video Intelligence solutions, and Communications Intelligence solutions, respectively. In the year ended January 31, 2011, we derived approximately 57%, 18%, and 25% of our revenue from the sale of our Enterprise Intelligence solutions, Video Intelligence solutions, and Communications Intelligence solutions, respectively. In the year ended January 31, 2010, we derived approximately 53%, 21%, and 26% of our revenue from the sale of our Enterprise Intelligence solutions, Video Intelligence solutions, and Communications Intelligence solutions, respectively.

In the year ended January 31, 2012, we derived approximately 53%, 27%, and 20% of our revenue from sales to end users in the Americas, Europe, the Middle East, and Africa (EMEA), and the Asia-Pacific region (APAC), respectively. In the year ended January 31, 2011, we derived approximately 53%, 26%, and 21% of our revenue from sales to end users in the Americas, EMEA, and APAC, respectively. In the year ended January 31, 2010, we derived approximately 55%, 25%, and 20% of our revenue from sales to end users in the Americas, EMEA, and APAC, respectively.

None of our customers, including system integrators, VARs, various local, regional, and national governments worldwide, and OEM partners, individually accounted for more than 10% of our revenue in the years ended January 31, 2012, 2011, and 2010. For the year ended January 31, 2012, approximately one quarter of our business was generated from contracts with various governments around the world, including local, regional, and national government agencies. We are party to contracts with customers in each of our segments the loss of which could have a material adverse effect on the segment. Some of the customer engagements on which we work require us to have the necessary security credentials or to participate in the project through an approved legal entity. In addition, because of the unique nature of the terms and conditions associated with government contracts generally, our government contracts may be subject to renegotiation or termination at the election of the government customer. For a more detailed discussion of the risks associated with our government customers, see Risk Factors Risks Related to Our Business Competition, Markets, and Operations 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 and Risk Factors Risks Related to Our Business Competition, Markets, and Operations Loss of security clearances may adversely affect our business under Item 1A. See also Note 17, Segment, Geographic, and Significant Customer Information to our consolidated financial statements included in Item 15 of this report for additional information and financial data about each of our operating segments and geographic regions.

Seasonality and Cyclicity

As is typical for many software and technology companies, our business is subject to seasonal and cyclical factors. Our revenue and operating income are typically highest in the fourth quarter and lowest in the first quarter. Moreover, revenue and operating income in the first quarter of a new year may be lower than in the fourth quarter of the preceding year, potentially by a significant margin. In

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

Research and Development

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

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

- identify and respond to emerging technological trends in our target markets;

- develop and maintain competitive solutions that meet or exceed our customers' changing needs;

- enhance our existing products by adding features and functionality to meet or exceed specific customer needs or differentiate our products from those of our competitors; and

- attract, recruit, and retain highly skilled and experienced employees.

To support these efforts, we make significant investments in research and development every year. In the years ended January 31, 2012, 2011, and 2010, we spent approximately \$111.0 million, \$96.5 million, and \$83.8 million, respectively, on research and development, net. We allocate our research and development resources in response to market research and customer demand for additional features and solutions. Our development strategy involves rolling out initial releases of our products and adding features over time. We incorporate product feedback received from our customers into our product development process. While the majority of our products are developed internally, in some cases, we also acquire or license technologies, products, and applications from third parties based on timing and cost considerations. See Risk Factors Risks Related to Our Business Competition, Markets, and Operations For certain products and components, we rely on a limited number of suppliers, manufacturers, and partners and if these relationships are interrupted we may not be able to obtain substitute suppliers, manufacturers, or partners on favorable terms or at all under Item 1A.

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

Manufacturing and Suppliers

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

Employees

As of January 31, 2012, we employed approximately 3,200 people, including part-time employees and certain contractors. Approximately 48%, 31%, 13%, and 8% of our employees and contractors are located in the Americas, Israel, EMEA (excluding Israel), and APAC, respectively.

We consider our relationship with our employees to be good and a critical factor in our success. Our employees in the United States are not covered by any collective bargaining agreements. In some cases, our employees outside the United States are automatically subject to certain protections negotiated by organized labor in those countries directly with the government or

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trade unions or are automatically entitled to severance or other benefits mandated under local laws. For example, while we are not a party to any collective bargaining or other agreement with any labor organization in Israel, certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Laborers in Israel) and the Coordinating Bureau of Economic Organizations (including the Manufacturers Association of Israel) are applicable to our Israeli employees by virtue of expansion orders of the Israeli Ministry of Industry, Trade and Labor.

Intellectual Property Rights

General

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

Patents

For the year ended January 31, 2012, we were allowed or granted more than 60 patents worldwide and had more than a total 520 patents and patent applications worldwide. We have accumulated a significant amount of proprietary know-how and expertise in developing analytics solutions for enterprise workforce optimization and security intelligence products. We regularly review new areas of technology related to our businesses to determine whether they are patentable.

Licenses

Our licenses are designed to prohibit unauthorized use, copying, and disclosure of our software technology. When we license our software to customers, we require license agreements containing restrictions and confidentiality terms customary in the industry in order to protect our proprietary rights in the software. These agreements generally warrant that the software and propriety hardware will materially comply with written documentation and assert that we own or have sufficient rights in the software we distribute and have not violated the intellectual property rights of others. We license our products in a format that does not permit users to change the software code. See Risk Factors Risks Related to Our Business Competition, Markets, and Operations For certain products and components, we rely on a limited number of suppliers, manufacturers, and partners and if these relationships are interrupted we may not be able to obtain substitute suppliers, manufacturers, or partners on favorable terms or at all under Item 1A.

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

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Trademarks and Service Marks

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

Competition

We face strong competition in all of our markets, and we expect that competition will persist and intensify. In our Enterprise Intelligence segment, our competitors include Aspect Software, Inc., Autonomy Corp. (an HP company), Genesys Telecommunications, NICE Systems Ltd (NICE), and many smaller companies, which can vary across regions. In our Video Intelligence segment, our competitors include 3VR, American Dynamics (a business unit of Tyco), Genetec Inc., March Networks Corporation (entered into agreement to be acquired by Infinova Ltd.), Milestone Systems A/S, NICE, and Pelco, Inc. (a division of Schneider Electric Limited); divisions of larger companies, including Bosch Security Systems, Cisco Systems, Inc., United Technologies Corp., Honeywell International Inc., and many smaller companies, which can vary across regions. In our Communications Intelligence segment, our primary competitors include Aqsacom Inc., ETI (a division of BAE Systems), JSI Telecom, NICE, Pen-Link, Ltd., RCS S.R.L., Rohde & Schwarz, Trovicor, SS8 Networks, Inc., Uimaco (a division of Sophos, Plc), and many smaller companies, which can vary across regions. Some of our competitors have superior brand recognition and greater financial resources than we do, which may enable them to increase their market share at our expense. Furthermore, we expect that competition will increase as other established and emerging companies enter IP markets and as new products, services, and technologies are introduced.

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

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

- price.

We believe that our success depends primarily on our ability to provide technologically advanced and cost-effective solutions and services. We expect that competition will increase as other established and emerging companies enter our market and as new products, services, and technologies are introduced, such as SaaS. In recent years, there has

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also been significant consolidation among our competitors, which has improved the competitive position of several of these companies. See Risk Factors Risks Related to Our Business Competition, Markets, and Operations Intense competition in our markets and competitors with greater resources than us may limit our market share, profitability, and growth under Item 1A for a more detailed discussion of the competitive risks we face.

Export Regulations

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

Item 1A. Risk Factors

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

Risks Related to Our Business

Competition, Markets, and Operations

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

Our business is subject to risks arising from adverse changes in domestic and global economic conditions. Slowdowns, recessions, economic instability, political unrest, armed conflicts, or natural disasters around the world may cause companies and governments to delay, reduce, or even cancel planned spending. In particular, declines in information technology spending and limited or reduced government budgets have affected the market for our products in certain periods and in certain regions, especially in industries or areas 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. During the recent recession, like

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many companies, we engaged in significant cost-saving measures. Current economic conditions are also uncertain. If economic conditions require us to again undertake significant cost-saving measures, such measures may negatively impact our ability to execute on our objectives and grow, 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, invest, and grow. 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. There has also been significant consolidation among our competitors, which has improved the competitive position of several of these companies. In recent years, several companies significantly larger than we are have also entered or increased their presence in our markets through internal development, partnerships, and acquisitions. We also face competition from solutions developed internally by our customers or partners. To the extent that we cannot compete effectively, our market share and, therefore, results of operations could be materially adversely affected.

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

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 and continually innovate our products and technologies 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, new delivery platforms such as SaaS, the commoditization of older technologies, and the emergence of new industry standards can exert pricing pressure on existing products and/or render them unmarketable or obsolete. It is critical to our success that we are able to anticipate and respond to changes in technology and industry standards by consistently developing new and enhanced, innovative and high-quality products and services that meet or exceed the changing needs of our customers. We must also successfully launch and drive demand for our new and enhanced solutions. If we are unable to develop, launch, and drive demand for our new and enhanced solutions, we may lose market share and our profitability and other results of operations may be materially adversely affected.

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Our solutions may contain defects that could impair their market acceptance and may result in customer claims for substantial damages if they fail to perform properly.

Our existing solutions are and future solutions are expected to be sophisticated and may develop operational problems. New products and new product versions also give rise to the risk of defects or errors. If we are not able to remedy or do not discover such defects, errors, or other operational problems until after a product has been released and used by customers or partners, we may incur significant costs to correct such defects, errors, or other operational problems and/or become liable for substantial damages for product liability claims or other contract liabilities. In addition, defects or errors in our products may result in questions regarding the integrity of the products generally, which could cause adverse publicity and impair their market acceptance.

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

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

The sophisticated nature of our solutions, sales cycle, and sales strategy may create uncertainty in our operating results and make such results more volatile and difficult to predict.

Although the timing of our sales cycle ranges from as little as a few weeks to more than a year, our larger sales, which we emphasize in our sales strategy, typically require a minimum of a few months to consummate. As the length or complexity of a sales process increases, so does the risk of successfully closing the sale. Larger sales are often made by competitive bid, which also increases the time and uncertainty associated with such opportunities. Moreover, because many of our solutions are also sophisticated, customers may require education on the value and functionality of our solutions as part of the sales process, further extending the time frame and uncertainty of the process. Longer sales cycles, competitive bid processes, and the need to educate customers means that:

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- There is greater risk of customers deferring, scaling back, or cancelling sales as a result of, among other things, receipt of competitive proposals, changes in budgets and purchasing priorities, or introduction or anticipated introduction of new or enhanced products by us or our competitors, during the process.
- We may make a significant investment of time and money in opportunities that do not come to fruition, which investments we may be unable to recoup or utilize in future projects.
- We may be required to bid on a project in advance of the completion of its design or required to begin implementation of a project in advance of finalizing a sale, in either case, increasing the risk of unforeseen technological difficulties or cost overruns.
- We face greater downside risks if we do not correctly and efficiently deploy limited human and financial resources and convert such sales opportunities into orders.

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

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

Although we generally use standard parts and components in our products, we do rely on non-affiliated suppliers and OEM partners for certain non-standard products or components which may be critical to our products, including both hardware and software, and on manufacturers of assemblies that are incorporated into our products. We also purchase technology, license intellectual property rights, and oversee third-party development and localization of certain products or components, in some cases, from companies that may compete with us or work with our competitors. While we endeavor to use larger, more established suppliers, manufacturers, and partners wherever possible, in some cases, these providers may be smaller, more early-stage companies, particularly with respect to

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suppliers of new or unique technologies that we have not developed internally. If these suppliers, manufacturers, or partners experience financial, operational, manufacturing capacity, or quality assurance difficulties, or cease production and sale of the products we buy from them entirely, or there is any other disruption, including loss of license, OEM, or distribution rights, in our relationships with these suppliers, manufacturers, or partners, including as a result of the acquisition of a supplier or partner by a competitor, we will be required to locate alternative sources of supply or manufacturing, to internally develop the applicable technologies, to redesign our products, and/or to remove certain features from our products, any of which would be likely to increase expenses, create delivery delays, and negatively impact our sales. Although we endeavor to put in place contracts with these key providers, including protections such as source code escrows (where needed), warranties, and indemnities, we may not be successful in obtaining adequate protections, these agreements may be short-term in duration, the counterparties may be unwilling or unable to stand behind such protections, and any contractual protections offer limited practical benefits to us in the event our relationship with a key provider is interrupted, any of which may adversely affect our business.

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

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 who understand and have experience with our products, services, and industry. The market for such personnel is competitive in most, if not all, of the geographies in which we operate. If we are unable to attract and retain qualified employees, on reasonable economic and other terms or at all, our ability to operate and grow our business could be impaired.

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, manufacturing, customer support, and administrative services. The countries in which we have our most significant foreign operations include Israel, the United Kingdom, Canada, India, Germany, and China (Hong Kong), 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;

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- customizing products for foreign countries;
- preference for or policies and procedures that protect local suppliers;
- legal uncertainties regarding liability and intellectual property rights;
- hiring and retaining qualified foreign employees; and
- difficulty in, and longer timeframes associated with, accounts receivable collection.

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

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

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

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

We receive grants from the OCS for the financing of a portion of our research and development expenditures in Israel. The availability in any given year of these OCS grants depends on OCS approval of the projects and related budgets that we submit to the OCS each

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year. The Israeli law under which these OCS grants are made limits our ability to manufacture products, or transfer technologies, developed using these grants outside of Israel. This may limit our ability to engage in certain outsourcing or business combination transactions involving these products or require us to pay significant royalties or fees to the OCS in order to obtain any OCS consent that may be required in connection with such transactions.

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

Our business and operations are subject to a variety of regulatory requirements in the United States and abroad, including, among other things, with respect to labor, tax, import and export, anti-corruption, data privacy and protection, and communications monitoring and interception. Compliance with these regulatory requirements may be onerous and expensive, especially where these requirements are inconsistent from jurisdiction to jurisdiction or where the jurisdictional reach of certain requirements is not clearly defined or seeks to reach across national borders. Regulatory requirements in one jurisdiction may make it difficult or impossible to do business in another jurisdiction. We may also be unsuccessful in obtaining permits, licenses, or other authorizations required to operate our business, such as for the import or export of our products. While we have implemented policies and procedures designed to achieve compliance with these laws and regulations, we also cannot assure you that we or our personnel will not violate applicable laws and regulations or our policies regarding the same.

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

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, 2012, 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, for example, as a result of our previously disclosed March 2010 consent judgment with the SEC, which must be disclosed by us in any proposal to perform new work for U.S. federal agencies until March 2013;

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- 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.

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 or defer our ability to recognize revenue from such contracts. Our government contracts may contain, or under applicable law may be deemed to contain, unfavorable provisions not typically found in private commercial contracts that may expose us to additional risk or liability, including provisions enabling the government party to:

- terminate or cancel existing contracts for convenience without reimbursing us for incurred costs or hold us liable for cover costs if the contract was terminated for cause;
- in the case of the U.S. federal government, suspend us from doing business with a foreign government or prevent us from selling our products in certain countries;
- audit and object to our contract-related costs and expenses, including allocated indirect costs; and
- unilaterally change contract terms and conditions, including warranty provisions, schedule, quantities, and scope of work, in advance of our agreement on corresponding pricing adjustments.

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

Some of our subsidiaries maintain security clearances domestically and abroad in connection with the development, marketing, sale, and support of our Communications Intelligence solutions. These clearances are reviewed from time to time by these countries and could be deactivated for political reasons unrelated to the merits of our solutions, such as the list of countries we do business with or the fact that our local entity is controlled by or affiliated with an entity based in another country. If we lose our security clearances in a particular country, we would be unable to sell our Communications Intelligence solutions for secure projects in that

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country on a direct basis and might also experience greater challenges in selling such solutions even for non-secure projects in that country. Even if we are able to obtain and maintain applicable security clearances, government customers may decline to purchase our Communications Intelligence solutions if they were not developed or manufactured in that country or if they were developed or manufactured in other countries that are considered disfavored by such country. We may also experience negative publicity or other adverse impacts on our business if we sell our Communications Intelligence solutions to countries that are considered disfavored by the media or political or social rights organizations even though such transactions may be permissible under applicable law. If any of the foregoing events occur, it may have a material adverse effect on our business.

Intellectual Property and Data/Systems Security

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

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

The technology industry is characterized by frequent allegations of intellectual property infringement. In the past, third parties have asserted that certain of our products infringed upon their intellectual property rights and similar claims may be made in the future. Any

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

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

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

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

Our products are in some cases used by customers to compile and analyze highly sensitive or confidential information and data, including, in some cases, information or data used in intelligence gathering or law enforcement activities. While our customers' use of our products in no way affords us access to the customer's sensitive or confidential information or data, we or our partners may receive or come into contact with such information or data, including personally identifiable information, when we are asked to perform services or support functions for our customers. We or our partners may also receive or come into contact with such

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information in connection with our SaaS or other hosted or managed services offerings. We have implemented policies and procedures and use information technology systems to help ensure the proper handling of such information and data, including background screening of certain services personnel, non-disclosure agreements with employees and partners, access rules, and controls on our information technology systems. Customers are also increasingly focused on the security of our products and we work to ensure their security, 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 (whether or not valid), or other security lapses by us or our partners or within our products, could reduce demand for our products or otherwise expose us to financial or reputational harm or legal liability.

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

We rely extensively on information technology systems to operate and manage our business and to process, maintain, and safeguard information, including information belonging to our customers, partners, and personnel. These systems may be subject to failures or disruptions as a result of, among other things, natural disasters, accidents, power disruptions, telecommunications failures, new system implementations, acts of terrorism or war, physical security breaches, computer viruses, or other cyber security attacks. We have experienced cyber security attacks in the past and may experience them in the future, potentially with greater frequency. While we are continually working to maintain secure and reliable systems, our security, redundancy, and business continuity efforts may be ineffective or inadequate. Such system failures or disruptions could subject us to research and development or production downtimes, delays in our ability to process orders, delays in our ability to provide products and services to customers, delays or errors in financial reporting, compromise or loss of sensitive or confidential information or intellectual property, destruction or corruption of data, financial losses from remedial actions, liabilities to customers or other third parties, or damage to our reputation. Any of the foregoing could harm our competitive position, result in a loss of customer confidence, and materially and adversely affect our results of operations or financial condition.

Risks Related to Our Finances and Capital Structure

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

Our system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles (GAAP). Because of its inherent limitations, internal control over financial reporting may not prevent or detect every misstatement. As previously disclosed, our management has in the past concluded that our internal control over financial reporting was not effective at prior fiscal year ends as a result of material weaknesses.

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An evaluation of effectiveness is subject to the risk that the controls may become inadequate because of changes in conditions, because the degree of compliance with policies or procedures decreases over time, or because of unanticipated circumstances or other factors. As a result, although our management has concluded that our internal controls are effective as of January 31, 2012, we cannot assure you that our internal controls will prevent or detect every misstatement, that material weaknesses or other deficiencies will not reoccur or be identified in the future, that this or future financial reports will not contain material misstatements or omissions, that future restatements will not be required, or that we will be able to timely comply with our reporting obligations in the future.

We may be unable to timely implement new accounting pronouncements or new interpretations of existing accounting pronouncements, which could lead to future restatements or filing delays.

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. These ongoing interpretations or the adoption of new rules and pronouncements could require material changes in our accounting practices or financial reporting, including restatements, which may be expensive, time consuming, and difficult to implement. We cannot assure you that, if such changes are required, that we will be able to timely implement them or will not experience future reporting delays.

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.

Because Comverse holds a majority of the voting power for the election of our board of directors, 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, the composition of which is controlled by Comverse, may and intends to rely upon, exemptions from several of NASDAQ's 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.

At present, we do not have a majority independent board of directors or a compensation committee or a nominating committee composed entirely of independent directors. 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 controls the composition of our board and our board determines to rely upon such exemptions.

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

Because Comverse beneficially owns a majority of our common stock (assuming conversion of our preferred stock) and holds a majority of the voting power for the election of our board of directors, 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. The terms of our preferred stock, all of which is held by Comverse, entitle Comverse to further control over significant corporate transactions. As of January 31, 2012, the preferred stock was convertible into approximately 10.8 million shares of our common stock, giving Comverse beneficial ownership of 54.4% of our common stock assuming conversion of such preferred stock. In addition, as of January 31, 2012, Comverse's preferred stock and common stock positions collectively entitled it to 52.7% of the voting power for the election of our board of directors and for any other matters submitted to a vote of our common stockholders (assuming no conversion of the preferred stock).

By virtue of its controlling 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 five of our nine 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 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 and mergers or acquisitions, or, subject to the terms of our credit agreement, declare and pay dividends.

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

We have been adversely affected by events at Comverse in the past and may be adversely affected by events at Comverse in the future. Comverse's previous extended filing delay and the circumstances underlying it materially and adversely affected us in a number of ways, including by contributing to our own previous extended filing delay and related concerns on the part of employees, customers, partners, service providers, and regulatory authorities, among others. If Comverse were in the future to experience further filing delays or to discover further accounting issues, it could have an adverse impact on us and our business.

For as long as we remain a majority owned subsidiary of Comverse, Comverse's strategic plans, and related speculation and announcements regarding its ownership interest in our stock, may also adversely affect us and our business. For example, Comverse

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has publicly announced its intention to spin off its Comverse, Inc. subsidiary and eliminate its holding company structure either simultaneously with or shortly after the completion of such transaction and we cannot presently predict the outcome of this Comverse process or its impact on us.

Prior to our IPO in May 2002, we were included in Comverse's U.S. federal income tax return and we remain party to a tax-sharing agreement with Comverse for periods prior to our IPO. As a result, Comverse may unilaterally make decisions that could impact our liability for income taxes for periods prior to the IPO. Under applicable federal and state laws, we could also be liable, under certain circumstances, for taxes of other members of the Comverse consolidated group for such pre-IPO periods. Adjustments to the consolidated group's tax liability for periods prior to our IPO could also affect the net operating losses (NOLs) allocated to us by Comverse and cause us to incur additional tax liability in future periods.

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

At January 31, 2012, we had gross outstanding indebtedness of \$597.0 million under our credit agreement, meaning that we are significantly leveraged. Our leverage position may, among other things:

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

In addition, because our indebtedness bears interest at a variable rate, we are exposed to risk from fluctuations in interest rates in periods where market rates exceed the interest rate floor provided by our credit agreement.

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. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources under Item 7 for additional information.

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Our ability to comply with the leverage ratio covenant is highly dependent upon our ability to continue to grow earnings from quarter to quarter, or in the alternative, to reduce expenses and/or reduce the level of our outstanding debt and we cannot assure that we will be successful in any or all of these regards.

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

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

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

If 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, raise additional capital through securities offerings, asset sales, or other transactions, or seek to refinance or restructure our debt. In such a case, there can be no assurance that we will be able to consummate such an amendment and/or waiver, capital raising transaction, refinancing, or restructuring on reasonable terms or at all.

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

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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.

In connection with our 2007 acquisition of Witness Systems, Inc. (Witness), we issued 293,000 shares of convertible 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. As of January 31, 2012, inclusive of accrued dividends, the preferred stock was convertible into approximately 10.8 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, subject to the terms of our credit agreement and other restrictions resulting from our capital structure.

In recent periods, the market for acquisitions has become more competitive and valuations have increased. Several of our competitors have also completed acquisitions of companies in or adjacent to our markets in recent periods. As a result, it may be more difficult for us to identify suitable acquisition targets or to consummate acquisitions once identified on reasonable terms or at all. If we are not able to execute on our acquisition strategy, we may not be able to achieve our growth strategy, may lose market share, or may lose our leadership position in one or more of our markets.

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. Acquisitions or investments that are not immediately accretive to earnings may also make it more difficult for us to maintain satisfactory profitability levels and compliance with the maximum leverage ratio covenant under our credit agreement.

The process of integrating an acquired company's business into our operations and investing in new technologies is challenging and may result in expected or unexpected operating or compliance challenges, which may require a significant amount of our management's attention that would otherwise be focused on the ongoing operation of our business, as well as significant expenditures. 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 challenges in reconciling business practices, particularly in foreign geographies, combining systems, retaining key employees, and maintaining and integrating product development. Due to rapidly changing market conditions, we may also find the value of our acquired technologies and related intangible assets, such as goodwill, as recorded in our financial statements, to be impaired, resulting in charges to operations.

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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 of such transactions.

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

Our strategy is to continue to invest in our business and operations and grow, both organically and through acquisitions. Investments in, among other things, new products and technologies, research and development, infrastructure and systems, geographic expansion, and headcount are critical to achieving our growth strategy and the need to continually enhance and secure our internal and external operations. However, such investments may not be successful, and even if successful, may negatively impact our short-term profitability. Our success depends on our ability to effectively and efficiently execute on our growth strategy, including our ability to properly allocate limited investment dollars, balance the extent and timing of investments with the associated impact on expenses and profitability, and capture economies of scale. If we are unable to effectively and efficiently execute on our growth strategy and properly manage our investments and expenditures, our results of operations and stock price may be materially adversely affected.

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 \$1.0 billion, or approximately 68% of our total assets, as of January 31, 2012. 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. We make assumptions and estimates in this assessment which are complex and often subjective. These assumptions and estimates can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy or our internal forecasts. To the extent that the factors described above change, we could be required to record additional non-cash impairment charges in the future. Any significant impairment charges would negatively affect our financial condition and results of operations.

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, the United Kingdom, Germany, 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, 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 euro and the British pound, fluctuations in the value of these currencies relative to the U.S. dollar could impact our revenue (on a U.S. dollar

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basis) and materially adversely affect our results of operations. We attempt to mitigate a portion of these risks through foreign currency hedging, based on our judgment of the appropriate trade-offs among risk, opportunity and expense, however, our hedging activities are limited in scope and duration and may not be effective at reducing the U.S. dollar cost of our global operations.

Changes in our tax rates, the adoption of new U.S. or international tax legislation, inability to realize value from our NOLs, or exposure to additional tax liabilities could affect our future results.

We are subject to taxes in the United States and numerous foreign jurisdictions. Our future effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in valuation allowance on deferred tax assets (including our NOL carryforwards), changes in unrecognized tax benefits or changes in tax laws or their interpretation. Any of these changes could have a material adverse effect on our profitability. In addition, the tax authorities in the jurisdictions in which we operate, including the United States, may from time to time review the pricing arrangements between us and our foreign subsidiaries. An adverse determination by one or more tax authorities in this regard may have a material adverse effect on our financial results. In Israel, we continue to work towards becoming compliant with our statutory accounting and tax filings as a result of our prior financial restatement. If we are delayed further in our Israeli filings, we could be subject to certain penalties, including imposition of withholding taxes and inability to contract with Israeli government entities.

We have significant deferred tax assets which can provide us with significant future cash 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. 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 cash tax liability will increase in that jurisdiction.

Our stock price has been volatile and your investment could lose value.

All of the risk factors discussed in this section could affect our stock price. The timing of announcements in the public market regarding new products, product enhancements or technological advances by our competitors or us, and any announcements by us or our competitors of acquisitions, major transactions, or management changes could also affect our stock price. Our stock price is subject to speculation in the press and the analyst community, including with respect to Comverse's strategic plans, announcements relating to Comverse's strategic plans, changes in recommendations or earnings estimates by financial analysts, changes

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in investors or analysts valuation measures for our stock, our credit ratings and market trends unrelated to our performance. Stock sales by Comverse or our directors, officers, or other significant holders may also affect our stock price. A significant drop in our stock price could also expose us to the risk of securities class actions lawsuits, which could result in substantial costs and divert management's attention and resources, which could adversely affect our business.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

Leased Properties

We lease a total of approximately 436,000 square feet of office space in the United States. Our corporate headquarters are located in a leased facility in Melville, New York, and consist of approximately 45,800 square feet under a lease that expires in May 2013. The Melville facility is used primarily by our executive management, corporate, administrative, sales, marketing, customer support, and services groups. We lease approximately 96,500 square feet at a facility in Roswell, Georgia under a lease that expires in November 2012. The Roswell facility is used primarily by the administrative, marketing, product development, support, and sales groups for our Enterprise Intelligence operations. Upon expiration of the Roswell lease in November 2012, we expect to move such operations to a 132,676 square foot facility in Alpharetta, Georgia under a lease agreement that expires in September 2026. This new Alpharetta, Georgia facility will also include the consolidation of the Atlanta, Georgia office of Global Management Technologies (GMT), the lease of which we assumed in October 2011 in connection with our acquisition of GMT.

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

Outside of the United States, we occupy approximately 176,000 square feet at a facility in Herzliya, Israel under a lease that expires in October 2015. The Herzliya facility is used primarily for manufacturing, storage, development, sales, marketing, and support related to our Communications Intelligence operations. We also occupy approximately 34,500 square feet at a leased facility in Laval,

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Quebec, which is used primarily for our manufacturing, product development, support, and sales for our Video Intelligence operations. The Laval lease expires in June 2013. We occupy approximately 20,000 square feet at a facility in Weybridge, the United Kingdom under a lease which expires in February 2021. The Weybridge facility is used primarily for administrative, marketing, product development, support, and sales groups for our Enterprise Intelligence and Video Intelligence operations.

Additionally, we occupy leased facilities outside of the United States in Zoetermeer, the Netherlands; Sao Paulo and Florianópolis, Brazil; Sofia, Bulgaria; Mexico City, Mexico; Letterkenney, Ireland; Hong Kong, China; Tokyo, Japan; Sydney, Australia; Pasig City, Philippines; Singapore (through our joint venture); and Gurgaon and Bangalore, India, which are used primarily by our administrative, product development, sales, and support functions for our Enterprise Intelligence, Communications Intelligence, and Video Intelligence operations.

In addition to the leases noted above, we also lease smaller office space throughout the world for our local sales, support, and services needs. For additional information regarding our lease obligations, see Note 16, *Commitments and Contingencies* to our consolidated financial statements included elsewhere in this report.

Owned Properties

We own approximately 12.3 acres of land, including 40,000 square feet of office space, in Durango, Colorado, which we have historically used to support our Video Intelligence operations. On October 10, 2006, we entered into a 10-year lease with a third party for 6.5 acres of these 12.3 acres, all of which was undeveloped and not being used by us. The remaining 5.8 acres, including the office space, are subject to a security interest under our credit agreement.

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

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

Item 3. Legal Proceedings

On March 26, 2009, a motion to approve a class action lawsuit (the *Labor Motion*), and the class action lawsuit itself (the *Labor Class Action*) (Labor Case No. 4186/09), were filed against our subsidiary, Verint Systems Limited (*VSL*), by a former employee of VSL, Orit Deutsch, in the Tel Aviv Labor Court. Ms. Deutsch purports to represent a class of our employees and ex-employees who were granted options to buy shares of Verint and to whom allegedly damages were caused as a result of the blocking of the ability to exercise Verint options by our employees or ex-employees during our previous extended filing delay period. The *Labor Class Action* seeks compensatory damages for the entire class in an unspecified amount. On July 9, 2009, we filed a motion for summary

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dismissal and alternatively for the stay of the Labor Motion. On February 8, 2010, the Tel Aviv Labor Court dismissed the case for lack of material jurisdiction and ruled that it would be transferred to the District Court in Tel Aviv. On October 11, 2011, the District Court in Tel Aviv ordered a stay of proceedings until legal proceedings in the United States with respect to related shareholder claims against Converse are concluded. The parties are expected to update the District Court on any developments in the cases no later than April 4, 2012.

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

Market Information

From the time we became publicly traded on May 16, 2002 until January 31, 2007, our common stock was traded on the NASDAQ National Market. 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. 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 of our common stock as reported by the Pink Sheets.

Year Ended January 31,	Period	Low	High
2011	2/1/10 - 4/30/10	\$ 17.73	\$ 28.00