VERINT SYSTEMS INC
Form 10-K
May 19, 2010

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the year ended January 31, 2010
Commission File Number 000-49790
VERINT SYSTEMS INC.
(Exact name of registrant as specified in its charter)

Delaware	11-3200514
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

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

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

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

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

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes o No þ

The aggregate market value of common stock held by non-affiliates of the registrant, based on the closing price for the registrant s common stock on the Pink OTC Markets Inc. on the last business day of the registrant s most recently completed second fiscal quarter (July 31, 2009) was approximately $164,374,652.

There were 32,802,402 shares of the registrant s common stock outstanding on April 30, 2010.

Table of Contents

Cautionary Note on Forward-Looking Statements

Certain statements discussed in this report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, the provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act) (which Sections were adopted as part of the Private Securities Litigation Reform Act of 1995). Forward-looking statements include financial projections, statements of plans and objectives for future operations, statements of future economic performance, and statements of assumptions relating thereto. Forward-looking statements are often identified by future or conditional words such as will , plans , expects , intends , believes , seeks , estimates , or anticipates , or by variations of by similar expressions. There can be no assurances that forward-looking statements will be achieved. By their very nature, forward-looking statements involve known and unknown risks, uncertainties, and other important factors that could cause our actual results or conditions to differ materially from those expressed or implied by such forward-looking statements. Important risks, uncertainties, and other factors that could cause our actual results or conditions to differ materially from our forward-looking statements include, among others:

- risks relating to the filing of our Securities and Exchange Commission (SEC) reports, including the occurrence of known contingencies or unforeseen events that could delay our plan for completion of our outstanding and future financial statements, management distraction, and significant expense;
- risk associated with the SEC s initiation of an administrative proceeding on March 3, 2010 to suspend or revoke the registration of our common stock under the Exchange Act due to our previous failure to file an annual report on either Form 10-K or Form 10-KSB since April 25, 2005 or quarterly reports on either Form 10-Q or Form 10-QSB since December 12, 2005;
- risks related to the announcement by Standard & Poor s (S&P) on January 29, 2010 that our credit rating had been placed on CreditWatch Developing, or that S&P could downgrade our credit rating;
- risks associated with being a consolidated, controlled subsidiary of Comverse Technology, Inc. (Comverse) and formerly part of Comverse s consolidated tax group, including risk of any future impact on us resulting from Comverse s special committee investigation and restatement or related effects, and risks related to our dependence on Comverse to provide us with accurate financial information, including with respect to stock-based compensation expense and net operating loss carryforwards (NOLs) for our financial statements;
- uncertainty regarding the impact of general economic conditions, particularly in information technology spending, on our business;

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

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

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

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

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

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

risk of possible future restatements if the special processes used to prepare the financial statements contained in this report or the regular recurring processes that will be used to produce future SEC reports are inadequate;

risk associated with current or future regulatory actions or private litigations relating to our internal investigation, restatement, or delay in timely making required SEC filings;

risk that we will be unable to re-list our common stock on NASDAQ or another national securities exchange and maintain such listing;

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

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

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

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

- risks associated with significant foreign and international operations, including exposure to fluctuations in exchange rates;
- risks associated with complex and changing local and foreign regulatory environments;
- risks associated with our ability to recruit and retain qualified personnel in all geographies in which we operate;
- challenges in accurately forecasting revenue and expenses;
- risks associated with acquisitions and related system integrations;
- risks relating to our ability to improve our infrastructure to support growth;
- risks that our intellectual property rights may not be adequate to protect our business or that others may make claims on our intellectual property or claim infringement on their intellectual property rights;
- risks associated with a significant amount of our business coming from domestic and foreign government customers;
- risk that we improperly handle sensitive or confidential information or perception of such mishandling;
- risks associated with dependence on a limited number of suppliers for certain components of our products;
- risk that we are unable to maintain and enhance relationships with key resellers, partners, and systems integrators; and
- risk that use of our NOLs or other tax benefits may be restricted or eliminated in the future.

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

Table of Contents

PART I

Item 1. Business

Our Company

Verint® Systems Inc. (together with its consolidated subsidiaries, Verint , the Company , we , us , and our , unless t context indicates otherwise) is a global leader in Actionable Intelligence® solutions and value-added services. Our solutions enable organizations of all sizes to make timely and effective decisions to improve enterprise performance and make the world a safer place. More than 10,000 organizations in over 150 countries including over 80% of the Fortune 100 use Verint solutions to capture, distill, and analyze complex and underused information sources, such as voice, video, and unstructured text.

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

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

Actionable Intelligence Markets Enterprise Workforce Optimization and Security Intelligence

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

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

Table of Contents

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

Company Background

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

In May 2002, we completed our initial public offering (IPO), and, today, Comverse holds approximately a 67% ownership position in us (assuming conversion of all of our Series A Convertible Preferred Stock, par value $0.001 per share (preferred stock), into common stock). Since our IPO, we have acquired a number of companies that have strengthened our position in both the enterprise workforce optimization and security intelligence markets. Our largest acquisition was of Witness Systems, Inc. (Witness) in May 2007, which strengthened our leadership position in the enterprise workforce optimization market.

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

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

Table of Contents

The Enterprise Workforce Optimization Solutions Segment

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

The Workforce Optimization Market and Trends

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

In order to make better decisions to achieve these goals, we believe that organizations increasingly seek to leverage valuable data collected from customer interactions and associated operational activities. However, customer service solutions have traditionally been deployed in the contact center as stand-alone applications, which prevented information from being shared and analyzed across multiple/related applications. These solutions also lacked functionality for analyzing unstructured information, such as the content of phone calls and email. 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 unified, innovative workforce optimization solutions delivered by a single vendor to better manage customer service operations across the enterprise. We believe that the key business and technology trends driving demand for workforce optimization solutions include:

Integration of Workforce Optimization Applications

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

Table of Contents

For example:

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

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

Greater Insight through Customer Interaction Analytics

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

Adoption of Workforce Optimization Across the Enterprise

Workforce optimization solutions have traditionally been deployed in contact centers. However, many customer service employees work in other areas of the enterprise, such as the back office and branch and remote office locations. Today, we believe that certain enterprises show increased interest in deploying certain workforce optimization applications, such as staff scheduling and desktop 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.

Table of Contents

Migration to Voice over Internet Protocol (VoIP) Technologies

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

Our Enterprise Workforce Optimization Solutions Portfolio

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

The following table summarizes our portfolio of Workforce Optimization solutions.

Solution	Description
Quality Monitoring	Records multimedia interactions based on user-defined business rules and provides sophisticated interaction assessment functionality, including intelligent evaluation forms and automatic delivery of calls for evaluation according to quotas or contact-related criteria, to help enterprises evaluate and improve the performance of customer service staff.
Full-Time and Compliance Recording	Provides contact center recording for compliance, sales verification, and monitoring in IP, traditional TDM, and mixed telephony environments. Includes encryption capabilities to help support the Payment Card Industry Data Security Standard and other regulatory requirements for protecting sensitive data.
Workforce Management	Helps enterprises forecast staffing requirements, deploy the appropriate level of resources, and evaluate the productivity of their customer service staff. Also includes optional strategic planning capabilities to help determine optimal hiring plans.
Customer Interaction Analytics (Speech, Data, and Customer Feedback)	Our speech analytics 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. Our data analytics apply our data mining technology to call-related and call-content information (metadata) and call content, as well as to productivity, quality, and customer experience metrics, to help enterprises identify hidden service and quality issues, determine the causes, and correct them. Our customer feedback analytics help enterprises efficiently survey customers via Interactive Voice Response (IVR), Web, or email in order to gather customer feedback on products, processes, agent performance, and customer satisfaction and loyalty.

Table of Contents

Solution	Description
Performance Management	Provides a comprehensive view of key performance indicators (KPIs), with performance scorecards and reports on customer interactions, customer experience trends, and contact center, back office, branch, remote office, and customer service staff performance.
eLearning and Coaching	Enables enterprises to deliver Web-based training to customer service staff desktops, including learning clips created from recordings and other customized materials targeted to staff needs and competencies.
Desktop 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 for Small-to-Medium Sized Businesses (SMB)	Designed for smaller companies (with contact centers), which increasingly face the same business requirements as their larger competitors. Enables companies of all sizes to boost productivity, reduce attrition, capture and evaluate interactions, and satisfy compliance and risk management requirements in a cost-effective way.
Public Safety	Includes quality monitoring, speech analytics, and full-time and compliance recording solutions under the brand Impact 360 for Public Safety Powered by Audiolog . Our public safety solution allows first responders (police, fire departments, emergency medical services, etc.) in the Security Intelligence market to deploy workforce optimization solutions to record, manage, and act on incoming assistance requests and related data.

The Video Intelligence Solutions Segment

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

The Networked IP Video Market and Trends

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

Table of Contents

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

While the security market is evolving to networked IP video solutions, many organizations have already made significant investments in analog technology. Our Nextiva solutions allow these organizations to cost effectively migrate to networked IP video without discarding their existing analog investments. Designed on an open platform, our solutions facilitate inter-operability 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.

Our Video Intelligence Solutions Portfolio

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

Solution	Description
IP Video Management Software	Simplifies management of large volumes of video and geographically dispersed video surveillance operations, with a suite of applications that includes automated system health monitoring, policy-based video distribution, networked video viewing, and investigation management. Designed for use with industry-standard servers and storage solutions and for inter-operability with other enterprise systems.
Edge Devices	Captures, digitizes, and transmits video across enterprise networks, providing many of the benefits of IP video while using existing analog CCTV investments. Includes IP cameras, bandwidth-efficient video encoders to convert analog images to IP video for transmission over IP networks, and wireless devices that perform both video encoding and wireless IP transmission, facilitating video surveillance in areas too difficult or expensive to wire.

Table of Contents

Solution	Description
Video Analytics	Analyzes video content to automatically detect anomalies and activities of interest, such as perimeter intrusion, unattended objects, camera tampering, and vehicles moving in the wrong direction. Also includes industry-specific analytics applications focused on the behavior of people in retail and other environments.
Networked DVRs	Performs networked digital video recording utilizing secure, embedded operating systems and market-specific data integrations for applications that require local storage, as well as remote networking.

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

The Communications Intelligence and Investigative Solutions Segment

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

The Communications Intelligence and Investigative Solutions Market and Trends

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

Increasing Complexity of Communications Networks and Growing Network Traffic

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

Table of Contents

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

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

Our Communications Intelligence and Investigative Solutions Portfolio

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

Table of Contents

Solution	Description
Mobile Location Tracking	Tracks the location of mobile network devices for intelligence and evidence gathering, with analytics and workflow designed to support investigative activities. Provides real-time tracking of multiple targets, real-time alerts, and investigative capabilities, such as geospatial fencing and events correlation.
Fusion and Investigation Management	Fuses data gathered from multiple database sources, with link analysis, adaptable investigative workflow, and analytics to improve investigation efficiency and productivity. Supports complex investigations that require expertise across various domains, involve multiple government agencies, and require significant resources and time.
Financial Crime Investigation	Helps law enforcement and government financial regulatory agencies investigate financial fraud, money laundering, and other financial crimes, as well as drug- and terror-related cases.
Web Intelligence	Increases the productivity and efficiency of investigations in which the Internet is the prime source of information. Features advanced data collection, text analysis, data enrichment, advanced analytics, and a clearly defined investigative workflow on a scalable platform.
Integrated Video Monitoring	Enables the scalable collection, storage, and analysis of video captured by surveillance systems and its integration with other sources of information, such as intercepted communications or location tracking data.
Tactical Communications Intelligence	Provides portable communications interception and location tracking capabilities for local use or integration with centralized monitoring systems, to support tactical field operations.

Customer Services

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

Implementation, Training, and Consulting

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

Table of Contents

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

Direct and Indirect Sales

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

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

Customers

Our solutions are currently used by more than 10,000 organizations in over 150 countries. In the year ended January 31, 2010, we derived approximately 53%, 21%, and 26% of our revenue from the sales of our Workforce Optimization solutions, Video Intelligence solutions, and Communications Intelligence solutions, respectively. In the year ended January 31, 2009, we derived approximately 53%, 19%, and 28% of our revenue from the sales of our Workforce Optimization solutions, Video Intelligence solutions, and Communications Intelligence solutions, respectively. In the year ended January 31, 2008, we derived approximately 49%, 28%, and 23% of our revenue from the sales of our Workforce Optimization solutions, Video Intelligence solutions, and Communications Intelligence solutions, respectively.

In the year ended January 31, 2010, we derived approximately 55%, 25%, 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, 2009, we derived approximately 52%, 32%, and 16% of our revenue from sales to end users in the Americas, EMEA, and APAC, respectively. In the year ended January 31, 2008, we derived approximately 52%, 33%, and 15% of our revenue from sales to end users in the Americas, EMEA, and APAC, respectively.

Table of Contents

None of our customers, including system integrators, VARs, various local, regional, and national governments worldwide, and OEM partners, individually accounted for more than 10% of our revenue in the years ended January 31, 2010, 2009, and 2008. In some years, we have entered into one or more contracts with customers in our Video Intelligence segment or our Communications Intelligence segment the loss of which could have a material adverse effect on the segment. See Note 17, Segment, Geographic, and Significant Customer Information to the consolidated financial statements included in Item 15. Some of the customer engagements on which we work require us to have the necessary security credentials or to participate in the project through an approved legal entity. For a more detailed discussion of the risks associated with our government customers, see Risk Factors We are dependent on contracts with governments around the world for a significant portion of our revenue. These contracts expose us to additional business risks and compliance obligations under Item 1A and Risk Factors U.S. and foreign governments could refuse to buy our Communications Intelligence solutions or could deactivate our security clearances in their countries thereby restricting or eliminating our ability to sell these solutions in those countries and perhaps other countries influenced by such a decision under Item 1A.

Research and Development

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

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

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

To support these efforts, we make significant investments in research and development every year. In the years ended January 31, 2010, 2009, and 2008, we spent approximately $83.8 million, $88.3 million, and $87.7 million, respectively, on research and development, net. We allocate our research and development resources in response to market research and customer demand for additional features and solutions. Our development strategy involves rolling out initial releases of our products and adding features over time. We incorporate product feedback received from our customers into our product development process. While the majority of our products are developed internally, in some cases, we also acquire or license technologies, products, and applications from third parties based on timing and cost considerations.

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

Manufacturing and Suppliers

Our manufacturing and assembly operations are performed in our U.S. and Israeli facilities for our Workforce Optimization solutions; in our U.S., Israeli, and Canadian facilities for our Video Intelligence solutions; and 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 For certain products and components, we rely on a limited number of suppliers and manufacturers and, if these relationships are interrupted, we may not be able to obtain substitute suppliers or manufacturers on favorable terms or at all under Item 1A for a discussion of risks associated with our manufacturing operations and suppliers.

Table of Contents

Employees

As of January 31, 2010, we employed approximately 2,500 people, including part-time employees and certain contractors. Approximately 46%, 38%, 10%, and 6% of our employees are located in or report into the Americas, Israel, Europe, and APAC, respectively. As noted in the previous sentence, these percentages include personnel who are physically located outside of the specified region but who report into that region, which reflects the way management operates the business.

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

Intellectual Property Rights

General

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

Patents

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

Licenses

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

Table of Contents

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

Trademarks and Service Marks

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

Competition

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

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

- product performance and functionality;
- product quality and reliability;
- breadth of product portfolio and inter-operability;

Table of Contents

global presence and high-quality customer service and support;
specific industry knowledge, vision, and experience; and
price.

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

Export Regulations

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

Recent Developments

The following summaries describe the significant developments that occurred subsequent to January 31, 2010.

Acquisition of Iontas

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

Table of Contents

Wells Notices

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

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

Amendment to Credit Agreement

On April 27, 2010, we entered into an amendment to our credit agreement to extend the due date for delivery of audited consolidated financial statements and related documentation for the year ended January 31, 2010 from May 1, 2010 to June 1, 2010. In consideration for this amendment, we paid $0.9 million.

Table of Contents

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 Internal Investigation, Restatement, Internal Controls, and Ownership

Following the filing of this report, we face challenges in completing our Form 10-Q filings for the year ended January 31, 2010 and future SEC filings, we cannot assure you when we will complete these filings, and we are likely to continue to face challenges until we come into compliance with our reporting obligations and re-list our common stock.

Although we have completed our annual reports covering periods through the end of our most recent fiscal year, we continue to face challenges with regard to completing our Forms 10-Q for the year ended January 31, 2010 and timely completing our future SEC filings. We cannot assure you that we will be able to complete these historical Forms 10-Q or future required filings prior to the conclusion of the SEC administrative proceeding to suspend or revoke the registration of our common stock, described below. Until we are able to come into compliance with our reporting obligations and re-list our common stock, we expect to continue to face many of the risks and challenges we have experienced during our extended filing delay period, including:

- risk associated with the SEC s initiation of an administrative proceeding on March 3, 2010 to suspend or revoke the registration of our common stock under the Exchange Act due to our previous failure to file an annual report on either Form 10-K or Form 10-KSB since April 25, 2005 or quarterly reports on either Form 10-Q or Form 10-QSB since December 12, 2005;
- continued concern on the part of customers, partners, investors, and employees about our financial condition and extended filing delay status, including potential loss of business opportunities;
- additional significant time and expense required to complete our remaining filings and the process of seeking the re-listing of our common stock on NASDAQ or another national securities exchange beyond the very significant time and expense we have already incurred in connection with our internal investigation, restatement, and audits to date;
- continued distraction of our senior management team and our board of directors as we work to complete our remaining filings and seek to re-list our common stock;
- limitations on our ability to raise capital and make acquisitions; and
- general reputational harm as a result of the foregoing.

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

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

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

We have implemented and continue to implement remedial measures designed to address the material weaknesses identified as of January 31, 2010. If these remedial measures are insufficient to address the identified material weaknesses, or if additional material weaknesses in our internal control are discovered in the future, we may fail to meet our future reporting obligations on a timely basis, our financial statements may contain material misstatements, our operating results may be harmed, and we may be subject to litigation. Any failure to address the identified material weaknesses or any additional material weaknesses in our internal control would also adversely affect the results of future management evaluations regarding the effectiveness of our internal control over financial reporting that are required under Section 404 of the Sarbanes-Oxley Act of 2002. Continuing or future material weaknesses could also cause investors to lose confidence in our reported financial information leading to a decline in our stock price.

Table of Contents

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

The completion of our audits for the years ended January 31, 2010, 2009, 2008, 2007, and 2006, the restatement of certain items and the making of other corrective adjustments to our financial statements for periods through January 31, 2005, and the revenue recognition review undertaken in connection therewith, involved many months of review and analysis, including highly technical analyses of our contracts and business practices, equity-based compensation instruments, tax accounting, and the proper application of applicable accounting guidance. The completion of our financial statement audits also followed the completion of an extremely detailed forensic audit as part of our internal investigation. Given the complexity and scope of these exercises, and notwithstanding the very extensive time, effort, and expense that went into them, we cannot assure you that these extraordinary processes were adequate or that additional accounting errors will not come to light in the future in these or other areas.

In addition, relevant accounting rules and pronouncements are subject to ongoing interpretation by the accounting profession and refinement by various organizations responsible for promulgating and interpreting accounting principles. As a result, ongoing interpretations of these rules and pronouncements or the adoption of new rules and pronouncements could require changes in our accounting practices or financial reporting. We cannot assure you that if such changes arise, that we will be able to timely implement them or that we will not experience future reporting delays.

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

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

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

While we have significantly changed and enhanced these regular processes (as described elsewhere in this report) as of the filing date of this report, we cannot assure you that the identified material weaknesses as of January 31, 2010 have been fully remediated and we continue to:

- make changes to our finance organization;
- enhance our accounting and reporting processes and procedures;

Table of Contents
enhance our revenue recognition and other existing accounting policies and procedures;
introduce new or enhanced accounting systems and processes; and
improve our internal controls over financial reporting.

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

As a result of the delay in completing our financial statements, the timing and cost of raising future capital may be adversely affected.

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

Table of Contents

Risks Related to Our Business

Competition and Markets

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

While we have no single customer that is material to our total revenue, we do have many significant customers in each of our segments, notably in our Video Intelligence segment and our Communications Intelligence segment, and periodically receive multi-million dollar orders. The deferral or loss of one or more significant orders or customers or a delay in an expected implementation of such an order could materially adversely affect our segment operating results.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

We depend on the continued services of our executive officers and other key personnel. In addition, in order to continue to grow effectively, we need to attract (and retain) new employees, including managers, finance personnel, sales and marketing personnel, and technical personnel, who understand and have experience with our products, services, and industry. The market for such personnel is intensely competitive in most, if not all, of the geographies in which we operate, and on occasion we have had to relocate personnel to fill positions in locations where we could not attract qualified experienced personnel. Further, for as long as we remain ineligible to use a Form S-8 registration statement and our common stock remains de-listed, we are likely to continue to experience a certain amount of difficulty attracting and retaining highly qualified personnel, particularly at more senior levels, due to concerns about our status and our ability to use our common stock to retain and motivate employees will also continue to be a challenge and subject to certain restrictions. If we are unable to attract and retain qualified employees, on reasonable economic and other terms or at all, our ability to grow could be impaired, our ability to timely report our financial results could be adversely affected, and our operations and financial results could be materially adversely affected.

Because we have significant foreign operations, we are subject to geopolitical and other risks that could materially adversely affect our business.

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

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

- hiring and retaining qualified foreign employees; and
- difficulty in accounts receivable collection and longer collection periods.

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

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

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

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

Regulatory and Government Contracting

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

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

- our reputation or relationship with government agencies is impaired;

Table of Contents

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

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

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

- terminate or cancel existing contracts for convenience;
- in the case of the U.S. federal government, suspend us from doing business with a foreign government or prevent us from selling our products in certain countries;

- audit and object to our contract-related costs and expenses, including allocated indirect costs; and
- unilaterally change contract terms and conditions, including warranty provisions, schedule, quantities, and scope of work, in advance of our agreement on corresponding pricing adjustments.

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

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

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

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

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

Table of Contents

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

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

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

Intellectual Property

Our intellectual property may not be adequately protected.

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

Table of Contents

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

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

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

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

Table of Contents

Reliance on or loss of third-party licensing agreements could materially adversely affect our business, financial condition, and results of operations.

While most of our products are developed internally, we also purchase technology, license intellectual property rights, and oversee third-party development and localization of certain products or components. If we lose or are unable to maintain licenses or distribution rights, we could incur additional costs or experience unexpected delays until an alternative solution can be internally developed or licensed from another third party and integrated into our products or we may be forced to redesign our products or remove certain features from our products. See For certain products and components, we rely on a limited number of suppliers and manufacturers and if these relationships are interrupted we may not be able to obtain substitute suppliers or manufacturers on favorable terms or at all above for additional information. Additionally, when purchasing or licensing products and services from third parties, we endeavor to negotiate appropriate warranties, indemnities, and other protections. We cannot assure you, however, that all such third-party contracts contain adequate protections or that all such third parties will be able to provide the protections we have negotiated. To the extent we are not able to negotiate adequate protections from these third parties or these third parties are unwilling or unable to provide the protections we have negotiated, our business, financial condition, and results of operations could be materially adversely affected.

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

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

Table of Contents

Risks Related to Our Capital Structure and Finances

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

Risks associated with being highly leveraged.

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

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

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

On January 29, 2010, S&P announced that our credit rating had been placed on CreditWatch Developing, and there can be no assurance that S&P will not downgrade our credit rating which could impede our ability to refinance existing debt or secure new debt or otherwise increase our future cost of borrowing and could create additional concerns on the part of customers, partners, investors, and employees about our financial condition and extended filing delay status.

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

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

Table of Contents

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

Because our revenue recognition review resulted in changes in the way we recognize revenue from the way we did at the time the credit agreement was put in place, it may be more difficult for us to maintain compliance with our leverage ratio covenant on a prospective basis than we expected at the time we entered into the credit agreement since the leverage ratio covenant is based on our earnings before interest, taxes, depreciation, and amortization (EBITDA), which is affected by revenue.

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

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

Limitations resulting from the restrictive covenants in the credit agreement.

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

- incur additional indebtedness or liens or issue preferred stock;
- pay dividends or make other distributions or repurchase or redeem our stock or subordinated indebtedness;

- engage in transactions with affiliates;
- engage in sale-leaseback transactions;
- sell certain assets;
- change our lines of business;
- make investments, loans, or advances; and
- engage in consolidations, mergers, liquidations, or dissolutions.

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

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

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

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

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

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

The process of integrating an acquired company s business into our operations and investing in new technologies may result in unforeseen operating difficulties and expenditures, which may require a significant amount of our management s attention that would otherwise be focused on the ongoing operation of our business. Other risks we may encounter with acquisitions include the effect of the acquisition on our financial and strategic positions and our reputation, the inability to obtain the anticipated benefits of the acquisition, including synergies or economies of scale, on a timely basis or at all, or unexpected challenges in reconciling business practices, particularly in foreign geographies. Due to rapidly changing market conditions, we may also find the value of our acquired technologies and related intangible assets, such as goodwill, as recorded in our financial statements, to be impaired, resulting in charges to operations. The magnitude of these risks is greater in the case of large acquisitions, such as our 2007 acquisition of Witness. See Note 4, Business Combinations to the consolidated financial statements included in Item 15. There can be no assurance that we will be successful in making additional acquisitions or that we will be able to effectively integrate any acquisitions we do make or realize the expected benefits for our business.

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

Because we have historically acquired a significant number of companies, goodwill and other intangible assets have represented a substantial portion of our assets. As of January 31, 2010, goodwill and other intangible assets totaled approximately $898.5 million, or approximately 64% of our total assets. At a minimum, we assess annually whether there has been impairment in the carrying amount of our goodwill 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. We did not record any non-cash impairment charges for the year ended January 31, 2010, but we did record non-cash impairment charges for the years ended January 31, 2009 and 2008, totaling $26.0 million and $23.4 million, respectively. These non-cash impairment charges related to acquisitions made in our Video Intelligence segment (related to the MultiVision Intelligence Surveillance Limited (MultiVision) acquisition) and in our Workforce Optimization performance management consulting business (related to the Opus Group, LLC acquisition, the CM Insight Limited (CM Insight) acquisition, and a portion of the Witness acquisition). To the extent that the factors described above change, we could be required to record additional non-cash impairment charges in the future. Any significant impairment charges would negatively affect our financial condition and results of operations. See Note 5, Intangible Assets and Goodwill to the consolidated financial statements included in Item 15 for more information.

Our international operations subject us to currency exchange risk.

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

Table of Contents

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

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

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

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

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

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

Table of Contents

Item 1b. Unresolved Staff Comments

None.

Item 2. Properties

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

Leased Properties

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

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

Outside of the United States, we occupy approximately 176,000 square feet at a facility in Herzliya, Israel under a lease that expires in October 2015. The Herzliya, Israel facility is used primarily for manufacturing, storage, development, sales, marketing, and support related to our Communications Intelligence operations. We also occupy approximately 34,500 square feet at a leased facility in Laval, Quebec, which is used primarily for our manufacturing, product development, support, and sales for our Video Intelligence operations. The lease in Laval, Quebec expires in June 2011. We occupy approximately 21,000 square feet at a facility in Leatherhead, the United Kingdom under a lease which expires in March 2014. The Leatherhead facility is used primarily for administrative, marketing, product development, support, and sales groups for our Workforce Optimization and Video Intelligence operations.

Additionally, we occupy leased facilities outside of the United States in Weybridge, the United Kingdom; Sao Paulo, Brazil; Mexico City, Mexico; Hong Kong, China; Tokyo, Japan; Sydney, Australia; Taguig, Philippines; Singapore (through our joint venture); and Gurgaon and Bangalore, India which are used primarily by our administrative, product development, sales, and support functions for our Workforce Optimization, Communications Intelligence, and Video Intelligence operations.

In addition to the leases noted above, we also lease executive office space throughout the world for our local sales, support, and services needs. For additional information regarding our lease obligations, see Note 16, Commitments and Contingencies to the consolidated financial statements included in Item 15.

Owned Properties

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

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

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

Item 3. Legal Proceedings

Comverse Investigation-Related Matters

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

On April 2, 2010, the U.S. District Court for the Eastern District of New York issued orders in the shareholder class action and derivative action granting preliminary approval of the settlement agreements in those actions. The court has scheduled a settlement hearing to be held on June 21, 2010 that will, among other things, consider orders and final judgments dismissing those actions with prejudice.

Table of Contents

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

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

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

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

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

Verint Investigation-Related Matters

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

On December 23, 2009, as we previously reported, we received an additional Wells Notice from the staff of the SEC relating to our failure to timely file periodic reports under the Exchange Act. Under the SEC s Wells process, recipients of a Wells Notice have the opportunity to make a Wells Submission before the SEC staff makes a recommendation to the SEC regarding what action, if any, should be brought by the SEC. After considering our Wells Submission, on March 3, 2010, the SEC issued an OIP pursuant to Section 12(j) of the Exchange Act to suspend or revoke the registration of our common stock because of our previous failure to file an annual report on either Form 10-K or Form 10-KSB since April 25, 2005 or quarterly reports on either Form 10-Q or Form 10-QSB since December 12, 2005. An Administrative Law Judge will consider the evidence in the Section 12(j) proceeding and has been directed in the OIP to issue an initial decision within 120 days of service of the OIP. On March 26, 2010, we filed our Answer to the OIP. On March 30, 2010, the Administrative Law Judge issued an amended procedural order scheduling the completion of briefing on the SEC s motion for summary disposition for June 1, 2010. We are currently evaluating all available procedural remedies, and intend to defend against the possible suspension or revocation of the registration of our common stock.

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. The Labor Motion and the Labor Class Action both claim that we are responsible for the alleged damages due to our status as employer and that the blocking of Verint options from being exercised constitutes default of the employment agreements between the members of the class and VSL. The Labor Class Action seeks compensatory damages for the entire class in an unspecified amount. On July 9, 2009, we filed a motion for summary dismissal and alternatively for the stay of the Labor Motion. A preliminary session was held on July 12, 2009. Ms. Deutsch filed her response to our response on November 10, 2009. On February 8, 2010, the Tel Aviv Labor Court dismissed the case for lack of material jurisdiction and ruled that it will be transferred to the District Court in Tel Aviv.

Table of Contents

Witness Investigation-Related Matters

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

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

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

Table of Contents

Verint General Litigation Matters

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

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

Item 4. Removed and Reserved

Table of Contents

PART II

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

Market Information

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

The following table sets forth the range of high and low quotations as reported by the Pink Sheets from February 1, 2008 through January 31, 2010. The bid quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission, and may not necessarily reflect actual transactions:

Year Ended January 31,	Quarter	Low	High
2009	2/1/08 - 4/30/08	$ 14.90	$ 21.00
	5/1/08 - 7/31/08	$ 19.75	$ 24.10
	8/1/08 - 10/31/08	$ 9.10	$ 22.51
	11/1/08 - 1/31/09	$ 5.55	$ 12.25
2010	2/1/09 - 4/30/09	$ 3.29	$ 6.35
	5/1/09 - 7/31/09	$ 5.40	$ 12.01
	8/1/09 - 10/31/09	$ 11.74	$ 16.90
	11/1/09 - 1/31/10	$ 15.45	$ 19.25

Holders

There were 97 holders of record of our common stock at April 30, 2010. Such record holders include holders who are nominees for an undetermined number of beneficial owners.

Table of Contents

Dividends

We have not declared or paid any cash dividends on our equity securities and have no current plans to pay any dividends on our equity securities. We intend to retain our earnings to finance the development of our business, repay debt, and for other corporate purposes. In addition, the terms of our credit agreement restrict our ability to pay cash dividends on shares of our common or preferred stock. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources under Item 7 for a more detailed discussion of these limitations. Our ability to pay dividends on our common stock is also limited by the terms of our outstanding shares of preferred stock which ranks senior to our common stock with respect to the payment of dividends and bears a preferred dividend which currently accrues at the rate of 3.875% per year. See Certain Relationships and Related Transactions, and Director Independence Comverse Preferred Stock Financing Agreements under Item 13 and Note 8, Convertible Preferred Stock to the consolidated financial statements included in Item 15 for a more detailed discussion of these restrictions.

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

Securities Authorized for Issuance Under Equity Compensation Plans

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

Stock Performance Graph

The following table compares the cumulative total stockholder return on our common stock with the cumulative total return on the NASDAQ Composite Index and the NASDAQ Computer & Data Processing Services Index, assuming an investment of $100 on January 31, 2005, through January 31, 2010, and the reinvestment of any dividends. The comparisons in the graph below are based upon historical data based upon closing sale prices on NASDAQ for our common stock for each day prior to the year ended January 31, 2007 and the high and low closing bid quotations (as reported by the Pink Sheets) for each day during the years ended January 31, 2008, January 31, 2009, and January 31, 2010 and are not indicative of, nor intended to forecast, future performance of our common stock.

Table of Contents

	January 31, 2005	January 31, 2006	January 31, 2007	January 31, 2008	January 31, 2009	January 31, 2010
Verint Systems Inc.	**$ 100.00**	**$ 95.07**	**$ 86.68**	**$ 48.52**	**$ 17.05**	**$ 47.99**
NASDAQ Composite Index	**$ 100.00**	**$ 111.70**	**$ 122.93**	**$ 117.81**	**$ 72.77**	**$ 105.98**
NASDAQ Computer & Data Processing Index	**$ 100.00**	**$ 111.06**	**$ 124.19**	**$ 126.82**	**$ 78.06**	**$ 120.88**

Recent Sales of Unregistered Securities

Equity Grants

As a result of our inability to file required SEC reports during our extended filing delay period, we ceased using our Registration Statement on Form S-8 to make equity grants to employees. As a result, on March 27, 2006, we suspended option exercises under our equity incentive plans and terminated purchases under our employee stock purchase plan for all employees, including executive officers.

Table of Contents

On May 24, 2007, we received a no-action letter from the SEC upon which we relied to make broad-based equity grants to employees under a no-sale theory. We have also made equity grants to our directors, executive officers, and certain other executives who qualify as accredited investors in reliance upon a private placement exemption from the federal securities laws and have made a small number of equity grants to non-U.S. employees under the exemption provided by Regulation S of the Securities Act of 1933.

The following summarizes various time-based equity awards approved by the stock option committee on the dates listed below since the beginning of the year ended January 31, 2010 (excluding directors and executive officers) in the United States and elsewhere throughout the world under the application of the no sale theory or under the exemption provided by Regulation S of the Securities Act of 1933:

March 4, 2009 equity awards representing approximately 585,000 shares;
May 20, 2009 equity awards representing approximately 458,000 shares;
March 17, 2010 equity awards representing approximately 283,850 shares; and
April 17, 2010 equity awards representing approximately 209,900 shares.

The following summarizes various time-based and performance-based equity awards approved by the board of directors or the stock option committee on the dates listed below since the beginning of the year ended January 31, 2010 under a private placement exemption to directors, executive officers, or other employees qualifying as accredited investors (with officer performance awards included at target levels):

March 4, 2009 equity awards representing approximately 708,000 shares;
March 19, 2009 equity awards representing approximately 20,000 shares;
May 20, 2009 equity awards representing approximately 72,000 shares;
March 17, 2010 equity awards representing approximately 426,850 shares;
March 18, 2010 equity awards representing approximately 20,000 shares; and
April 17, 2010 equity awards representing approximately 37,600 shares.

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

Issuer Purchases of Equity Securities

All of the purchases in the table below reflect shares withheld upon vesting of restricted stock to satisfy statutory minimum tax withholding obligations. The shares that were withheld were deposited in our treasury and a corresponding cash payment was made by us to the tax authorities. The table below only includes those months in which purchases were made (no purchases were made in the months omitted from the table). Purchases subsequent to January 31, 2010, which are not included in the table below, are as follows (repurchase prices correspond to the closing prices of our common stock on the Pink Sheets on the relevant vesting dates (or the trading date immediately preceding the vesting date)): March 17, 2010 (8,556 shares at $24.58 per share), April 12, 2010 (5,294 shares at $26.75 per share), April 13, 2010 (109,644 shares at $27.00 per share), and May 16, 2010 (8,000 shares at $26.50 per share). From time to time, we may also foreclose on shares of our common stock pledged to us by non-officer employees as security for tax-related loans associated with equity vestings if the employee defaults on his or her repayment obligations.

Issuer Purchases of Equity Securities

Period	(a) Total number of shares (or units) purchased	(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
May 2009	8,000	$ 6.20	8,000(1)	N/A(1)
January 2010	2,913	$ 19.00	2,913(1)	N/A(1)

(1) On June 28, 2007, our board of directors approved a limited stock repurchase program (the Director Repurchase Program) to enable us to automatically repurchase, upon vesting, 40% of the shares of restricted stock otherwise deliverable to the independent directors of our board of directors (and such other directors as our board of directors

may from time to time designate) upon such vesting in order to enable these directors to make required tax payments. The Director Repurchase Program is effective through the date we become compliant with our SEC reporting obligations, however, on March 18, 2010, our board of directors approved an extension of the program through (and including) May 16, 2010 to the extent that the program would otherwise have ended at such time and either we do not have in place an effective registration statement under which the directors may sell shares or the directors are subject to a Company-imposed trading blackout. In addition, on November 24, 2009, our board of directors approved a limited stock repurchase program (the Officer Repurchase Program) to enable us to offer to repurchase from each executive officer the number of shares necessary to satisfy such officer s minimum tax withholding obligation in connection with equity vesting-related tax events that occur during a company-imposed trading blackout. Our executive officers are not obligated to participate in the Officer Repurchase Program, which is effective through the date we file our Annual Report on Form 10-K for the year ended January 31, 2010, and is not limited to a set number of shares.

Table of Contents

Item 6. Selected Financial Data

The following selected consolidated financial data has been derived from our audited consolidated financial statements. This data below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations under Item 7 and our consolidated financial statements and notes thereto under Item 15.

Our historical results should not be viewed as indicative of results expected for any future period.

Five-Year Selected Financial Highlights:

Consolidated Statements of Operations Data

	Year Ended January 31,				
(in thousands, except per share data)	**2010**	**2009**	**2008**	**2007**	**2006**
Revenue	$ 703,633	$ 669,544	$ 534,543	$ 368,778	$ 278,754
Operating income (loss)	$ 65,679	$ (15,026)	$ (114,630)	$ (47,253)	$ 4,112
Net income (loss)	$ 17,100	$ (78,577)	$ (197,545)	$ (39,598)	$ 2,482
Net income (loss) attributable to Verint Systems Inc.	$ 15,617	$ (80,388)	$ (198,609)	$ (40,519)	$ 1,664
Net income (loss) attributable to Verint Systems Inc. common shares	$ 2,026	$ (93,452)	$ (207,290)	$ (40,519)	$ 1,664
Net income (loss) per share attributable to Verint Systems Inc.:					
Basic	$ 0.06	$ (2.88)	$ (6.43)	$ (1.26)	$ 0.05
Diluted	$ 0.06	$ (2.88)	$ (6.43)	$ (1.26)	$ 0.05
Weighted-average shares:					
Basic	32,478	32,394	32,222	32,156	31,781
Diluted	33,127	32,394	32,222	32,156	32,620

We have never declared a cash dividend to common stockholders.

Consolidated Balance Sheet Data

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

Table of Contents

Certain financial data in these tables for years ended prior to January 31, 2010 has been adjusted to reflect the adoption of a new accounting standard related to noncontrolling interests, as further discussed in Note 1, Summary of Significant Accounting Policies to the consolidated financial statements included in Item 15.

During the five year period ended January 31, 2010, we acquired a number of businesses, the more significant of which were the acquisitions of MultiVision in January 2006, Mercom Systems Inc. (Mercom) in July 2006, and Witness in May 2007. The operating results of acquired businesses have been included in our consolidated financial statements since their respective acquisition dates and have contributed to our revenue growth. The May 2007 acquisition of Witness had significant impacts to our revenue and operating results for the years ended January 31, 2010, 2009, and 2008.

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

- amortization of intangible assets associated with the acquisition of Witness of $28.3 million;
- interest expense on our term loan and revolving credit agreement of $22.6 million;
- stock-based compensation expense of $44.2 million;
- realized and unrealized losses on our interest rate swap of $13.6 million; and
- approximately $54 million in professional fees and related expenses associated with our restatement of previously filed consolidated financial statements for periods through January 31, 2005 and our extended filing delay status.

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

- a full year s revenue from Witness compared to eight months in the prior year;
- amortization of intangible assets associated with the acquisition of Witness of $31.1 million;
- integration costs of $3.2 million incurred to support and facilitate the combination of Verint and Witness into a single organization;
- net proceeds after legal fees of approximately $4.3 million associated with the settlement of pre-existing litigation between Witness and a competitor;
- interest expense on our term loan and revolving credit agreement of $35.2 million;
- stock-based compensation expense of $36.0 million;
- realized and unrealized losses on our interest rate swap of $11.5 million;

- restructuring costs of $5.7 million and approximately $28 million in professional fees and related expenses associated with our restatement of previously filed consolidated financial statements for periods through January 31, 2005 and our extended filing delay status; and
- non-cash goodwill impairment charges of $26.0 million.

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

- an increase in revenue of $123.1 million from the Witness business, beginning in the quarter ended July 31, 2007;
- amortization of intangible assets associated with the acquisition of Witness of $22.6 million;
- a $6.7 million charge for in-process research and development;
- integration costs of $11.0 million incurred to support and facilitate the combination of Verint and Witness into a single organization;
- legal fees of $8.7 million associated with pre-existing litigation between Witness and a competitor;
- interest expense on our term loan of $34.4 million;
- restructuring costs of $3.3 million and approximately $26 million in professional fees and related expenses associated with our restatement of previously filed consolidated financial statements for periods through January 31, 2005 and our extended filing delay status;
- realized and unrealized losses on our interest rate swap of $29.2 million;
- unrealized gains of $7.2 million on an embedded derivative financial instrument related to the variable dividend feature of our preferred stock;
- stock-based compensation expense of $31.0 million; and
- non-cash goodwill and intangible asset impairment charges of $23.4 million.

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

Table of Contents

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

The following management s discussion and analysis of our financial condition and results of operations should be read in conjunction with Business under Item 1, Selected Financial Data under Item 6, and the consolidated financial statements and the related notes thereto which appear elsewhere in this report. This discussion contains a number of forward-looking statements, all of which are based on our current expectations and all of which could be affected by uncertainties and risks. Our actual results may differ materially from the results contemplated in these forward-looking statements as a result of many factors including, but not limited to, those described under Risk Factors under Item 1A.

Business Overview

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

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

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

Our Business

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

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

In our Video Intelligence segment, we are a leading provider of networked IP video solutions designed to optimize security and enhance operations. Our Video Intelligence Solutions portfolio includes IP video management software and services, edge devices for capturing, digitizing, and transmitting video over different types of wired and wireless networks, video analytics, and networked DVRs. Marketed under the Nextiva® brand, this portfolio enables organizations to deploy an end-to-end IP video solution with analytics or evolve to IP video operations without discarding their investments in analog CCTV technology. Key business and technology trends in the Video Intelligence segment include increased demand for advanced security solutions due to ongoing terrorism and security threats around the world and the transition from relatively passive analog CCTV video systems to more sophisticated network-based IP video solutions. For the years ended January 31, 2010, 2009, and 2008, this segment represented approximately 21%, 19%, and 28% of our total revenue, respectively.

In our Communications Intelligence segment, we are a leading provider of communications intelligence and investigative solutions that help law enforcement, national security, intelligence, and civilian government agencies effectively detect, investigate, and neutralize criminal and terrorist threats. Our solutions are designed to handle massive amounts of unstructured and structured information from different sources, quickly make sense of complex scenarios, and generate evidence and intelligence. Our portfolio includes solutions for communications interception, service provider compliance, mobile location tracking, fusion and data management, financial crime investigation, Web intelligence, integrated video monitoring, and tactical communications intelligence. These solutions can be deployed stand-alone or collectively, as part of a large-scale system to address the needs of large government agencies that require advanced, comprehensive solutions. Key business and technology trends in this segment include the demand for innovative communications intelligence and investigative solutions due to terrorism, criminal activities, and other security threats, an expanding range of communication and information media, the increasing complexity of communications networks and growing network traffic, and legal and compliance requirements. For the years ended January 31, 2010, 2009, and 2008, this segment represented approximately 26%, 28%, and 23% of our total revenue, respectively.

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

Table of Contents

Our Strategy

There are several elements to our strategy, including:

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

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

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

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

Table of Contents

Key Trends and Developments in Our Business

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

- *Completion of our outstanding SEC filings*. Our extended filing delay status has limited the information we have been able to provide to the public and other interested parties, including customers, partners, and bank lenders. This has had an adverse impact upon relationships with customers and resellers and, we believe, upon our business.
- *Decreased information technology spending*. During the current global recession, information technology spending has decreased, and the market for our products and services has been adversely affected. Customers are delaying, reducing, and eliminating their spending on information technology, and we believe this has adversely affected our results.
- *Market acceptance of Actionable Intelligence for unstructured data, particularly analytics*. We are in an early stage market where the value of certain aspects of our products and solutions is still in the process of market acceptance. We believe that our future growth depends in part on the continued and increasing acceptance of the value of our data analytics across our product offerings.
- *Our ownership and capital structure constrains investment and growth*. We have a majority stockholder that can effectively control our business and affairs. We also are subject to various restrictive covenants under our credit facility, as well as a leverage ratio financial covenant. As a result, our current capital structure limits our ability to issue equity, incur additional debt, or make certain investments in our business. We are also limited in our ability to raise additional capital until such time that we have filed certain additional late periodic reports. These limitations may impede our ability to execute upon our business strategy.

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

Critical Accounting Policies and Estimates

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

Table of Contents

Revenue Recognition

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

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

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

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

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

Table of Contents

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

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

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

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

Table of Contents

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

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

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

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

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

Table of Contents

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

Allowance for Doubtful Accounts

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

Accounting for Business Combinations

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

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

Table of Contents

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

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

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

Impairment of Goodwill and Other Intangible Assets

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

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

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

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

During the years ended January 31, 2009 and 2008, we recorded non-cash charges to recognize impairments of goodwill and other intangible assets of $26.0 million, and $23.4 million, respectively. We did not record any impairment of goodwill for the year ended January 31, 2010 as the fair values of all of our reporting units significantly exceeded their carrying values.

Since the estimated fair values of our reporting units significantly exceeded their carrying values as of November 1, 2009, we currently do not believe that our reporting units are at risk of impairment. The assumptions and estimates used in this process are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy or our internal forecasts. Although we believe the assumptions, judgments, and estimates we have used in our current assessment are reasonable and appropriate, a material change in any of our assumptions or external factors could trigger impairments not originally identified.

Income Taxes

We account for income taxes under the asset and liability method which includes the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements. Under this approach, deferred taxes are recorded for the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial statement and tax bases of our assets and liabilities, and are adjusted for changes in tax rates and tax laws when changes are enacted. The effects of future changes in income tax laws or rates are not anticipated.

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

We evaluate the realizability of our deferred tax assets for each jurisdiction in which we operate at each reporting date, we establish a valuation allowance when it is more likely than not that all or a portion of our deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income of the same character and in the same jurisdiction. We consider all available positive and negative evidence in making this assessment, including, but not limited to, the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies. In circumstances where there is sufficient negative evidence indicating that our deferred tax assets are not more-likely-than-not realizable, we establish a valuation allowance.

We use a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate tax positions taken or expected to be taken in a tax return by assessing whether they are more-likely-than-not sustainable, based solely on their technical merits, upon examination, and including resolution of any related appeals or litigation process. The second step is to measure the associated tax benefit of each position as the largest amount that we believe is more-likely-than-not realizable. Differences between the amount of tax benefits taken or expected to be taken in our income tax returns and the amount of tax benefits recognized in our financial statements, represent our unrecognized income tax benefits, which we either record as a liability or as a reduction of deferred tax assets. Our policy is to include interest and penalties related to unrecognized income tax benefits as a component of income tax expense.

Contingencies

We recognize an estimated loss from a claim or loss contingency when and if, information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accounting for claims and contingencies requires the use of significant judgment and estimates. One notable potential source of loss contingencies is pending or threatened litigation. Legal counsel and other advisors and experts are consulted on issues related to litigation as well as on matters related to contingencies occurring in the ordinary course of business.

Accounting for Stock-Based Compensation

We recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of the award.

We estimate the fair value of stock-based payment awards on the date of grant using an option-pricing model. We use the Black-Scholes option-pricing model, which requires the input of significant assumptions including an estimate of the average period of time employees will retain stock options before exercising them, the estimated volatility of our common stock price over the expected term, the number of options that will ultimately be forfeited before completing vesting requirements, and the risk-free interest rate. Changes in the assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense recognized. The assumptions we use in calculating the fair value of stock-based payment awards represent our best estimates, which involve inherent uncertainties and the application of judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

Table of Contents

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

When VSOE does not exist for all delivered elements of an arrangement, we recognized revenue under the Residual Method. In essence, the value of our products is derived by ascertaining the fair value of all undelivered elements (i.e., PCS and other services) and subtracting the value of the undelivered elements from the total arrangement value. If the fair value of all undelivered elements cannot be determined, revenue recognition is deferred for all elements, including delivered elements, until all elements are delivered. However, if the only undelivered element is PCS, the entire arrangement fee is recognized ratably over the PCS period.

As we have previously disclosed, we determined that for many of the arrangements we examined in previously reported periods (including periods included in this report), we were unable to determine the fair value of all or some of the elements within the multiple-element arrangement, as required by accounting guidance for revenue recognition. Further, for certain transactions occurring during periods reported herein, we were similarly unable to determine the fair value of all or some of the elements.

Following is a general overview of how we recognize revenue for multiple-element arrangements by segment.

Workforce Optimization Segment

During the years ended January 31, 2010 and 2009, VSOE for professional services was established for the majority of our Workforce Optimization transactions which allowed for the recognition of product revenue prior to the services being performed. In the year ended January 31, 2008 VSOE for professional services was not established for a majority of our Workforce Optimization transactions and as a result, product revenue that could have otherwise been recognized upon delivery is being deferred until all services associated with the arrangement are completed. This results in revenue recognition being deferred for up to several quarters depending on the nature of the arrangement.

In addition, during the three year period covered by this report, we were also unable to establish VSOE of PCS services related to certain other Workforce Optimization transactions. As a result, product revenue that could otherwise been recognized upon delivery is being recognized ratably over either the term of the PCS services or the estimated economic life of the software product.

Over the last three years, in our Workforce Optimization segment, approximately 55% of our revenue was recognized when delivery of our products or performance of our services occurred using the Residual Method and approximately 45% was recognized ratably over either the PCS term or the period that the customer was entitled to renew their PCS but not to exceed the estimated economic life of the product or contractual period (Ratable Method).

Table of Contents

Video Intelligence Segment

During the year ended January 31, 2010, VSOE for PCS services was established for certain arrangements in our Video Intelligence segment. In the years ended January 31, 2009 and 2008 we were unable to adequately establish VSOE for our PCS service plans due to the lack of actual subsequent renewals and not having the ability to identify Video Intelligence customers that were under current PCS service plans. Accordingly, in the years ended January 31, 2009 and 2008, we recognized revenue for these arrangements over the support period, limited to the estimated economic life of the product.

Over the last three years, in our Video Intelligence segment, approximately 60% of our revenue was recognized when delivery of our products or performance of our services occurred using the Residual Method and approximately 40% was recognized using the Ratable Method.

Communications Intelligence Segment

Certain Communications Intelligence contracts include professional services, for which VSOE was not adequately established, in circumstances similar to those described previously for the Workforce Optimization segment. As a result, revenue for these contracts is deferred to subsequent periods. In addition, several of our Communications Intelligence contracts require substantial customization, and are therefore accounted for using the completed contract method (the Contract Accounting Method). In addition, certain of these arrangements are bundled with PCS for which we were unable to establish VSOE, and revenue is deferred accordingly.

Over the last three years, based on the way we recognize revenue in our Communications Intelligence segment, approximately 50% of our revenue was recognized using the Residual Method, approximately 20% was recognized using the Ratable Method, and approximately 30% was recognized under the contract accounting methods, primarily using the percentage of completion method, or alternately, the Contract Accounting Method.

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

Table of Contents

Results of Operations

Financial Overview

The following table sets forth a summary of certain key financial information for the years ended January 31, 2010, 2009, and 2008:

	Year Ended January 31,		
(in thousands, except per share data)	**2010**	**2009**	**2008**
Revenue	$ 703,633	$ 669,544	$ 534,543
Operating income (loss)	$ 65,679	$ (15,026)	$ (114,630)
Net income (loss) attributable to Verint Systems Inc. common shares	$ 2,026	$ (93,452)	$ (207,290)
Net income (loss) per share attributable to Verint Systems Inc.:			
Basic and diluted	$ 0.06	$ (2.88)	$ (6.43)

Year Ended January 31, 2010 compared to Year Ended January 31, 2009. Our revenue increased approximately 5%, or $34.1 million, to $703.6 million in the year ended January 31, 2010 from $669.5 million in the year ended January 31, 2009. The increase was due to revenue increases in our Workforce Optimization and Video Intelligence segments, partially offset by a revenue reduction in our Communication Intelligence segment. In our Workforce Optimization segment, revenue increased by $22.4 million, or 6%, primarily due to the completion of a multi-site installation for a major customer for which revenue was recognized upon final customer acceptance, coupled with an increase in maintenance renewal revenue recognized at full value as a result of the elimination of the impact of purchase accounting adjustments to support obligations assumed which amounted to $5.2 million in the year ended January 31, 2009. We recorded an adjustment reducing support obligations assumed in the Witness acquisition to their estimated fair value at the acquisition date. As a result, as required by business combination accounting rules, revenue related to maintenance contracts in the amount of $5.2 million that would have been otherwise recorded by Witness as an independent entity, was not recognized in the year ended January 31, 2009. There was no remaining deferred revenue balance associated with the acquisition as of January 31, 2009. Historically, substantially all of our customers, including customers from acquired companies, renew their maintenance contracts when such contracts are eligible for renewal. To the extent these underlying maintenance contracts are renewed, we will recognize the revenue for the full value of these contracts over the maintenance periods, the substantial majority of which are one year. In our Video Intelligence segment, revenue increased $18.0 million, or 14%, almost entirely due to the product delivery of an order from a major customer, partially offset by a decrease of approximately $7 million in Ratable Method revenue. In our Communications Intelligence segment, revenue decreased by $6.3 million, or 3%, primarily due to a decrease in Residual Method revenue associated with customer installations partially offset by an increase in Contract Accounting Method revenue due to work performed on certain large projects. For more details on our revenue by segment, see - Revenue by Operating Segment . Revenue in the Americas, EMEA, and APAC regions represented approximately 55%, 25%, and 20% of our total revenue, respectively, in the year ended January 31, 2010 compared to approximately 52%, 32%, and 16%, respectively, in the year ended January 31, 2009.

Table of Contents

We had operating income of $65.7 million in the year ended January 31, 2010 compared to an operating loss of $15.0 million in the year ended January 31, 2009. The increase in operating income was primarily due to an increase in gross profit of $52.4 million to $463.7 million, or 66%, from $411.3 million, or 61%, coupled with a decrease in operating expenses of $28.3 million. The increase in gross profit was primarily due to higher revenue and higher gross margin in our Workforce Optimization and Video Intelligence segments, partially offset by lower revenue and lower gross margin in our Communications Intelligence segment. Product margins in our Video Intelligence and Workforce Optimization segments increased mainly as a result of a more favorable product mix. Service margins increased due to our cost-saving initiatives, as well as the fact, that in certain cases, expenses associated with service revenue recognized in the current year under the Ratable Method were recorded in prior periods when the costs were incurred. As discussed under - Impact of Our VSOE/Revenue Recognition Policies on our Results of Operations , in accordance with U.S. generally accepted accounting principles (GAAP) and our accounting policy, the cost of revenue associated with services is generally expensed as incurred in the period in which the services are performed, with the exception of certain transactions accounted for under Contract Accounting Method revenue. The decrease in operating expenses was primarily due to the absence of impairment of goodwill and other acquired intangible asset charges in the year ended January 31, 2010 compared to $26.0 million of impairment of goodwill and other acquired intangible asset charges in the year ended January 31, 2009, as well as a $4.5 million decrease in research and development expenses and a $4.5 million decrease in integration, restructuring and other, partially offset by a $9.7 million increase in selling, general and administrative expenses. The increase in selling, general and administrative expenses is primarily due to an increase of approximately $26 million in professional fees and related expenses associated with our restatement of previously filed financial statements and our extended filing delay status partially offset by our cost-saving initiatives.
We had net income attributable to Verint Systems Inc. common shares of $2.0 million and income per share of $0.06 in the year ended January 31, 2010, compared to a net loss attributable to Verint Systems Inc. common shares of $93.5 million and a loss per share of $2.88 in the year ended January 31, 2009. The increase in our net income attributable to Verint Systems Inc. common shares and income per share in the year ended January 31, 2010 was due to our higher gross profit and lower operating expenses as described above, and to a $2.4 million reduction in interest and other expenses, net coupled with a reduction of $12.6 million in income tax expense.
The strengthening of the U.S. Dollar relative to the major foreign currencies where we do business (primarily the British Pound, the Euro, Israeli Shekel, and Canadian Dollar) in the year ended January 31, 2010 compared to the year ended January 31, 2009 had an unfavorable impact on our revenue and a favorable impact on our operating income. Had foreign exchange rates remained constant in these periods, excluding the impact of foreign currency hedges, our total revenue would have been approximately $12 million higher and our operating expenses and cost of goods sold would have been approximately $15 million higher, or a net unfavorable constant U.S. Dollar impact of approximately $3 million on our operating income in the year ended January 31, 2010.

Table of Contents

As of January 31, 2010, we employed approximately 2,500 employees, including part-time employees and certain contractors, as compared to approximately 2,550 as of January 31, 2009.

Year Ended January 31, 2009 compared to Year Ended January 31, 2008. Our revenue increased approximately 25%, or $135.0 million, to $669.5 million in the year ended January 31, 2009 from $534.5 million in the year ended January 31, 2008. The increase was due to revenue increases in our Workforce Optimization and Communications Intelligence segments, partially offset by a reduction in our Video Intelligence segment. In our Workforce Optimization segment, revenue increased by $91.5 million, or 35%, primarily due to a full year of Witness being included in our results for the year ended January 31, 2009 compared to only eight months in the year ended January 31, 2008, coupled with an increase in Witness maintenance renewal revenue recognized at full value as a result of the reduced impact of purchase accounting adjustments to support obligations assumed. We recorded an adjustment reducing support obligations assumed in the Witness acquisition to their estimated fair value at the acquisition date. As a result, as required by business combination accounting rules, revenue related to maintenance contracts in the amount of $5.2 million and $33.9 million that would have been otherwise recorded by Witness as an independent entity, was not recognized in the years ended January 31, 2009 and 2008, respectively. In our Communications Intelligence segment, revenue increased by $63.8 million, or 50%, primarily due to increased business including several large project implementations that started during the year, as well as the completion of certain installations and work performed for projects accounted for as Contract Accounting Method revenue. In our Video Intelligence segment, revenue decreased $20.2 million, or 14%, due to timing of installations from a major customer, a decline in our distribution business in the APAC region, and a decline in Residual Method revenue due to the global economic downturn. For more details on our revenue by segment, see - Revenue by Operating Segment . Revenue in the Americas, EMEA, and APAC regions represented approximately 52%, 32%, and 16% of our total revenue, respectively, in the year ended January 31, 2009 compared to approximately 52%, 33%, and 15%, respectively, in the year ended January 31, 2008.

We had an operating loss of $15.0 million in the year ended January 31, 2009 compared to an operating loss of $114.6 million in the year ended January 31, 2008. The decrease in operating loss was primarily due to an increase in gross profit of $106.8 million to $411.3 million, or 61%, from $304.5 million, or 57%, partially offset by an increase of $7.2 million in operating expenses. The increase in gross profit was primarily due to higher revenue and higher gross margin in our Workforce Optimization and Communications Intelligence segments, partially offset by lower revenue and lower gross margin in our Video Intelligence segment. The increase in operating expenses was due to a $23.0 million increase in selling, general and administrative expenses and a $5.6 million increase in amortization of intangible assets, primarily due to a full year of Witness being included in our results for the year ended January 31, 2009 compared to only eight months in the year ended January 31, 2008, as well as a $3.0 million increase in impairment of goodwill and other acquired intangible assets, partially offset by a $5.3 million reduction in integration and restructuring costs, a $13.0 million decrease in legal fees associated with intellectual property litigation assumed in the Witness acquisition, net of settlement recovery, as well as the absence in the year ended January 31, 2009 of a $6.7 million in-process research and development charge recorded in the year ended January 31, 2008. For additional information see - Impairment of Goodwill and Other Acquired Intangible Assets and Note 5, Intangible Assets and Goodwill to the consolidated financial statements included in Item 15.

We had a net loss attributable to Verint Systems Inc. common shares of $93.5 million and a loss per share of $2.88 in the year ended January 31, 2009, compared to a net loss attributable to Verint Systems Inc. common shares of $207.3 million and a loss per share of $6.43 in the year ended January 31, 2008. The decrease in our net loss attributable to Verint Systems Inc. common shares and loss per share in the year ended January 31, 2009 was due to our higher gross profit and lower integration costs and the Witness intellectual property legal fees as described above, and to lower interest and other expenses, net of $43.9 million in the year ended January 31, 2009, compared to interest and other expenses, net of $55.2 million in the year ended January 31, 2008. The decrease in interest and other expenses was primarily a result of the repurchase by our broker of our auction rate securities (ARS) at the value equal to the par value plus interest.

The U.S. Dollar was mixed relative to the major foreign currencies where we do business (weakened versus the Euro and Israeli Shekel and strengthened versus the British Pound and Canadian Dollar) in the year ended January 31, 2009 compared to the year ended January 31, 2008. The net impact was unfavorable on our revenue primarily due to the weaker British Pound, and had a net unfavorable impact on our operating loss primarily due to the stronger Israeli Shekel (which caused our local expenses to be higher). Had foreign exchange rates remained constant in these periods, our total revenue would have been approximately $5 million higher and our operating expenses and cost of revenue would have been approximately $2 million lower, or a net favorable constant dollar impact of approximately $7 million on our operating loss in the year ended January 31, 2009.

As of January 31, 2009, we employed approximately 2,550 employees, including part-time employees and certain contractors, as compared to approximately 2,600 as of January 31, 2008.

Table of Contents

Revenue by Operating Segment

The following table sets forth revenue for each of our three operating segments for the years ended January 31, 2010, 2009, and 2008:

	Year Ended January 31,			% Change	
(in thousands)	2010	2009	2008	2010 - 2009	2009 - 2008
Workforce Optimization	$ 374,778	$ 352,367	$ 260,938	6%	35%
Video Intelligence	144,970	127,012	147,225	14%	(14%)
Communications Intelligence	183,885	190,165	126,380	(3%)	50%
Total revenue	**$ 703,633**	**$ 669,544**	**$ 534,543**	5%	25%

Workforce Optimization Segment

Year Ended January 31, 2010 compared to Year Ended January 31, 2009. Workforce Optimization segment revenue increased approximately 6%, or $22.4 million, to $374.8 million in the year ended January 31, 2010 from $352.4 million in the year ended January 31, 2009. The increase was primarily due to the completion of a multi-site installation for a major customer for which revenue was recognized upon final customer acceptance, as well as an increase in maintenance renewal revenue recognized at full value as a result of the elimination of the impact of purchase accounting adjustments to support obligations assumed. We recorded an adjustment reducing support obligations assumed in the Witness acquisition to their estimated fair value at the acquisition date. As a result, as required by business combination accounting rules, revenue related to maintenance contracts in the amount of $5.2 million that would have been otherwise recorded by Witness as an independent entity, was not recognized in the year ended January 31, 2009. There was no remaining deferred revenue balance associated with the acquisition as of January 31, 2009. Historically, substantially all of our customers, including customers from acquired companies, renew their maintenance contracts when such contracts are eligible for renewal. To the extent these underlying maintenance contracts are renewed, we will recognize the revenue for the full value of these contracts over the maintenance periods, the substantial majority of which are one year.

Year Ended January 31, 2009 compared to Year Ended January 31, 2008. In our Workforce Optimization segment, revenue increased by $91.5 million, or 35%, primarily due to a full year of Witness being included in our results for the year ended January 31, 2009 compared to only eight months in the year ended January 31, 2008, coupled with an increase in Witness maintenance renewal revenue recognized at full value as a result of the reduced impact of purchase accounting adjustments to support obligations assumed. We recorded an adjustment reducing support obligations assumed in the Witness acquisition to their estimated fair value at the acquisition date. As a result, as required by business combination accounting rules, revenue related to maintenance contracts in the amount of $5.2 million and $33.9 million that would have been otherwise recorded by Witness as an independent entity, was not recognized in the years ended January 31, 2009 and 2008, respectively. During the year ended January 31, 2009, we combined the operations of Verint and Witness as well as integrated some of the products of both companies. As a result, we cannot accurately quantify the increase in revenue attributable to the Witness acquisition.

Table of Contents

Video Intelligence Segment

Year Ended January 31, 2010 compared to Year Ended January 31, 2009. In our Video Intelligence segment, revenue increased by $18.0 million, or 14%, almost entirely due to the product delivery of an order from a major customer, partially offset by a decrease of approximately $7 million in Ratable Method revenue due to reduced volume of arrangements for which VSOE was not established.

Year Ended January 31, 2009 compared to Year Ended January 31, 2008. Video Intelligence segment revenue decreased approximately 14%, or $20.2 million, to $127.0 million in the year ended January 31, 2009 from $147.2 million in the year ended January 31, 2008. Approximately 35% of the decrease was due to lower revenue from a major customer due to the timing of installations, approximately 35% of the decrease was due to a decline in our distribution business in the APAC region, and approximately 30% of the decrease was due to a decline in Residual Method revenue due to the global economic downturn.

Communications Intelligence Segment

Year Ended January 31, 2010 compared to Year Ended January 31, 2009. Communications Intelligence segment revenue decreased approximately 3%, or $6.3 million, to $183.9 million in the year ended January 31, 2010 from $190.2 million in the year ended January 31, 2009. The decrease was primarily due to a decrease of approximately $33 million in Residual Method revenue associated with customer installations partially offset by an increase of approximately $27 million in Contract Accounting Method revenue due to work performed on certain large projects.

Year Ended January 31, 2009 compared to Year Ended January 31, 2008. Communications Intelligence segment revenue increased approximately 50%, or $63.8 million, to $190.2 million in the year ended January 31, 2009 from $126.4 million in the year ended January 31, 2008. The increase was due to increased business including several large project implementations that started during the year as well as the completion of certain installations and work performed for projects accounted for as Contract Accounting Method revenue. Approximately 60% of the increase was due to an increase in Residual Method revenue related to the completion of certain installations and approximately 30% of the increase was due to an increase in Contract Accounting Method revenue.

Volume and Price

We sell products in multiple configurations, and the price of any particular product varies depending on the configuration of the product sold. Due to the variety of customized configurations for each product we sell, we are unable to quantify the amount of any revenue increases attributable to a change in the price of any particular product and/or a change in the number of products sold.

Table of Contents

Revenue by Product Revenue and Service and Support Revenue

We categorize and report our revenue in two categories product revenue and service and support revenue. For multiple-element arrangements for which we are unable to establish VSOE of one or more elements, we use various available indicators of fair value and apply our best judgment to reasonably classify the arrangement s revenue into product revenue and service and support revenue. For additional information see Note 1, Summary of Significant Accounting Policies to the consolidated financial statements included in Item 15.

The following table sets forth revenue for products and service and support for the years ended January 31, 2010, 2009, and 2008:

	Year Ended January 31,			% Change	
(in thousands)	**2010**	**2009**	**2008**	**2010 - 2009**	**2009 - 2008**
Product revenue	$ 374,272	$ 365,485	$ 333,130	2%	10%
Service and support revenue	329,361	304,059	201,413	8%	51%
Total revenue	**$ 703,633**	**$ 669,544**	**$ 534,543**	5%	25%

Product Revenue

Year Ended January 31, 2010 compared to Year Ended January 31, 2009. Product revenue increased approximately 2%, or $8.8 million, to $374.3 million in the year ended January 31, 2010 from $365.5 million in the year ended January 31, 2009. The increase was primarily a result of our Video Intelligence segment which had a $16.9 million increase in product revenue, as well as our Workforce Optimization segment which had an increase of $8.9 million in product revenue. These increases were offset by a decrease of $17.0 million in product revenue in our Communication Intelligence segment. For additional information see - Revenue by Operating Segment .

Year Ended January 31, 2009 compared to Year Ended January 31, 2008. Product revenue increased approximately 10%, or $32.4 million, to $365.5 million in the year ended January 31, 2009 from $333.1 million in the year ended January 31, 2008. The increase was primarily a result of our Communication Intelligence segment which had a $47.4 million increase in product revenue, as well as an increase of $6.6 million in our Workforce Optimization segment. These increases were offset by a decrease of $21.6 million in product revenue in our Video Intelligence segment. For additional information see - Revenue by Operating Segment .

Table of Contents

Service and Support Revenue

Year Ended January 31, 2010 compared to Year Ended January 31, 2009. Service and support revenue increased approximately 8%, or $25.3 million, to $329.4 million for the year ended January 31, 2010 from $304.1 million in the year ended January 31, 2009. The increase was primarily in our Workforce Optimization segment which represented $13.6 million of the total increase, as well as a combined increase of $11.7 million in our Video Intelligence and Communications Intelligence segments. The increase in our Workforce Optimization segment was partially due to an increase in maintenance renewal revenue recognized at full value as a result of the elimination of the impact of purchase accounting adjustments to support obligations assumed. We recorded an adjustment reducing support obligations assumed in the Witness acquisition to their estimated fair value at the acquisition date. As a result, as required by business combination accounting rules, revenue related to maintenance contracts in the amount of $5.2 million that would have been otherwise recorded by Witness as an independent entity, was not recognized in the year ended January 31, 2009.

Year Ended January 31, 2009 compared to Year Ended January 31, 2008. Service and support revenue increased approximately 51%, or $102.7 million, to $304.1 million for the year ended January 31, 2009 from $201.4 million in the year ended January 31, 2008. The increase was primarily in our Workforce Optimization segment which represented $84.9 million of the total increase, as well as a combined increase of $17.8 million in our Video Intelligence and Communications Intelligence segments. The increase in our Workforce Optimization segment was primarily due to a full year of Witness being included in our results for the year ended January 31, 2009 compared to only eight months in the year ended January 31, 2008, coupled with an increase in Witness maintenance renewal revenue recognized at full value as a result of the reduced impact of purchase accounting adjustments to support obligations assumed. We recorded an adjustment reducing support obligations assumed in the Witness acquisition to their estimated fair value at the acquisition date. As a result, as required by business combination accounting rules, revenue related to maintenance contracts in the amount of $5.2 million and $33.9 million that would have been otherwise recorded by Witness as an independent entity, was not recognized in the years ended January 31, 2009 and 2008, respectively.

Cost of Revenue

The following table sets forth cost of revenue by product and service and support, as well as amortization and impairment of acquired technology and backlog, for the years ended January 31, 2010, 2009, and 2008:

	Year Ended January 31,			% Change	
(in thousands)	2010	2009	2008	2010 - 2009	2009 - 2008
Product cost of revenue	$ 131,523	$ 131,638	$ 121,627	0%	8%
Service and support cost of revenue	100,391	117,588	100,397	(15%)	17%
Amortization and impairment of acquired technology and backlog	8,021	9,024	8,018	(11%)	13%
Total cost of revenue	**$ 239,935**	**$ 258,250**	**$ 230,042**	(7%)	12%

Product Cost of Revenue

Product cost of revenue primarily consists of hardware material costs and royalties due to third parties for software components that are embedded in our software applications. As discussed under - Impact of Our VSOE/Revenue Recognition Policies on our Results of Operations , when revenue is deferred, we also defer hardware material costs and third-party software royalties and amortize those costs over the same period that the product revenue is recognized. Product cost of revenue also includes amortization of capitalized software development costs, charges for impairments of intangible assets, employee compensation and related expenses associated with our global operations, facility costs, and other allocated overhead expenses. In our Communications Intelligence segment, product cost of revenue also includes employee compensation and related expenses, contractor and consulting expenses, and travel expenses, in each case relating to resources dedicated to the delivery of customized projects for which certain contracts are accounted for under the Contract Accounting Method.

Year Ended January 31, 2010 compared to Year Ended January 31, 2009. Product cost of revenue decreased $0.1 million to $131.5 million in the year ended January 31, 2010 from $131.6 million in the year ended January 31, 2009. Our overall product margins have increased to 65% in the year ended January 31, 2010 from 64% in the year ended January 31, 2009 as a result of an increase in revenue and change in product mix. Product margins in our Video Intelligence segment increased to 61% in the year ended January 31, 2010 from 52% in the year ended January 31, 2009 and product margins in our Workforce Optimization segment increased to 86% in the year ended January 31, 2010 from 84% in the year ended January 31, 2009, in each case, primarily due to an increase in revenue coupled with a higher software component in the overall product mix. These increases were partially offset by a decrease in product margins in our Communication Intelligence segment to 52% in the year ended January 31, 2010 from 61% in the year ended January 31, 2009. This decrease is mainly due to increases in expenses attributable to a change in project mix, as Residual Method revenue declined and Contract Accounting method revenue increased, resulting in an increase in expenses relating to resources dedicated to the delivery of customized projects and lower product margins.

Year Ended January 31, 2009 compared to Year Ended January 31, 2008. Product cost of revenue increased approximately 8% to $131.6 million in the year ended January 31, 2009 from $121.6 million in the year ended January 31, 2008 primarily as a result of greater product revenue in our Communication Intelligence segment. This increase in revenue resulted in an increase in hardware material costs as well as expenses relating to resources dedicated to the delivery of customized projects, and included an increase in employee compensation and related expenses of $6.0 million, an increase in consulting and contracting costs of $3.2 million, and an increase in other product cost of revenue expenses of $0.8 million. Product costs in our Workforce Optimization segment also increased as a result of an increase in product revenue. Product costs in our Video Intelligence segment decreased as a result of decrease in product revenue. Our overall product margins increased slightly as a result of higher revenue and product mix.

Service and Support Cost of Revenue

Service and support cost of revenue primarily consists of employee compensation and related expenses, contractor costs, and travel expenses relating to installation, training, consulting, and maintenance services. Service and support cost of revenue also include stock-based compensation expenses, facility costs, and other overhead expenses. As discussed under - Impact of Our VSOE/Revenue Recognition Policies on our Results of Operations , in accordance with GAAP and our accounting policy, the cost of revenue associated with the services is generally expensed as incurred in the period in which the services are performed, with the exception of certain transactions accounted for under the Contract Accounting Method.

Table of Contents

Year Ended January 31, 2010 compared to Year Ended January 31, 2009. Service and support cost of revenue decreased approximately 15% to $100.4 million in the year ended January 31, 2010 from $117.6 million in the year ended January 31, 2009 primarily due to our cost-saving initiatives in our Workforce Optimization segment. Of these expenses, employee compensation and related expenses decreased $7.0 million, travel and lodging expenses decreased $3.4 million, stock-based compensation expense, contractor costs, personnel, and communication expenses in the aggregate decreased $1.7 million, and other expenses decreased $2.1 million all of which were a result of our cost-saving initiatives. In addition in the year ended January 31, 2009 we completed certain projects in our performance management business included in our Workforce Optimization segment, accounted for under the Contract Accounting Method. As a result, we recognized deferred service revenue and attributable costs of $3.0 million. Our overall service margins increased to 70% in the year ended January 31, 2010 from 61% in the year ended January 31, 2009 due to increased service revenue and the decrease in service expenses discussed above. Contributing to the increase in gross margin was the fact that in certain cases expenses associated with service revenue recognized in the current year under the Ratable Method were recorded in prior periods when the costs were incurred. Going forward we expect a greater portion of our service revenue to be recognized in the same period as service expenses are incurred and therefore we do not expect to sustain this level of service margins. Service margins in our Workforce Optimization segment increased to 73% in January 31, 2010 from 65% in the year ended January 31 2009. Service margins in our Video Intelligence segment increased to 63% in the year ended January 31, 2010 from 54% in the year ended January 31, 2009. Service margins in our Communications Intelligence segment increased to 73% in the year ended January 31, 2010 from 68% in the year ended January 31, 2009.

Year Ended January 31, 2009 compared to Year Ended January 31, 2008. Service and support cost of revenue increased approximately 17% to $117.6 million in the year ended January 31, 2009 from $100.4 million in the year ended January 31, 2008 primarily due to a full year of Witness being included in our results for the year ended January 31, 2009 compared to only eight months in the year ended January 31, 2008. Of these expenses, employee compensation and related expenses increased $8.3 million, service and support material costs increased $4.3 million, contractor expenses increased $1.7 million, travel and lodging expenses increased $0.7 million, stock-based compensation expense increased $0.6 million, and other expenses increased $1.6 million.

Amortization and Impairment of Acquired Technology and Backlog

Year Ended January 31, 2010 compared to Year Ended January 31, 2009. Amortization and impairment of acquired technology and backlog decreased approximately 11% to $8.0 million in the year ended January 31, 2010 from $9.0 million in the year ended January 31, 2009 primarily due to the weakening of the British Pound in which some of our intangible assets are denominated.

Table of Contents

Year Ended January 31, 2009 compared to Year Ended January 31, 2008. Amortization and impairment of acquired technology and backlog increased approximately 13% to $9.0 million in the year ended January 31, 2009 from $8.0 million in the year ended January 31, 2008, primarily due to a full year of Witness in our results for the year ended January 31, 2009 as compared to only eight months in the year ended January 31, 2008.

Research and Development, Net

Research and development expenses primarily consist of personnel and subcontracting expenses, facility costs, and other allocated overhead, net of certain software development costs that are capitalized as well as reimbursements under government programs. Software development costs are capitalized upon the establishment of technological feasibility and until related products are available for general release to customers.

The following table sets forth research and development, net expense for the years ended January 31, 2010, 2009, and 2008:

	Year Ended January 31,			% Change	
(in thousands)	2010	2009	2008	2010 - 2009	2009 - 2008
Research and development, net	$ 83,797	$ 88,309	$ 87,668	(5%)	1%

Year Ended January 31, 2010 compared to Year Ended January 31, 2009. Research and development, net expense decreased approximately 5% to $83.8 million in the year ended January 31, 2010 from $88.3 million in the year ended January 31, 2009 primarily due to our cost-saving initiatives. Of these expenses, employee compensation and related expenses decreased $1.6 million and contractor and consultant fees decreased $4.0 million. These decreases were partially offset by an increase in stock-based compensation of $1.1 million.

Year Ended January 31, 2009 compared to Year Ended January 31, 2008. Research and development, net expense increased approximately 1% to $88.3 million in the year ended January 31, 2009 from $87.7 million in the year ended January 31, 2008. The increase reflects increases in stock-based compensation of $2.0 million, contractors and consultants fees of $2.3 million, and other expenses totaling $0.5 million, all of which were primarily due to a full year of Witness in our results for the year ended January 31, 2009. These increases were offset by the absence of our special retention program in the year ended January 31, 2009, which totaled $4.2 million in the year ended January 31, 2008.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of personnel costs and related expenses, professional fees, sales and marketing expenses, including travel, sales commissions and sales referral fees, facility costs, communication expenses, and other administrative expenses.

Table of Contents

The following table sets forth selling, general and administrative expense for the years ended January 31, 2010, 2009, and 2008:

	Year Ended January 31,			% Change	
(in thousands)	2010	2009	2008	2010 - 2009	2009 - 2008
Selling, general and administrative	$ 291,813	$ 282,147	$ 259,183	3%	9%

Year Ended January 31, 2010 compared to Year Ended January 31, 2009. Selling, general and administrative expenses increased approximately 3% to $291.8 million in the year ended January 31, 2010 from $282.1 million in the year ended January 31, 2009 primarily due to an increase in professional fees associated with our restatement and extended filing status and partially offset by a decrease in other selling, general and administrative expenses. Professional fees and related expenses associated with our restatement of previously filed financial statements through January 31, 2005 and our extended filing delay status increased by approximately $26 million to $54 million in the year ended January 31, 2010 from approximately $28 million in the year ended January 31, 2009. We expect professional fees and related expenses associated with our restatement of previously filed financial statements through January 31, 2005 and our extended filing delay status will decline in the year ending January 31, 2011. This increase was partially offset by a decrease in employee compensation and related expenses of $5.2 million, a decrease in travel expenses of $4.0 million, a decrease in communication expenses of $1.7 million, a decrease in personnel expenses of $1.3 million, and a reduction in other expenses totaling $1.4 million all of which were due to our cost-saving initiatives. Agent commissions decreased $2.7 million, due to decreased revenue in our Communications Intelligence segment.

Year Ended January 31, 2009 compared to Year Ended January 31, 2008. Selling, general and administrative expenses increased approximately 9% to $282.1 million in the year ended January 31, 2009 from $259.2 million in the year ended January 31, 2008. Of these expenses, employee compensation and related expenses increased $7.4 million partially due to a full year of Witness in our results for the year ended January 31, 2009 offset by lower expenses in our Video Intelligence segment due to a decrease in employee headcount as a result of cost-saving initiatives and the absence of our special retention program. Other increases included an increase in stock-based compensation expense of $2.1 million and an increase in rent and utilities expense of $2.0 million, both of which were due to a full year of Witness in our results for the year ended January 31, 2009. Agent commissions increased $9.3 million, due to increased revenue in our Communications Intelligence segment, and professional fees increased $4.0 million. Professional fees and related expenses associated with our restatement of previously filed financial statements through January 31, 2005 and our extended filing delay status increased by approximately $2 million to $28 million in the year ended January 31, 2009 from approximately $26 million in the year ended January 31, 2008. These increases were offset by a decline in sales commissions of $3.2 million in approximately equal measures in our Workforce Optimization and Video Intelligence segments, due to a decline in customer orders received during the year, as well as other expense reductions totaling $0.7 million.

Table of Contents

Amortization of Other Acquired Intangible Assets

The following table sets forth amortization of other acquired intangible assets for the years ended January 31, 2010, 2009, and 2008:

	Year Ended January 31,			% Change	
(in thousands)	2010	2009	2008	2010 - 2009	2009 - 2008
Amortization of other acquired intangible assets	$ 22,268	$ 25,249	$ 19,668	(12%)	28%

Year Ended January 31, 2010 compared to Year Ended January 31, 2009. Amortization of other acquired intangible assets decreased approximately 12% to $22.3 million in the year ended January 31, 2010 from $25.2 million in the year ended January 31, 2009 primarily due to the weakening of the British Pound in which some of our intangible assets are denominated. We report amortization of acquired trade names, customer relationships, and non-compete agreements as operating expenses.

Year Ended January 31, 2009 compared to Year Ended January 31, 2008. Amortization of other acquired intangible assets increased approximately 28% to $25.2 million in the year ended January 31, 2009 from $19.7 million in the year ended January 31, 2008 primarily due to a full year of Witness being included in our results for the year ended January 31, 2009 compared to only eight months in the year ended January 31, 2008.

In-Process Research and Development

In the year ended January 31, 2008, we expensed the fair value of in-process research and development upon the date of the associated acquisition, as it represents incomplete research and development projects that had not yet reached technological feasibility and has no known alternative future use as of the date of the acquisition. Technological feasibility is generally established when an enterprise completes all planning, designing, coding, and testing activities that are necessary to establish that a product can be produced to meet its design specifications, including functions, features, and technical performance requirements.

The following table sets forth in-process research and development expense for the years ended January 31, 2010, 2009, and 2008:

	Year Ended January 31,		
(in thousands)	2010	2009	2008
In-process research and development	$	$	$ 6,682

Table of Contents

Year Ended January 31, 2008. In-process research and development expenses in the year ended January 31, 2008 primarily related to incomplete research and development projects attributable to the Witness acquisition. No in-process research and development charges were recorded for the years ended January 31, 2010 or 2009.

Impairments of Goodwill and Other Acquired Intangible Assets

The following table sets forth impairments of goodwill and other acquired intangible assets for the years ended January 31, 2010, 2009, and 2008:

	Year Ended January 31,		
(in thousands)	**2010**	**2009**	**2008**
Intangible asset impairment	$	$	$ 2,295
Goodwill impairment		25,961	20,639
Impairments of goodwill and other acquired intangible assets	**$**	**$ 25,961**	**$ 22,934**

Year Ended January 31, 2009. We recorded a goodwill impairment charge of $12.3 million in our Video Intelligence segment, as we fully impaired the remaining goodwill balance in one reporting unit in the Asia Pacific region, due to our decision in the fourth quarter to discontinue the development of a product line as a result of continued decline in our distribution business in that region. We also recorded a goodwill impairment charge of $13.7 million in our Workforce Optimization segment. The impairment in our Workforce Optimization segment was related to our performance management consulting business in the United States and was due primarily to overall lower than anticipated demand for our consulting services, which resulted in a decline in projected future revenue and cash flow. See Note 5, Intangible Assets and Goodwill to the consolidated financial statements included in Item 15.

Year Ended January 31, 2008. We recorded a $2.3 million impairment charge to customer relationships and a goodwill impairment charge of $6.6 million in our Video Intelligence segment. The goodwill impairment charge was recorded due to a change in business strategy, which resulted in a decline in our distribution business in the APAC region. We reviewed our intangible assets for impairment in conjunction with our goodwill impairment review and determined that the customer relationships related to this business were also impaired. We also recorded a goodwill impairment charge of $14.0 million in our Workforce Optimization segment. The impairment in our Workforce Optimization segment was related to our performance management consulting businesses in the United States and Europe and was due primarily to overall lower than anticipated demand for our consulting services, which resulted in a decline in projected future revenue and cash flow. See Note 5, Intangible Assets and Goodwill to the consolidated financial statements included in Item 15.

Table of Contents

Integration, Restructuring and Other, Net

The following table sets forth integration, restructuring and other, net for the years ended January 31, 2010, 2009, and 2008:

	Year Ended January 31,		
(in thousands)	2010	2009	2008
Integration costs	$	$ 3,261	$ 10,980
Restructuring costs	141	5,685	3,308
Other legal costs (recoveries)		(4,292)	8,708
Integration, restructuring and other, net	**$ 141**	**$ 4,654**	**$ 22,996**

Integration and Restructuring Costs

Year Ended January 31, 2010. We incurred additional restructuring costs of $0.1 million, consisting primarily of severance and personnel-related costs resulting from headcount reductions and retentions made in the year ended January 31, 2009.

Year Ended January 31, 2009. We continually review our business to manage costs and align our resources with market demand. In connection with such reviews, and also in conjunction with the acquisition of Witness, we continued to take several actions in the year ended January 31, 2009 to reduce fixed costs, eliminate redundancies, strengthen areas needing operational focus, and better position us to respond to market pressures or unfavorable economic conditions. We incurred restructuring costs of $5.7 million, consisting primarily of severance and personnel-related costs resulting from headcount reductions and retention, due to the acquisition of Witness and the restructuring of our Video Intelligence segment. As a result of the subsequent integration of the Witness and Verint businesses, and our Oracle enterprise resource planning re-engineering project, we incurred integration costs of $3.3 million, the majority of which were professional fees.

Year Ended January 31, 2008. We continually review our business to manage costs and align our resources with market demand. In connection with such reviews, and also in conjunction with the acquisition of Witness, we took several actions in the year ended January 31, 2008 to reduce fixed costs, eliminate redundancies, strengthen areas needing operational focus, and better position us to respond to market pressures or unfavorable economic conditions. As a result of these actions, we incurred restructuring costs of $3.3 million, in approximately equal measure as a result of acquiring Witness and from restructuring charges pertaining to the Video Intelligence segment. Also, resulting from the Witness acquisition and the subsequent integration of the Witness and Verint businesses, we incurred integration costs of $11.0 million during the year ended January 31, 2008. The majority of these integration and restructuring costs consisted of severance and personnel-related costs resulting from headcount reductions and retention, professional fees, and costs associated with travel and lodging.

Table of Contents

Other Legal Costs

Year Ended January 31, 2009. On August 1, 2008, we reached a settlement agreement related to an ongoing patent infringement litigation matter, and recorded $9.7 million in settlement gains in the three months ended October 31, 2008. This gain was partially offset by $5.4 million of legal fees incurred during the year ended January 31, 2009 resulting in a net recovery of $4.3 million.

Year Ended January 31, 2008. We incurred $8.7 million of legal fees related to an ongoing patent infringement litigation matter. This litigation was subsequently settled during the year ended January 31, 2009.

Other Income (Expense), Net

The following table sets forth total other income (expense), net for the years ended January 31, 2010, 2009, and 2008:

	Year Ended January 31,			% Change	
(in thousands)	**2010**	**2009**	**2008**	**2010 - 2009**	**2009 - 2008**
Interest income	$ 616	$ 1,872	$ 5,443	(67%)	(66%)
Interest expense	(24,964)	(37,211)	(36,862)	(33%)	1%
Other income (expense):					
Gains (losses) on investments		4,713	(4,713)	(100%)	(200%)
Foreign currency gains (losses), net	(1,898)	1,645	1,431	(215%)	15%
Losses on derivatives, net	(14,709)	(14,591)	(22,267)	1%	(34%)
Other, net	(516)	(308)	1,782	68%	(117%)
Total other expense	(17,123)	(8,541)	(23,767)	100%	(64%)
Total other income (expense), net	**$ (41,471)**	**$ (43,880)**	**$ (55,186)**	(5%)	(20%)

Year Ended January 31, 2010 compared to Year Ended January 31, 2009. Total other income (expense), net, decreased $2.4 million to an expense of $41.5 million in the year ended January 31, 2010, compared to an expense of $43.9 million in the year ended January 31, 2009. Interest income decreased to $0.6 million in the year ended January 31, 2010 from $1.9 million in the year ended January 31, 2009 primarily due to lower interest rates. Interest expense decreased to $25.0 million in the year ended January 31, 2010 from $37.2 million in the year ended January 31, 2009 due to lower interest rates during the year ended January 31, 2010. Foreign currency losses in the year ended January 31, 2010 resulted from the strengthening U.S. Dollar against the British Pound, Euro and Israeli Shekel as compared to the foreign currency gains in the year ended January 31, 2009 resulting from the weakening U.S. Dollar against the British Pound, Euro and Israeli Shekel.

In the year ended January 31, 2010, we recorded a net loss on derivatives of $14.7 million. This loss was primarily attributable to a $13.6 million loss in connection with a $450.0 million interest rate swap contract entered into concurrently with our credit agreement. This interest rate swap is not designated as a hedging instrument under derivative accounting guidance, and accordingly, gains and losses from changes in the fair value are recorded in other income (expense), net. This loss was also partially due to a $1.1 million loss on foreign currency derivatives, which represented the realized and unrealized portions of certain foreign currency hedges.

Year Ended January 31, 2009 compared to Year Ended January 31, 2008. Total other income (expense), net, decreased $11.3 million to an expense of $43.9 million in the year ended January 31, 2009, compared to an expense of $55.2 million in the year ended January 31, 2008. Interest income decreased to $1.9 million in the year ended January 31, 2009 from $5.4 million in the year ended January 31, 2008 primarily due to lower interest rates. Interest expense increased to $37.2 million in the year ended January 31, 2009 from $36.9 million in the year ended January 31, 2008 due to an increase in our average debt balance year over year, offset by lower interest rates during the year ended January 31, 2009. In the year ended January 31, 2009, our investment in auction rate securities (ARS) with a carrying value of $2.3 million, were repurchased by our broker at the value equal to the par value of $7.0 million, resulting in a gain of $4.7 million. Foreign currency gains (losses) were the result of the effect of currency rate movements, primarily between the U.S. Dollar and the Euro, British Pound Sterling, Israeli Shekel, and Canadian Dollar.

In the year ended January 31, 2009, we recorded a net loss on derivatives of $14.6 million. This loss was primarily attributable to an $11.5 million loss in connection with a $450.0 million interest rate swap contract entered into concurrently with our credit agreement. This interest rate swap is not designated as a hedging instrument under derivative accounting guidance, and accordingly, gains and losses from changes in the fair value are recorded in other income (expense), net. This loss was also partially due to a $3.1 million loss on foreign currency derivatives, which represented the realized and unrealized portions of our foreign currency hedges. As of January 31, 2009, some of our foreign-currency forward contracts were not designated as hedging instruments. Accordingly, the fair value of the contracts is reported as other current assets or other current liabilities on our consolidated balance sheet, and gains and losses from changes in fair value are reported in other income (expense), net.

Income Tax Provision

The following table sets forth our income tax provision for the years ended January 31, 2010, 2009, and 2008:

	Year Ended January 31,			% Change	
(in thousands)	2010	2009	2008	2010 - 2009	2009 - 2008
Provision for income taxes	$ 7,108	$ 19,671	$ 27,729	(64%)	(29%)

Table of Contents

Year Ended January 31, 2010 compared to Year Ended January 31, 2009. Our effective tax rate was 29.4% for the year ended January 31, 2010, as compared to (33.4)% for the year ended January 31, 2009. For the year ended January 31, 2010, our overall effective tax rate was lower than the U.S. statutory rate because we recorded valuation allowances against our U.S. pre-tax losses, thereby reducing the benefits we could otherwise record on such losses, while reporting an income tax provision on income in certain foreign jurisdictions with rates lower than the U.S. statutory rate. The rate was further impacted by non-deductible expenses and tax credits, primarily in foreign jurisdictions. For the year ended January 31, 2009, we recorded tax expense on a consolidated pre-tax loss resulting in a negative effective tax rate. In addition, during the year ended January 31, 2009, we recorded valuation allowances against our U.S. pre-tax losses resulting in no tax benefit being recorded and we incurred certain pre-tax expenses which were not deductible for tax purposes, including the impairment of goodwill. Excluding the impact of valuation allowances, our effective tax rate for the year ended January 31, 2010 would have been (2.6)%. A negative effective tax rate would result because the tax benefit of U.S. pre-tax losses, taxed at the U.S. statutory rate, exceeds the tax expense related to pre-tax income in various foreign jurisdictions being taxed at lower rates.

The manner in which we evaluate the need for valuation allowances is described in Critical Accounting Policies and in Note 1, Summary of Significant Accounting Policies to the consolidated financial statements included in Item 15.

Year Ended January 31, 2009 compared to Year Ended January 31, 2008. Our effective tax rate was (33.4)% for the year ended January 31, 2009, as compared to (16.3)% for the year ended January 31, 2008. The effective tax rate was negative in both years due to the fact that we reported tax expense on a consolidated pre-tax loss, primarily because we recorded a valuation allowance against certain pre-tax losses while, at the same time, recording an income tax provision in profitable jurisdictions. Lower pre-tax losses reported in the current year, as compared to the prior year, coupled with the relative mix of income and losses by taxing jurisdictions with rates different than the U.S. statutory rate and the impact of permanent book to tax differences, resulted in a larger negative effective tax rate for the year ended January 31, 2009. The most significant permanent difference in each year related to non-deductible goodwill impairment charges. For the year ended January 31, 2008 we recorded valuation allowances against our U.S. deferred tax assets resulting in the recording of tax expense. For the year ended January 31, 2009 we continued to record valuation allowances against our U.S. deferred tax assets resulting in no tax benefit being recorded in the current year. These charges reduced the benefits we could record on our pre-tax losses. Excluding the impact of valuation allowances, our effective tax rate for the year ended January 31, 2009 would have been 17.9%, which was lower than the U.S. statutory tax rate primarily due to income in certain foreign jurisdictions being taxed at lower rates.

Backlog

The delivery cycles of most of our products are generally very short, ranging from days to several months, with the exception of certain projects with multiple deliverables over a longer period of time. Therefore, we do not view backlog as a meaningful indicator of future business activity and do not consider it a meaningful financial metric for evaluating our business.

Table of Contents

Liquidity and Capital Resources

Overview

Prior to the year ended January 31, 2008, our primary source of liquidity was cash from operations, consisting of collections of our accounts receivable for services and products as well as cash advances from our customers. However, in the year ended January 31, 2008, we borrowed $650.0 million under a new term loan facility ($40.0 million of which was prepaid during the year ended January 31, 2008) and received $293.0 million through the issuance of preferred stock to finance a significant portion of the Witness acquisition. We also have a $15.0 million revolving line of credit, which we initially borrowed against on November 24, 2008, and this borrowing remains outstanding as of the date of this report. See - Liquidity and Capital Resources Requirements below for additional information regarding our credit agreement. Our primary uses of cash have been and are expected to continue to be for acquisitions of businesses, selling and marketing activities, research and development, professional fees, and capital expenditures. Beginning in the year ended January 31, 2008, uses of cash have also included interest payments and debt repayments.

The following table sets forth, for the years ended January 31, 2010 and 2009, cash and cash equivalents, and other funded sources:

	January 31,	
(in thousands)	**2010**	**2009**
Cash and cash equivalents	$ 184,335	$ 115,928
Preferred stock (at carrying value)	$ 285,542	$ 285,542
Long-term debt	$ 598,234	$ 620,912

Year Ended January 31, 2010 compared to Year Ended January 31, 2009. At January 31, 2010, our cash and cash equivalents totaled $184.3 million, an increase of $68.4 million as compared to our January 31, 2009 balance. Our total short and long-term debt decreased during this same period by $4.1 million as a result of a debt repayment made in May, 2009. This net increase in cash is due to our improved operating performance primarily as a result of our cost-saving initiatives.

Table of Contents

Statements of Cash Flows

The following table summarizes selected items from our statements of cash flows for the years ended January 31, 2010, 2009, and 2008:

	Year Ended January 31,		
(in thousands)	**2010**	**2009**	**2008**
Net cash provided by (used in) operating activities	$ 100,837	$ 53,635	$ (299)
Net cash used in investing activities	(24,599)	(26,247)	(851,733)
Net cash provided by (used in) financing activities	(10,491)	11,888	885,017
Effect of exchange rate changes on cash and cash equivalents	2,660	(6,581)	923
Net increase in cash and cash equivalents	**$ 68,407**	**$ 32,695**	**$ 33,908**

Net Cash Provided by (Used in) Operating Activities

Prior to the year ended January 31, 2008, we historically had positive cash provided by operating activities as our cash collections from operations exceeded our costs. In the year ended January 31, 2008, we made payments as a result of the Witness acquisition including interest expense, integration expense, and special employee compensation. In addition, we made professional fee and related expense payments associated with our restatement of previously filed financial statements and our extended filing delay status. These incremental payments resulted in a $0.3 million use of cash in our operating activities in the year ended January 31, 2008. In the year ended January 31, 2009, due to our improved operating performance reflecting higher revenue and operating margins versus the prior year, our operating activities returned to a positive cash flow position of $53.6 million. This improvement occurred despite increasing expenses related to restatements and our extended filing delay status during the year ended January 31, 2009. In the year ended January 31, 2010, our operating performance further improved to $100.8 million, primarily due to our cost-saving initiatives.

During the year ended January 31, 2010, we generated $100.8 million in cash from operating activities. This $100.8 million in cash from operating activities was due to net income of $17.1 million, non-cash items of $97.4 million, primarily depreciation and amortization, stock-based compensation, and non-cash losses on derivative financial instruments, lower deferred cost of revenue of $14.1 million, and higher accounts payable and accrued expenses of $12.9 million. These increases were partially offset by lower deferred revenue of $21.1 million, higher accounts receivable of $13.9 million, and higher prepaid expenses and other assets of $11.5 million.

During the year ended January 31, 2009, we generated $53.6 million in cash from operating activities. This $53.6 million cash from operating activities was due to non-cash items of $142.0 million, primarily depreciation and amortization, stock-based compensation, impairment of assets, provision for deferred income taxes, and non-cash losses on derivative financial instruments, lower deferred cost of revenue of $12.2 million, and lower prepaid expenses and other assets of $8.9 million. These increases were partially offset by a net loss of $78.6 million, lower accounts payable and accrued expenses of $10.8 million, and lower deferred revenue of $7.3 million.

Table of Contents

During the year ended January 31, 2008, we used $0.3 million in cash in operating activities. The cash used consisted primarily of a net loss of $197.5 million and increased accounts receivable of $20.2 million due to higher revenue. This was partially offset by non-cash items of $159.8 million, primarily depreciation and amortization, deferred income taxes, stock-based compensation, impairment of assets, and non-cash losses on derivative financial instruments, increased deferred revenue of $25.1 million, lower prepaid expenses and other assets of $14.0 million, lower deferred cost of revenue of $5.6 million, and higher accounts payable and accrued expenses of $8.5 million.

Net Cash Used by Investing Activities

During the year ended January 31, 2010, our investing activities used $24.6 million primarily due to settlements of derivative financial instruments not designated as hedges of $19.4 million and capital expenditures of $5.0 million.

During the year ended January 31, 2009, our investing activities used $26.2 million in cash, primarily resulting from $10.0 million of payments to settle derivative financial instruments not designated as hedges, and capital expenditures of $11.1 million.

During the year ended January 31, 2008, $851.7 million in cash was used in investing activities, principally due to the acquisition of Witness and ViewLinks Euclipse Ltd. with net assets acquired, net of cash, of $953.2 million, and capital expenditures of $14.2 million, partially offset by cash receipts from sales and maturities of investments, net of purchases, of $120.5 million.

Currently, we have no significant commitments for capital expenditures.

Net Cash Provided by (Used in) Financing Activities

During the year ended January 31, 2010, we used $10.5 million in cash from financing activities, resulting from repayments of borrowings and other financing obligations of $6.1 million and $4.1 million of dividends paid to the noncontrolling stockholders of our joint venture.

During the year ended January 31, 2009, we generated $11.9 million in cash from financing activities, primarily reflecting $15.0 million of proceeds from borrowings under our revolving credit facility.

During the year ended January 31, 2008, we generated $885.0 million in cash from financing activities, reflecting $650.0 million of proceeds from borrowings under our new term loan and $293.0 million of proceeds from issuance of convertible preferred stock to Comverse, partially offset by $42.5 million of repayments of long-term debt and payment of $13.6 million of debt issuance costs.

Table of Contents

Liquidity and Capital Resources Requirements

Based on past performance and current expectations, we believe that our cash and cash equivalents, and cash generated from operations will be sufficient to meet anticipated operating costs including required payments of principal and interest, working capital needs, capital expenditures, research and development spending, and other commitments for at least the next 12 months. Currently, we have no plans to pay any dividends on our preferred or common stock, which are not permitted under our credit agreement.

Our liquidity could be negatively impacted by a decrease in demand for our products and services and support, including the impact of changes in customer buying behavior due to the general global economic downturn. We have incurred significant professional fees and related expenses in connection with our restatement of previously filed financial statements through January 31, 2005 and our extended filing delay status. We expect that we will continue to incur significant professional fees and costs in the first half of 2010. Our liquidity could be negatively impacted by these additional fees and costs. In the event we determine to make acquisitions or otherwise require additional funds, we may need to raise additional capital, which could involve the issuance of equity or debt securities. There can be no assurance that we would be able to raise additional equity or debt in the private or public markets on terms favorable to us, or at all.

On May 25, 2007, we entered into a $650.0 million term loan and a $25.0 million revolving credit facility with a group of banks to fund a portion of the acquisition of Witness. As of January 31, 2010, our outstanding term loan balance was $605.9 million. The original $25.0 million revolving credit facility was reduced to $15.0 million in September 2008 due to the bankruptcy of Lehman Brothers and the termination of its commitment under the credit agreement. We borrowed the entire $15.0 million available to us in November 2008 and currently have no remaining balance available to us. We have made no payments during the year ended January 31, 2010 on the revolving credit facility. The term loan matures on May 25, 2014 and the revolving credit facility matures on May 25, 2013.

The credit agreement requires mandatory prepayments from the proceeds of certain asset sales, excess cash flow as defined by the agreement and proceeds of indebtedness as well as quarterly principal repayments. Any re-borrowings under the revolving credit facility are dependent upon certain conditions including the absence of any material adverse effect or change on our business, as defined in the credit agreement.

Table of Contents

The credit agreement contains one financial covenant that requires us to meet a certain consolidated leverage ratio, defined as our consolidated net total debt divided by consolidated EBITDA for the trailing four quarters. EBITDA is defined in our credit agreement as net income/(loss) plus income tax expense, interest expense, depreciation and amortization, losses related to hedge agreements, any extraordinary, unusual, or non-recurring expenses or losses, any other non-cash charges, and expenses incurred or taken prior to April 30, 2008 in connection with our acquisition of Witness, minus interest income, any extraordinary, unusual, or non-recurring income or gains, gains related to hedge agreements, and any other non-cash income. Under the credit agreement, the consolidated leverage ratio could not exceed 5.50:1 for the quarterly period ended January 31, 2008, and we were in compliance with such requirement as of such date. For the quarterly periods ended April 30, July 31, and October 31, 2008, the consolidated leverage ratio could not exceed 5.50:1 and we were in compliance with such requirement as of such dates. For the quarterly periods ended January 31, April 30, July 31, and October 31, 2009, the consolidated leverage ratio could not exceed 4.50:1, and we were in compliance with such requirement as of such dates. For the quarterly periods ended January 31, April 30, July 31, and October 31, 2010, the consolidated leverage ratio cannot exceed 3.50:1. As of January 31, 2010, we were in compliance with such requirement. For the quarterly periods ended January 31, April 30, July 31, and October 31, 2011, the consolidated leverage ratio cannot exceed 2.50:1. For the quarterly period ended January 31, 2012 and thereafter, the consolidated leverage ratio cannot exceed 2.00:1.

Because our revenue recognition review resulted in changes in the way we recognize revenue from the way we did so at the time the credit agreement was put in place, it may be more difficult for us to maintain compliance with our leverage ratio covenant on a prospective basis than we expected at the time we entered into the credit agreement since the leverage ratio covenant is based on EBITDA, which is affected by revenue.

Based on our current expectations, we intend to reduce our outstanding debt by the end of the quarterly period ending January 31, 2011 in order to maintain compliance with the consolidated leverage ratio covenant using available cash or cash raised from financing activities. Alternatively, we may pursue an acquisition that is accretive to our earnings. There can be no assurance that we will be successful with any such financing activities or in pursuing such an acquisition.

In addition, we are subject to a number of restrictive covenants, including limitations on our ability to incur indebtedness, create liens, make fundamental business changes, dispose of property, make restricted payments including dividends, make significant investments, enter into sale and leasebacks, enter new lines of business, provide negative pledges, enter into transactions with related parties, and enter into any speculative hedges, although there are limited exceptions to these covenants. The credit agreement also includes a requirement that we submit audited consolidated financial statements to the lenders within 90 days of the end of each fiscal year. If audited consolidated financial statements are not so delivered, and such failure of delivery is not remedied within 30 days thereafter, an event of default occurs. On April 27, 2010, we entered into an amendment to the credit agreement to extend the due date for delivery of audited consolidated financial statements and related documentation for the year ended January 31, 2010 from May 1, 2010 to June 1, 2010. In consideration for this amendment, we paid approximately $0.9 million.

Effective on February 25, 2008, our applicable borrowing margin increased by 0.25%, pursuant to the terms of the facility, because we did not provide certain audited financial statements to our lenders. Additionally, on August 25, 2008, the applicable margins increased another 0.25%, or 0.50% in total, since we did not deliver audited financial statements to our lenders.

See Risk Factors We have incurred significant indebtedness as a result of the acquisition of Witness, which makes us highly leveraged, subjects us to restrictive covenants, and could adversely affect our operations under Item 1A.

Table of Contents

If we are unable to comply with any of the requirements in the credit agreement, an event of default could occur which could cause or permit holders of the debt to declare all amounts outstanding to be immediately due and payable. In that event, we may be forced to sell assets, raise additional capital through a securities offering, or seek to refinance or restructure our debt. In such a case, we may not be able to consummate such a sale, securities offering, or refinancing or restructuring of the debt on reasonable terms, or at all.

Contractual Obligations

At January 31, 2010, our contractual obligations were as follows:

	Payments Due by Period				
(in thousands)	**Total**	**< 1 year**	**1-3 years**	**3-5 years**	**> 5 years**
Long-term debt obligations, including interest	$ 741,632	$ 65,884	$ 98,137	$ 577,611	$
Operating lease obligations	46,173	12,536	20,988	9,994	2,655
Purchase obligations	33,827	32,756	1,071		
Other long-term obligations	1,700	600	1,100		
Total contractual obligations	**$ 823,332**	**$ 111,776**	**$ 121,296**	**$ 587,605**	**$ 2,655**

The long-term debt obligations reflected above include projected interest payments over the term of the debt, assuming an interest rate of 3.49%, which was the interest rate in effect for both our term loan and revolving credit agreement borrowings as of January 31, 2010. The terms of our long-term debt obligations are further discussed in Note 6, Long-term Debt to the consolidated financial statements included in Item 15. The long-term debt obligations also include the projected quarterly settlements of our interest rate swap, through its expiration in May 2011, using the same future interest rate assumptions that underlie the estimated fair value of the swap at January 31, 2010.

Our purchase obligations are associated with agreements for purchases of goods or services generally including agreements that are enforceable and legally binding and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transactions. The table above also includes agreements to purchase goods or services that have cancellation provisions requiring little or no payment. The amounts under such contracts are included in the table above because we believe that cancellation of these contracts is unlikely and we expect to make future cash payments according to the contract terms or in similar amounts for similar materials.

Our consolidated balance sheet at January 31, 2010 includes $25.7 million of non-current tax reserves, net of related benefits (including interest and penalties of $7.1 million, net of federal benefit) for uncertain tax positions. However these amounts are not included in the table above because it is not possible to predict or estimate the timing of payments for these obligations. We do not expect to make any significant payments for these uncertain tax positions within the next twelve months.

Table of Contents

Off Balance Sheet Arrangements

We lease certain of our current facilities, furniture, and equipment under non-cancelable operating lease agreements. We are typically required to pay property taxes, insurance, and normal maintenance costs for these facilities.

In the normal course of business, we provide certain customers with financial performance guarantees, which are generally backed by standby letters of credit or surety bonds. In general, we would only be liable for the amounts of these guarantees in the event that our nonperformance permits termination of the related contract by our customer, which we believe is remote. At January 31, 2010, we had approximately $7.4 million of outstanding letters of credit and surety bonds relating to these performance guarantees. As of January 31, 2010, we believe we were in compliance with our performance obligations under all contracts for which there is a financial performance guarantee, and the ultimate liability, if any, incurred in connection with these guarantees will not have a material adverse affect on our consolidated results of operations, financial position, or cash flows. Our historical noncompliance with our performance obligations has been insignificant.

In the normal course of business, we provide indemnifications of varying scopes to customers against claims of intellectual property infringement made by third parties arising from the use of our products. Historically, costs related to these indemnification provisions have not been significant and we are unable to estimate the maximum potential impact of these indemnification provisions on our future results of operations.

To the extent permitted under Delaware law or other applicable law, we indemnify our directors, officers, employees, and agents against claims they may become subject to by virtue of serving in such capacities for us. We also have contractual indemnification agreements with our directors, officers, and certain senior executives. The maximum amount of future payments we could be required to make under these indemnification arrangements and agreements is potentially unlimited; however, we have insurance coverage that limits our exposure and enables us to recover a portion of any future amounts paid. We are not able to estimate the fair value of these indemnification arrangements and agreements in excess of applicable insurance coverage, if any.

Subsequent Events

The following summarizes significant developments since January 31, 2010.

Acquisition of Iontas

On February 4, 2010, our wholly owned subsidiary, Verint Americas, acquired all of the outstanding shares of Iontas, a privately held provider of desktop analytics solutions. Iontas solutions measure application usage and analyze workflows to help improve staff performance in contact center, branch, and back-office operations environments. Iontas desktop analytics solutions will be tightly integrated into our Impact 360® Workforce Optimization suite. We acquired Iontas for approximately $15.2 million in cash (net of cash and net assets acquired) and potential additional earn-out payments tied to certain targets being achieved over a two-year period.

Table of Contents

Wells Notices

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

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

Amendment to Credit Agreement

On April 27, 2010, we entered into an amendment to our credit agreement to extend the due date for delivery of audited consolidated financial statements and related documentation for the year ended January 31, 2010 from May 1, 2010 to June 1, 2010. In consideration for this amendment, we paid $0.9 million. This payment will be amortized as additional interest expense over the remaining term of the credit agreement using the effective interest method. Legal fees and other out-of-pocket costs directly relating to the amendment, which are expensed as incurred, were not significant.

Table of Contents

Recent Accounting Pronouncements

Standards Implemented:

In December 2007, the Financial Accounting Standard Board (FASB) revised their guidance on business combinations. This new guidance requires an acquiring entity to measure and recognize identifiable assets acquired and liabilities assumed, and contingent consideration at their fair value at the acquisition date with subsequent changes recognized in earnings. In addition, acquisition related costs and restructuring costs are recognized separately from the business combination and expensed as incurred. The new guidance also requires acquired in-process research and development costs to be capitalized as an indefinite-lived intangible asset and requires that changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period be recognized as a component of the provision for income taxes. In April 2009, the FASB issued a new standard which clarified the accounting for pre-acquisition contingencies. This guidance was effective for us beginning on February 1, 2009. For further discussion see Note 4, Business Combinations to the consolidated financial statements included in Item 15.

In December 2007, the FASB issued a new accounting standard which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and the noncontrolling interest, changes in a parent s ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. The new standard also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. On February 1, 2009, we adopted this standard, and the presentation and disclosure requirements of this standard were applied retrospectively to all periods presented, as required by the standard. The adoption of this standard did not have a material impact on our consolidated financial statements, other than the following changes in presentation of the noncontrolling interest:

- Net income (loss) now includes net income (loss) attributable to both Verint Systems Inc. and the noncontrolling interest in the consolidated statements of operations. The presentation of net income (loss) in prior periods excluded the noncontrolling interest in the net income of our joint venture. Net income (loss) excluding the noncontrolling interest in the net income of our joint venture is now presented after net income (loss), with the caption net income (loss) attributable to Verint Systems Inc.
- The noncontrolling interest, which was previously reflected in other liabilities, is now was presented in stockholders equity (deficit), separate from Verint Systems Inc. s stockholders equity (deficit), in the consolidated balance sheets.
- The consolidated statements of cash flows now begin with net income (loss), including the noncontrolling interest, instead of net income (loss) attributable to Verint Systems Inc.

Table of Contents
In March 2008, the FASB amended the disclosure requirements for derivative instruments and hedging activities. This new guidance requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. This guidance was effective for us beginning on February 1, 2009. For further discussion, see Note 13, Fair Value Measurements and Derivative Financial Instruments to the consolidated financial statements included in Item 15.
In April 2009, the FASB issued staff positions that require enhanced fair value disclosures, including interim disclosures, on financial instruments; determination of fair value in turbulent markets; and recognition and presentation of other than temporary impairments. These staff positions were effective beginning with our quarter ended July 31, 2009. These staff positions will enhance our interim disclosures but will not have a material effect on our consolidated financial statements.
In May 2009, the FASB issued a standard that establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. In February 2010, the FASB issued an amendment to this guidance that removed the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. This standard as amended was effective for us beginning with our interim period ended July 31, 2009. The adoption of this standard, as amended, had no impact on our consolidated financial statements.
During the third quarter of the year ended January 31, 2010, we adopted the new Accounting Standards Codification (ASC) as issued by the FASB. The ASC has become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. The ASC is not intended to change or alter existing GAAP. The adoption of the ASC had no impact on our consolidated financial statements.
New Standards to be Implemented:
In June 2009, the FASB issued a new accounting standard related to the consolidation of variable interest entities, requiring a company to perform an analysis to determine whether its variable interests give it a controlling financial interest in a variable interest entity. This analysis requires a company to assess whether it has the power to direct the activities of the variable interest entity and if it has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the variable interest entity. This standard requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity, eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity, and significantly enhances disclosures. The standard may be applied retrospectively to previously issued financial statements with a cumulative-effect adjustment to retained earnings as of the beginning of the first year restated. This standard is effective for us for the fiscal year beginning on February 1, 2010. We are in the process of evaluating this standard and therefore have not yet determined the impact that adoption will have on our consolidated financial statements.

Table of Contents

In October 2009, the FASB issued guidance that applies to multiple-deliverable revenue arrangements. This guidance also provides principles and application guidance on whether a revenue arrangement contains multiple deliverables, how the arrangement should be separated, and how the arrangement consideration should be allocated. The guidance requires an entity to allocate revenue in a multiple-deliverable arrangement using estimated selling prices of the deliverables if a vendor does not have VSOE or third-party evidence of selling price. It eliminates the use of the residual method and, instead, requires an entity to allocate revenue using the relative selling price method. It also expands disclosure requirements with respect to multiple-deliverable revenue arrangements.

Also in October 2009, the FASB issued guidance related to multiple-deliverable revenue arrangements that contain both software and hardware elements, focusing on determining which revenue arrangements are within the scope of existing software revenue guidance. This additional guidance removes tangible products from the scope of the software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are within the scope of the software revenue guidance.

The above guidance related to revenue recognition should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. It will be effective for us in our fiscal year beginning February 1, 2011, although early adoption is permitted. Alternatively, an entity can elect to adopt the provisions of these issues on a retrospective basis. We are assessing the impact that the application of this new guidance may have on our consolidated financial statements.

In January 2010, the FASB issued amended standards that require additional fair value disclosures. These disclosure requirements are effective in two phases. Effective in our fiscal year beginning February 1, 2010, the amended standards will require enhanced disclosures about inputs and valuation techniques used to measure fair value as well as disclosures about significant transfers between categories of the fair value measurement hierarchy. Effective in our fiscal year beginning February 1, 2011, the amended standards will require presentation of disaggregated activity within the reconciliation for fair value measurements using significant unobservable inputs (Level 3). These amended standards do not significantly impact our consolidated financial statements.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk

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

Credit Agreement

On May 25, 2007, to partially finance the acquisition of Witness, we entered into a $675.0 million secured financing arrangement comprised of a seven-year $650.0 million term loan facility and a six-year $25.0 million revolving credit facility (the facilities). As of January 31, 2010, we had $605.9 million outstanding under the term loan. The $25.0 million revolving credit facility was subsequently reduced to $15.0 million due to the bankruptcy of Lehman Brothers and in November 2008, we borrowed the full $15.0 million under the facility, which remained outstanding as of January 31, 2010.

Borrowings under the facilities bear interest at a rate of, at our election, (a) 1.75% plus the higher of (i) prime rate and (ii) the federal funds rate plus 0.50% or (b) 2.75% over the London Interbank Offered Rate, or LIBOR. In the case of the former, the interest rate adjusts in unison with the underlying index. In the case of LIBOR borrowings, the interest rate adjusts at the end of the relevant LIBOR period. Effective on February 25, 2008, our applicable margins indicated above increased by 0.25%, pursuant to the terms of the facility, because we did not provide certain audited financial statements to our lenders. Additionally, on August 25, 2008 the applicable margins increased another 0.25%, or 0.50% in total, since we did not deliver audited financial statements to our lenders. We have now delivered the audited financial statements for the year ended January 31, 2010 to our lenders and after receipt of appropriate credit ratings from Standard & Poors and Moody s Investor Services, the applicable margins described above will be determined by reference to our credit ratings, and will range from 1.00% to 1.75% in the case of prime rate (or federal funds) based borrowings, and from 2.00% to 2.75% for LIBOR-based borrowings.

Interest Rate Risk on Our Debt

Because the interest rates applicable to borrowings under the facilities are variable, we are exposed to market risk from changes in the underlying index rates, which affect our cost of borrowing. To partially mitigate this risk, and in part because we were required to do so by the lenders, when we entered into our credit facilities in May 2007, we executed a pay-fixed, receive-variable interest rate swap with a multinational financial institution under which we pay fixed interest at 5.18% and receive variable interest of three-month LIBOR on a notional amount of $450.0 million. This instrument is settled with the counterparty on a quarterly basis, and matures on May 1, 2011. As of January 31, 2010, of the $605.9 million of borrowings that were outstanding under the term loan, the interest rate on $450.0 million of such borrowings was substantially fixed by utilization of the interest rate swap. Interest on the remaining $155.9 million was variable. If the market interest rates for one or three-month LIBOR changed by 1.00% as of January 31, 2010, the annual interest expense on these borrowings would change by approximately $1.6 million. This interest rate swap is not designated as a hedging instrument under applicable accounting guidance and is accounted for as a derivative, whereby the fair value of the instrument is reported on our consolidated balance sheets, and gains and losses from changes in its fair value, whether realized or unrealized, are reported in other income (expense), net. For the year ended January 31, 2010, we recorded losses on this instrument of approximately $13.6 million in other income (expense), net on the consolidated statements of operations. These losses reflect the decline in market interest rates during the year ended January 31, 2010.

Table of Contents

The counterparty to our interest rate swap is a multinational financial institution. Despite the recent disruption in the global financial markets, we believe the risk of this counterparty s nonperformance of its obligations is not material. Currently and for the expected remaining term of the agreement, the swap is in the counterparty s favor and not ours, so we do not expect to have counterparty risk as a result of the significant decline in interest rates since first quarter 2008.

Investments

We invest in cash, cash equivalents, and bank time deposits. Interest rate changes could result in an increase or decrease in interest income we generate from these interest-bearing assets. Our cash, cash equivalents, and bank time deposits are primarily maintained at high credit-quality financial institutions around the world. The primary objective of our investment activities is the preservation of principal while maximizing investment income and minimizing risk. We have investment guidelines relative to diversification and maturities designed to maintain safety and liquidity.

As of January 31, 2010, we had cash and cash equivalents totaling approximately $184.3 million, consisting of demand deposits and bank time deposits having maturities of three months or less. We also held $5.2 million of cash equivalents which were restricted for purposes of securing certain short-term performance obligations, and were not available for general operating use.

As of January 31, 2009, we had cash and cash equivalents totaling approximately $115.9 million, consisting of demand deposits and bank time deposits having maturities of three months or less. We also held $7.7 million of cash equivalents which were restricted for purposes of securing certain short-term performance obligations, and were not available for general operating use.

Interest Rate Risk on Our Investments

To provide a meaningful assessment of the interest rate risk associated with our investment portfolio, we performed a sensitivity analysis to determine the impact a change in interest rates would have on the value of the investment portfolio assuming, during the year ended January 31, 2011, average short-term interest rates increase or decrease by 50 basis points relative to average rates realized during the year ended January 31, 2010. Such a change would cause our projected interest income from cash, cash equivalents, and bank time deposits to increase or decrease by approximately $0.9 million, assuming a similar level of investments in the year ended January 31, 2011 as in the year ended January 31, 2010.

Due to the short-term nature of our cash and cash equivalents and time deposits, the carrying values approximate market values and are not generally subject to price risk due to fluctuations in interest rates. See Note 3, Investments to the consolidated financial statements included in Item 15 for more information regarding our short-term investments.

Table of Contents

Foreign Currency Exchange Risk

The functional currency for each of our foreign subsidiaries is the respective local currency with the exception of our subsidiaries in Israel and Canada, whose functional currencies are the U.S. Dollar. We are exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign subsidiaries into U.S. Dollars for consolidated reporting purposes. If there is a change in foreign currency exchange rates, the conversion of the foreign subsidiaries financial statements into U.S. Dollars results in a gain or loss which is recorded as a component of accumulated other comprehensive income within stockholders equity (deficit).

Our international operations subject us to risks associated with currency fluctuations. While most of our revenue and expenses are denominated in U.S. Dollars, we do have a significant portion of our operating expenses, primarily labor expenses, that is denominated in the local currencies where our foreign operations are located, primarily Israel, the United Kingdom, Germany, and Canada. As a result, our consolidated U.S. Dollar operating results are subject to the potentially adverse impact of fluctuations in foreign currency exchange rates between the U.S. Dollar and the other currencies in which we conduct business.

In addition, we have certain assets and liabilities that are denominated in currencies other than the respective entity s functional currency. Changes in the functional currency value of these assets and liabilities create fluctuations that result in gains or losses. We recorded foreign currency transaction gains and losses, realized and unrealized, in other income (expense), net on the consolidated statements of operations, of approximately $1.9 million of net losses in the year ended January 31, 2010, $1.6 million of net gains in the year ended January 31, 2009, and $1.4 million of net gains in the year ended January 31, 2008.

Additionally, from time to time, we enter into foreign currency forward contracts in an effort to reduce the volatility of cash flows primarily related to forecasted payroll and payroll-related expenses denominated in Israeli Shekels and Canadian Dollars. These contracts are limited to durations of approximately six months or less. Our 50% owned joint venture in Singapore enters into foreign currency forward contracts in an effort to reduce the volatility of cash flows primarily related to forecasted dollar denominated accounts payable payments. These contracts are limited to durations of approximately one year or less. We have not entered into any foreign currency forward contracts for trading or speculative purposes.

During the years ended January 31, 2010, 2009, and 2008, we realized net losses of $2.6 million, $2.1 million and net gains of $1.8 million, respectively, on settlements of foreign currency forward contracts not designated as hedges. We had $0.5 million of net unrealized losses on outstanding foreign currency forward contracts as of January 31, 2010, with notional amounts totaling $50.4 million. We had $1.9 million of net unrealized losses on outstanding foreign currency forward contracts as of January 31, 2009, with notional amounts totaling $35.9 million.

A sensitivity analysis was performed on all of our foreign exchange derivatives as of January 31, 2010. This sensitivity analysis was based on a modeling technique that measures the hypothetical market value resulting from a 10% shift in the value of exchange rates relative to the U.S. Dollar. A 10% increase in the value of the U.S. Dollar would lead to a decrease in the fair value of our hedging instruments by $4.7 million. Conversely, a 10% decrease in the value of the U.S. Dollar would result in an increase in the fair value of these financial instruments by $5.7 million.

Table of Contents

The counterparties to these foreign currency forward contracts are multinational commercial banks. While we believe the risk of counterparty nonperformance is not material, the recent disruption in the global financial markets has impacted some of the financial institutions with which we do business. A sustained decline in the financial stability of financial institutions as a result of the disruption in the financial markets could affect our ability to secure creditworthy counterparties for our foreign currency hedging programs.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data required by this item are set forth at the pages indicated at Item 15(a).

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9a. Controls and Procedures

The information contained in this section covers management s evaluation of our disclosure controls and procedures and our assessment of our internal control over financial reporting as of January 31, 2010.

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of January 31, 2010. Disclosure controls and procedures are those controls and other procedures that are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified by the rules and forms promulgated by the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As a result of this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of January 31, 2010 because of the material weaknesses set forth below.

Table of Contents

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act. 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 GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect every misstatement. An evaluation of effectiveness is subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may decrease over time.

Our internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized use, acquisition, or disposition of our assets that could have a material effect on the consolidated financial statements.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our internal control over financial reporting as of January 31, 2010. In making this assessment, we utilized the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of this evaluation, we concluded that our internal control over financial reporting was not effective as of January 31, 2010 because of the material weaknesses set forth below.

We have made significant progress implementing new control activities related to monitoring, financial reporting and revenue and cost of revenue discussed below under Changes in Internal Control Over Financial Reporting Remediation Activities . However, not all ineffective control activities identified in our evaluation of internal control over financial reporting as of January 31, 2009 had been remediated as of January 31, 2010 and certain controls had not operated effectively for a sufficient period of time to allow us to conclude that the material weaknesses had been remediated. Therefore, we concluded that there were material weaknesses in our control activities over monitoring, financial reporting and revenue and cost of revenue as of January 31, 2010.

In addition, while we believe that the design of the control activities for income taxes discussed below under Changes in Internal Control Over Financial Reporting Remediation Activities are effective, the controls had not been operating effectively for a sufficient period of time to allow us to conclude that the material weakness had been remediated. Therefore, the identified income tax related material weakness still exists as of January 31, 2010.

Table of Contents

The following is a summary of our material weaknesses as of January 31, 2010:

Monitoring

Effective monitoring enables a company to determine whether internal control over financial reporting is present and functioning. We did not design adequate monitoring controls related to our subsidiaries, such that we could not be assured that a material misstatement of financial results would be prevented or detected on a timely basis.

Financial Reporting

We did not maintain effective controls over the period-end financial close and reporting processes in relation to the consolidation of our subsidiaries financial statements and our monitoring of non-routine and complex accounting matters. Due to the actual and potential errors on financial statement balances and disclosures, management has concluded that these deficiencies in internal controls over the period-end financial close and reporting processes constituted a material weakness in internal control over financial reporting.

Revenue and Cost of Revenue

We did not maintain effective internal controls over order management, contract management, master file monitoring, issuance of credit memos and policies and procedures to ensure effective controls over accounts receivable and the recognition of revenue, deferred revenue and cost of revenue in accordance with GAAP, which could have resulted in material errors in accounts receivable and the recognition of revenue and related cost of revenue. While remediation efforts occurred in the following areas, not all areas were completely remediated or the controls designed were not operating effectively for a sufficient period of time to be deemed effective as of January 31, 2010. Specifically:

a) we lacked sufficient personnel with appropriate knowledge, experience and training in the complexities of current GAAP related to software revenue recognition;

b) we did not establish adequate procedures or effective controls to determine VSOE for installation, training services, or certain post-contract customer support agreements;

c) we did not establish adequate review procedures or effective controls to determine proper accounting treatment for multiple element sales arrangements;

d) we did not establish adequate procedures or effective controls to ensure that all elements included in a multiple element arrangement were timely identified and measured including establishment of VSOE of fair value for undelivered elements;

e) we did not establish adequate procedures or effective controls to identify the nature of projects, capture the necessary data, and determine the appropriate accounting treatment for arrangements subject to contract accounting;

Table of Contents

f) we did not establish or maintain appropriate policies and procedures to identify, capitalize, and amortize product costs associated with revenue arrangements;

g) we did not establish adequate procedures or effective controls to identify sufficient evidence of customer delivery and acceptance; and

h) we lacked consistent communication and coordination between and among the various finance and non-finance organizations across the company on the scope and terms of customer arrangements, including the proper identification of all undelivered contractual obligations that impacted revenue recognition.

Income Taxes

We did not maintain adequate policies and procedures and related internal controls or employ adequate resources with sufficient technical expertise in the area of accounting for income taxes for a sufficient period of time to ensure the completeness, accuracy, and timely preparation and review of our consolidated income tax provision, related account balances, and disclosures sufficient to prevent a material misstatement of related account balances.

Our independent registered public accounting firm, Deloitte & Touche LLP, expressed an adverse opinion on our internal control over financial reporting because of the material weaknesses described above.

Changes in Internal Control Over Financial Reporting

Our management performed extensive procedures designed to ensure the reliability of our financial reporting. In addition to other internal processes undertaken, procedures performed included, but were not limited to the following actions: (a) dedicating significant resources, including the engagement of subject matter specialists, to support management in its efforts to complete our financial filings, (b) expending substantial resources in response to the findings of the Comverse investigation relating to stock based compensation errors associated with stock option grants issued to Verint employees previously employed by Comverse, and (c) performing extensive substantive reviews of our revenue recognition, income and expense classification, and tax provisions. Based on these procedures, we have concluded that the consolidated financial statements included in this report fairly present, in all material respects, our financial position, results of operations, and cash flows for the interim and annual periods for the years ended January 31, 2010, 2009 and 2008.

As discussed below under Remediation Activities, there have been changes in our internal control over financial reporting identified as part of our evaluation that occurred during the three months ended January 31, 2010 that have materially affected our internal control over financial reporting.

Table of Contents

Remediation Activities

During the year ended January 31, 2010, we evaluated the remedial actions to address our previously disclosed material weaknesses in internal control over financial reporting. As a result of the actions described below, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, concluded that we have remediated the material weaknesses related to risk assessment and equity compensation and are still in the process of remediating the material weaknesses noted above in Management s Report on Internal Control Over Financial Reporting . Discussed below are our remediation efforts from February 1, 2009 through January 31, 2010, as well as changes made to our internal control over financial reporting from February 1, 2010 through the date of this report.

Risk Assessment

As of January 31, 2009, we failed to perform an adequate global risk assessment to identify all material locations, balances, and related fraud risks when evaluating our internal control over financial reporting and therefore, we did not maintain an effective process to identify, analyze, and manage risks associated with financial reporting and anti-fraud programs and controls. In response to this material weakness, we have, among other things, appointed a Chief Compliance Officer establishing a robust world-wide compliance program, performed a detailed global scoping and risk assessment analysis for the year ended January 31, 2010 in order to identify all material locations, and conducted a global fraud risk assessment and IT risk assessment with the assistance of third party specialists.

Equity Compensation

As of January 31, 2009, we did not maintain adequate policies and procedures to ensure effective controls over the administration, accounting, and disclosure for stock-based compensation sufficient to prevent a material misstatement of related compensation expense. In response to this material weakness, we engaged a large global public accounting firm to act as an external subject matter expert with respect to the accounting for and disclosure of stock-based compensation related matters, including providing additional training in the related accounting guidance and accounting assistance. We also centralized responsibility for the administration of stock-based compensation within the purview of the Senior VP and Corporate Controller. In addition, sufficient procedures were developed and implemented, which resulted in the proper recognition and disclosure of our stock based compensation expense as of January 31, 2010.

Table of Contents

Financial Reporting

Due to a lack of adequate systems, processes, and resources with sufficient GAAP knowledge, experience, and training, we concluded that we did not maintain effective controls over the period-end financial close and reporting processes as of January 31, 2009. The specific deficiencies contributing to this material weakness related to inadequate policies and procedures, ineffective procedures and controls over journal entries, accruals and reserves, and account reconciliations, inadequate segregation of duties, deficiencies in end-user computing controls of critical spreadsheets, and inadequate controls over our property and equipment process. We have subsequently implemented changes and improvements in our internal control over financial reporting, including the following:

- formalization and communication of our critical accounting policies and procedures to ensure worldwide compliance with GAAP;
- implementation of improved journal entry procedures;
- implementation of rigorous policies and procedures related to accounts requiring management estimates, as well as other complex areas, which include multiple levels of review;
- implementation of policies and procedures designed to ensure reconciliations were accurate in all material respects, completed in a timely manner, and properly reviewed by management;
- policy implementation over access to our financial applications as well as procedures designed to ensure adequate segregation of duties;
- establishment of end user computing policy and guidelines for managing the use of critical financial reporting spreadsheets to reduce the risk of financial reporting errors;
- enhancement of procedures related to the classification and selection of consistent useful lives formally documented in our fixed and long-lived assets global policy;
- appointed a VP of Global Accounting to help ensure accurate consistent application of GAAP; and
- expanded our accounting policy and controls organization by creating and filling new positions with qualified accounting and finance personnel, increasing significantly the number of persons who are Certified Public Accountants (CPAs) or the CPA international equivalent.

Monitoring

In order to adequately monitor our subsidiaries and be assured that a material misstatement of our financial results would be prevented or detected on a timely basis, we have designed and are completing our implementation of analytical procedures to review the financial results at each of our subsidiary locations on a regular basis.

Table of Contents

Revenue and Cost of Revenue

The following remedial efforts have been completed with respect to the remediation of our material weakness in internal control over financial reporting related to revenue and cost of revenue:

- we have expended substantial resources and have performed extensive, substantive reviews of our revenue recognition and cost of revenue policies and procedures;
- appointed a VP Finance and Global Revenue Controller and Regional Revenue Controllers, and established a centralized revenue recognition department to address complex revenue recognition matters and to provide oversight and guidance on the design of controls and processes to enhance and standardize revenue recognition accounting application;
- significantly increased our investment in the design and implementation of enhanced information technology systems and user applications commensurate with the complexity of our business and our financial reporting requirements, including a broader and more sophisticated implementation of our Enterprise Resource Planning system, particularly in the area of revenue recognition accounting. It is expected that these investments will improve the reliability of our financial reporting by reducing the need for manual processes, reducing the chance for errors and omissions and thereby decrease our reliance on manual controls to detect and correct accounting and financial reporting inaccuracies; and
- provided training to increase our general understanding of revenue recognition principles and enhance awareness of the implications associated with non-standard arrangements requiring specific revenue recognition.

Income Taxes

Management made substantial changes in an effort to remediate the material weakness related to Income Taxes as of January 31, 2010, including the following:

- established a corporate tax department in the first quarter of the year ended January 31, 2009, which now includes a Vice President, Domestic Director, International Director, Tax Manager and two full-time tax accountants;
- engaged external tax advisors, to prepare and/or review significant tax provisions for compliance with accounting guidance for income taxes, as well as any changes in local tax law;
- implemented a tax software program designed to prepare the consolidated income tax provisions and related footnote disclosures;
- engaged subject matter experts with specialized international and consolidated income tax knowledge to assist in creating, implementing, and documenting a consolidated tax process;
- implemented policies and procedures related to amounts requiring management estimates, such as uncertain tax positions and valuation allowances, which include multiple levels of review;
- implemented policies and procedures designed to standardize tax provision computations and ensure reconciliations of key tax accounts were accurate in all material respects and properly reviewed by management;
- trained personnel involved in the preparation and review of income tax accounts; and