VERINT SYSTEMS INC
Form 10-K
April 02, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended January 31, 2012

Commission File Number 001-34807

VERINT SYSTEMS INC.

(Exact name of registrant as specified in its charter)

Delaware	**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**
Common Stock, $.001 par value per share	The NASDAQ Stock Market, LLC

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

None

Title of class

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

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 x

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 x No o

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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Cautionary Note on Forward-Looking Statements

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

- uncertainties regarding the impact of general economic conditions in the United States and abroad, particularly in information technology spending and government budgets, on our business;

- risks associated with our ability to keep pace with technological changes and evolving industry standards in our product offerings and to successfully develop, launch, and drive demand for new and enhanced, innovative, high-quality products that meet or exceed customer needs;

- risks due to aggressive competition in all of our markets, including with respect to maintaining margins and sufficient levels of investment in our business;

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

- risks associated with our ability to successfully compete for, consummate, and implement mergers and acquisitions, including risks associated with capital constraints, costs and expenses, maintaining profitability levels, management distraction, post-acquisition integration activities, and potential asset impairments;

- risks associated with Comverse Technology, Inc. (Comverse) controlling our board of directors and the outcome of all matters submitted for stockholder action, including the approval of significant corporate transactions, such as certain equity issuances or mergers and acquisitions;

- risks associated with Comverse s strategic plans and related speculation and announcements, such as its recently announced plan to eliminate its holding company structure either simultaneously with or shortly after the completion of a spin-off of its Comverse, Inc. subsidiary;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- risks associated with significant leverage resulting from our current debt position, including with respect to covenant limitations and compliance, fluctuations in interest rates, and our ability to maintain our credit ratings;

- risks associated with being a consolidated, controlled subsidiary of Comverse and formerly part of Comverse s consolidated tax group;

- risks relating to our ability to timely implement new accounting pronouncements or new interpretations of existing accounting pronouncements and related risks of future restatements or filing delays; and

- risks associated with changing tax rates, tax laws and regulations, and the continuing availability of expected tax benefits.

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

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PART I

Item 1. Business

Our Company

Verint® Systems Inc. (together with its consolidated subsidiaries, Verint , the Company , we , us , and our , unless the context indicates otherwi is a global leader in Actionable Intelligence® solutions and value-added services. Our solutions enable organizations of all sizes to make more timely and effective decisions to improve enterprise performance and make the world a safer place. More than 10,000 organizations in over 150 countries including over 85 percent of the Fortune 100 use Verint Actionable Intelligence solutions to capture, distill, and analyze complex and underused information sources, such as voice, video, and unstructured text.

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

We have established leadership positions in both the enterprise intelligence and security intelligence markets by leveraging our core competency in developing highly scalable, enterprise-class solutions with advanced, integrated analytics for both unstructured and structured information. Our innovative solutions are developed by approximately 1,000 employees and contractors in research and development, representing approximately one-third of our total headcount, and are evidenced by more than 520 patents and patent applications worldwide, including over 60 allowed or granted patents worldwide for the year ended January 31, 2012. We offer a range of customer services, from initial implementation to consulting to ongoing maintenance and support, to maximize the value our customers receive from our Actionable Intelligence solutions and allow us to extend our customer relationships.

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

Our Markets Enterprise Intelligence and Security Intelligence

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

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

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

Company Background

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

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

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

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

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Our Strengths

Enterprise Intelligence

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

- *Comprehensive, unified suite of workforce optimization solutions.* A core part of our product strategy has been to unify our workforce optimization solutions through targeted, predefined integrations. Our comprehensive, unified suite of workforce optimization solutions offers many advantages in terms of both functionality and total cost of ownership, and we believe that this approach helps further differentiate us in the enterprise intelligence market.

- *Advanced voice of the customer analytics*. We were an early innovator of speech analytics for contact centers, and today we offer an advanced suite of Voice of the Customer Analytics , which includes speech, text, and enterprise feedback management solutions. We believe that these solutions are attractive to a broad set of customers, enabling them to better understand the customer experience, customer sentiment, workforce performance, and the factors underlying important business trends by collecting customer intelligence across the enterprise.

- *Compelling workforce optimization solutions for back-office and branch operations*. Workforce optimization solutions have traditionally been deployed in contact centers. However, many customer service employees work in other areas of the enterprise, such as the back office and branch and remote office locations. We believe that enterprises are interested in deploying workforce optimization solutions outside the contact center to enable the same type of performance measurement and improvement that has historically been available to contact centers, and we have built a portfolio of solutions specifically for this opportunity.

- *Focus on delivering best-in-class customer service*. A core part of our strategy is to help enable our customers to derive maximum value from our Actionable Intelligence solutions. We believe that a combination of our unified Enterprise Intelligence solutions and focus on customer service has been a major factor in our success.

- *Strong OEM partner relationships*. We have increased our focus on partners, including resellers and OEMs, which is a core element of our go-to-market strategy. We believe that this investment has strengthened our relationships with our partners, expanded our market coverage and provided our customers with tighter integration of certain third-party solutions.

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Video and Situation Intelligence

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

- *Broad networked IP video and situation intelligence portfolio.* Our Video and Situation Intelligence portfolio includes Internet Protocol (IP) video management software and services, edge devices for capturing, digitizing, and transmitting video over different types of wired and wireless networks, video analytics, network video recorders, and physical security information management solutions. Our broad portfolio allows organizations to deploy an end-to-end IP video solution with analytics or evolve to networked IP video solutions over time; view, correlate, and analyze information from various security systems and sensors; and generate Actionable Intelligence from video and related data.

- *Open platform.* Designed on an open platform, our solutions facilitate interoperability with our customers business and security systems and with complementary third-party products, such as cameras, video analytics, video management software, command and control systems, and access control systems.

- *Ability to help our customers cost-effectively migrate to networked IP video*. While the security market is evolving to networked IP video solutions, many organizations have already made significant investments in analog technology. Our video solutions help our customers cost effectively migrate to networked IP video without discarding their existing analog closed circuit television (CCTV) investments.

Communications and Cyber Intelligence

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

- *Broad portfolio.* Our broad Communications and Cyber Intelligence portfolio includes solutions for communications interception, service provider compliance, mobile location tracking, open source Web intelligence, and tactical communications intelligence, as well as solutions being developed for cyber intelligence. Our portfolio is designed to handle massive amounts of unstructured and structured information from different sources (including fixed and mobile networks, IP networks, and the Internet), quickly make sense of complex scenarios, and generate evidence and intelligence.

- *Highly scalable solutions for a broad range of communications.* Our solutions can be deployed stand-alone or collectively as part of a large-scale system to address the needs of large government agencies, law enforcement, and communications service providers that require advanced, comprehensive solutions. Our solutions can process very large amounts of information, enabling the interception, monitoring, and analysis of information collected from a wide range of communications networks, including fixed and mobile networks, IP networks, and the Internet.

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- *High-quality, long-term customer relationships.* We have security customers around the world, including large and sophisticated government organizations, as well as commercial companies that are leaders in their respective markets. We have long-term relationships with many of these customers that allow us to gain insight into their challenges and develop new security solutions for a broader set of customers.

Our Strategy

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

- *Continue to drive the development of Actionable Intelligence solutions for unstructured data*. We were a pioneer in the development of solutions that help businesses and governmental organizations derive intelligence from unstructured data. We intend to continue to drive the adoption of Actionable Intelligence solutions designed to provide a high return on investment by delivering software and services to the enterprise intelligence and security intelligence markets.

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

- *Continue to expand our market presence through OEM and partner relationships*. We have expanded our relationships with OEMs and other channel partners. We believe that these relationships broaden our market coverage, and we intend to continue expanding our existing relationships, while creating new ones.

- *Augment our organic growth with acquisitions*. We examine acquisition opportunities regularly as a means to add technology, increase our geographic presence, enhance our market leadership, or expand into adjacent markets. Historically, we have engaged in acquisitions for all of these purposes and expect to continue doing so in the future when strategic opportunities arise.

The Enterprise Intelligence Solutions Segment

We are a leading provider of enterprise intelligence software and services. Our solutions enable organizations to extract and analyze valuable information from customer interactions and related operational data in order to make more effective, proactive decisions for optimizing the performance of their customer service operations, improving the customer experience, and facilitating compliance, and enhancing products and services. We market these solutions primarily under the Impact 360® brand to contact center, back-office, and branch and remote office operations, to other customer-facing departments such as sales and marketing that also seek to distill insights

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

The Enterprise Intelligence Market and Trends

We believe that customer service is viewed more strategically than in the past, particularly by organizations whose interactions with customers regarding sales and services take place primarily through contact center, back-office, and branch operations. Consistent with this trend, we believe that organizations seek workforce optimization and voice of the customer solutions that enable them to better understand customer expectations, preferences, and sentiments in order to strengthen customer relationships, efficiently manage their workforce and customer service operations across the enterprise, and strike the right balance among driving sales, managing operating costs, and delivering the optimal customer experience.

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

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

Integration of Enterprise Intelligence Solutions

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

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- using integrated speech analytics with quality monitoring, calls can be categorized, allowing organizations to review the interactions that are most significant to the business and identify the underlying causes of customer service issues;

- using integrated voice of the customer solutions, organizations can collect and assess customer feedback from the diverse platforms on which it is provided, including surveys, phone calls, Web chat, emails, and social media;

- contact center managers can receive instant alerts when staff is out of adherence with standards, monitor and record interactions to determine the cause, and act quickly to correct the problem; and

- supervisors can assign and deliver electronic learning material to staff desktops based on training needs automatically identified from quality monitoring evaluation scores and performance management scorecard metrics, and then track courses taken and new skills acquired.

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

Greater Insight through Voice of the Customer Analytics

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

Adoption of Workforce Optimization Across the Enterprise

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

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Our Enterprise Intelligence Solutions Portfolio

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

The following table summarizes our portfolio of Enterprise Intelligence Solutions.

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

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

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The Video and Situation Intelligence Solutions Segment

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

The Networked IP Video and Situation Intelligence Market and Trends

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

Consistent with this trend, the video security market continues to experience a technology transition from relatively passive analog CCTV video systems, which use analog equipment and closed networks and generally provide only basic video recording and viewing, to more sophisticated, proactive, network-based IP video systems that use video management software to efficiently collect, manage, and analyze large amounts of video over networks and utilize video analytics. We believe this trend, combined with the overall need for improved security by government and commercial organizations globally, is driving interest in both advanced networked IP video intelligence solutions and physical situation information management solutions, which enable organizations to manage and integrate video intelligence with other security system data.

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

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Our Video and Situation Intelligence Solutions Portfolio

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

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

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

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The Communications and Cyber Intelligence Solutions Segment

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

The Communications and Cyber Intelligence Market and Trends

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

Increasing Complexity of Communications Networks and Growing Network Traffic

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

Growing Demand for Advanced Intelligence and Investigative Solutions

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

Legal and Regulatory Compliance Requirements

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

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

Our Communications and Cyber Intelligence Solutions Portfolio

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

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

Customer Services

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

Implementation, Training, and Consulting

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

Maintenance Support

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

Direct and Indirect Sales

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

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

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

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Customers

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

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

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

Seasonality and Cyclicality

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

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

Research and Development

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

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

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

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

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

Manufacturing and Suppliers

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

Employees

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

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

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

Intellectual Property Rights

General

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

Patents

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

Licenses

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

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

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Trademarks and Service Marks

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

Competition

We face strong competition in all of our markets, and we expect that competition will persist and intensify. In our Enterprise Intelligence segment, our competitors include Aspect Software, Inc., Autonomy Corp. (an HP company), Genesys Telecommunications, NICE Systems Ltd (NICE), and many smaller companies, which can vary across regions. In our Video Intelligence segment, our competitors include 3VR, American Dynamics (a business unit of Tyco), Genetec Inc., March Networks Corporation (entered into agreement to be acquired by Infinova Ltd.), Milestone Systems A/S, NICE, and Pelco, Inc. (a division of Schneider Electric Limited); divisions of larger companies, including Bosch Security Systems, Cisco Systems, Inc., United Technologies Corp., Honeywell International Inc., and many smaller companies, which can vary across regions. In our Communications Intelligence segment, our primary competitors include Aqsacom Inc., ETI (a division of BAE Systems), JSI Telecom, NICE, Pen-Link, Ltd., RCS S.R.L., Rohde & Schwarz, Trovicor, SS8 Networks, Inc., 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 that we compete principally on the basis of:

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

- price.

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

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

Export Regulations

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

Item 1A. Risk Factors

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

Risks Related to Our Business

Competition, Markets, and Operations

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

Our business is subject to risks arising from adverse changes in domestic and global economic conditions. Slowdowns, recessions, economic instability, political unrest, armed conflicts, or natural disasters around the world may cause companies and governments to delay, reduce, or even cancel planned spending. In particular, declines in information technology spending and limited or reduced government budgets have affected the market for our products in certain periods and in certain regions, especially in industries or areas that are or have experienced significant cost-cutting. Customers or partners who are facing business challenges or liquidity issues are also more likely to delay purchase decisions or cancel orders, as well as to delay or default on payments. If customers or partners significantly reduce their spending with us or significantly delay or fail to make payments to us, our business, results of operations, and financial condition would be materially adversely affected. During the recent recession, like

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many companies, we engaged in significant cost-saving measures. Current economic conditions are also uncertain. If economic conditions require us to again undertake significant cost-saving measures, such measures may negatively impact our ability to execute on our objectives and grow, particularly if we are not able to invest in our business as a result of a protracted economic downturn.

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

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

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

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

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

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

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

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

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

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

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

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- There is greater risk of customers deferring, scaling back, or cancelling sales as a result of, among other things, receipt of competitive proposals, changes in budgets and purchasing priorities, or introduction or anticipated introduction of new or enhanced products by us or our competitors, during the process.

- We may make a significant investment of time and money in opportunities that do not come to fruition, which investments we may be unable to recoup or utilize in future projects.

- We may be required to bid on a project in advance of the completion of its design or required to begin implementation of a project in advance of finalizing a sale, in either case, increasing the risk of unforeseen technological difficulties or cost overruns.

- We face greater downside risks if we do not correctly and efficiently deploy limited human and financial resources and convert such sales opportunities into orders.

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

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

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

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

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

We depend on the continued services of our executive officers and other key personnel. In addition, in order to continue to grow effectively, we need to attract and retain new employees who understand and have experience with our products, services, and industry. The market for such personnel is competitive in most, if not all, of the geographies in which we operate. If we are unable to attract and retain qualified employees, on reasonable economic and other terms or at all, our ability to operate and grow our business could be impaired.

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

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

- foreign currency fluctuations;
- political, security, and economic instability in foreign countries;
- changes in and compliance with local laws and regulations, including export control laws, tax laws, labor laws, employee benefits, customs requirements, currency restrictions, and other requirements;
- differences in tax regimes and potentially adverse tax consequences of operating in foreign countries;

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

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

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

We have significant operations in Israel, including research and development, manufacturing, sales, and support.

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

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

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

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

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

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

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

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

For the year ended January 31, 2012, approximately one quarter of our business was generated from contracts with various governments around the world, including federal, state, and local government agencies. We expect that government contracts will continue to be a significant source of our revenue for the foreseeable future. Our business generated from government contracts may be materially adversely affected if:

- our reputation or relationship with government agencies is impaired;
- we are suspended or otherwise prohibited from contracting with a domestic or foreign government or any significant law enforcement agency, for example, as a result of our previously disclosed March 2010 consent judgment with the SEC, which must be disclosed by us in any proposal to perform new work for U.S. federal agencies until March 2013;

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

In addition, we must comply with domestic and foreign laws and regulations relating to the formation, administration, and performance of government contracts. These laws and regulations affect how we do business with government agencies in various countries and may impose added costs on our business or defer our ability to recognize revenue from such contracts. Our government contracts may contain, or under applicable law may be deemed to contain, unfavorable provisions not typically found in private commercial contracts that may expose us to additional risk or liability, including provisions enabling the government party to:

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

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

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

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

Intellectual Property and Data/Systems Security

Our intellectual property may not be adequately protected.

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

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

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

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

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

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

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

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

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

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

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information in connection with our SaaS or other hosted or managed services offerings. We have implemented policies and procedures and use information technology systems to help ensure the proper handling of such information and data, including background screening of certain services personnel, non-disclosure agreements with employees and partners, access rules, and controls on our information technology systems. Customers are also increasingly focused on the security of our products and we work to ensure their security, including through the use of encryption, access rights, and other customary security features. However, these measures are designed to mitigate the risks associated with handling or processing sensitive data and cannot safeguard against all risks at all times. The improper handling of sensitive data, or even the perception of such mishandling (whether or not valid), or other security lapses by us or our partners or within our products, could reduce demand for our products or otherwise expose us to financial or reputational harm or legal liability.

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

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

Risks Related to Our Finances and Capital Structure

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

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

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

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

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

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

Because Comverse holds a majority of the voting power for the election of our board of directors, we are a controlled company within the meaning of NASDAQ Listing Rule 5615(c). As a controlled company, we qualify for, and our board of directors, the composition of which is controlled by Comverse, may and intends to rely upon, exemptions from several of NASDAQ s corporate governance requirements, including requirements that:

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

At present, we do not have a majority independent board of directors or a compensation committee or a nominating committee composed entirely of independent directors. Accordingly, our stockholders are not and will not be afforded the same protections generally as stockholders of other NASDAQ-listed companies for so long as Comverse controls the composition of our board and our board determines to rely upon such exemptions.

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

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

By virtue of its controlling stake, Comverse also has the ability, acting alone, to remove existing directors and/or to elect new directors to our board of directors to fill vacancies. At present, Comverse has appointed individuals who are officers, executives, or directors of Comverse as five of our nine directors. These directors have fiduciary duties to both us and Comverse and may become subject to conflicts of interest on certain matters where Comverse s interest as majority stockholder may not be aligned with the interests of our minority stockholders. In addition, if we fail to repurchase the preferred stock as required upon a fundamental change, then the number of directors constituting the board of directors will be increased by two and Comverse will have the right to elect two directors to fill such vacancies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

If an event of default occurs under the credit agreement, our lenders could declare all amounts outstanding to be immediately due and payable. In that event, we may be forced to seek an amendment of and/or waiver under the credit agreement, raise additional capital through securities offerings, asset sales, or other transactions, or seek to refinance or restructure our debt. In such a case, there can be no assurance that we will be able to consummate such an amendment and/or waiver, capital raising transaction, refinancing, or restructuring on reasonable terms or at all.

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

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The rights of the holders of shares of our common stock are subject to, and may be adversely affected by, the rights of holders of the preferred stock.

In connection with our 2007 acquisition of Witness Systems, Inc. (Witness), we issued 293,000 shares of convertible preferred stock to Comverse at an aggregate purchase price of $293.0 million. The issuance of shares of common stock upon conversion of the preferred stock would result in substantial dilution to the other common stockholders. As of January 31, 2012, inclusive of accrued dividends, the preferred stock was convertible into approximately 10.8 million shares of our common stock. In addition, the terms of the preferred stock include liquidation, dividend, and other rights that are senior to and more favorable than the rights of the holders of our common stock.

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

As part of our growth strategy, we have made a number of acquisitions and investments and expect to continue to make acquisitions and investments in the future, subject to the terms of our credit agreement and other restrictions resulting from our capital structure.

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

Future acquisitions or investments, if any, could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities, and amortization expenses related to intangible assets, any of which could have a material adverse effect on our operating results and financial condition. In addition, investments in immature businesses with unproven track records and technologies have a high degree of risk, with the possibility that we may lose the value of our entire investments and potentially incur additional unexpected liabilities. Acquisitions or investments that are not immediately accretive to earnings may also make it more difficult for us to maintain satisfactory profitability levels and compliance with the maximum leverage ratio covenant under our credit agreement.

The process of integrating an acquired company s business into our operations and investing in new technologies is challenging and may result in expected or unexpected operating or compliance challenges, which may require a significant amount of our management s attention that would otherwise be focused on the ongoing operation of our business, as well as significant expenditures. Other risks we may encounter with acquisitions include the effect of the acquisition on our financial and strategic positions and our reputation, the inability to obtain the anticipated benefits of the acquisition, including synergies or economies of scale on a timely basis or at all, or challenges in reconciling business practices, particularly in foreign geographies, combining systems, retaining key employees, and maintaining and integrating product development. Due to rapidly changing market conditions, we may also find the value of our acquired technologies and related intangible assets, such as goodwill, as recorded in our financial statements, to be impaired, resulting in charges to operations.

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There can be no assurance that we will be successful in making additional acquisitions or that we will be able to effectively integrate any acquisitions we do make or realize the expected benefits of such transactions.

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

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

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

Because we have historically acquired a significant number of companies, goodwill and other intangible assets have represented a substantial portion of our assets. Goodwill and other intangible assets totaled approximately $1.0 billion, or approximately 68% of our total assets, as of January 31, 2012. We test our goodwill for impairment at least annually, or more frequently if an event occurs indicating the potential for impairment, and we assess on an as-needed basis whether there have been impairments in our other intangible assets. We make assumptions and estimates in this assessment which are complex and often subjective. These assumptions and estimates can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy or our internal forecasts. To the extent that the factors described above change, we could be required to record additional non-cash impairment charges in the future. Any significant impairment charges would negatively affect our financial condition and results of operations.

Our international operations subject us to currency exchange risk.

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

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

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

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

We have significant deferred tax assets which can provide us with significant future cash tax savings if we are able to use them. However, the extent to which we will be able to use these tax benefits may be impacted, restricted, or eliminated by a number of factors including whether we generate sufficient future net income, adjustments to Comverse s tax liability for periods prior to our IPO, changes in tax rates, laws, or regulations that could have retroactive effect, or an ownership change under Section 382 of the Internal Revenue Code. If an ownership change were to occur, it would impose an annual limit on the amount of pre-change NOLs and other losses available to reduce our taxable income and could result in a reduction in the value of our NOL carryforwards or the realizability of other deferred tax assets. To the extent that we are unable to utilize our NOLs or other losses, our results of operations, liquidity, and financial condition could be adversely affected in a significant manner. When we cease to have NOLs available to us in a particular tax jurisdiction, either through their expiration, disallowance, or utilization, our cash tax liability will increase in that jurisdiction.

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

Leased Properties

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

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

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

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

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

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

Owned Properties

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

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

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

Item 3. Legal Proceedings

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

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

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

Market Information

From the time we became publicly traded on May 16, 2002 until January 31, 2007, our common stock was traded on the NASDAQ National Market. From February 1, 2007 until July 2, 2010 (the last trading day prior to the relisting of our common stock on the NASDAQ Global Market) our common stock traded on the over-the-counter securities market under the symbol VRNT.PK , with pricing and financial information provided by the Pink Sheets. Our common stock was re-listed on the NASDAQ Global Market and trading in our common stock commenced on the NASDAQ Global Market on July 6, 2010 under the symbol VRNT .

The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported by the Pink Sheets.

Year Ended January 31,	Period	Low	High
2011	2/1/10 4/30/10	$ 17.73	$ 28.00
	5/1/10 7/2/10	$ 22.20	$ 27.00

The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported by the NASDAQ Global Market.

Year Ended January 31,	Period	Low	High
2011	7/6/10 7/31/10	$ 19.63	$ 23.80
	8/1/10 10/31/10	$ 22.02	$ 32.93
	11/1/10 1/31/11	$ 30.67	$ 38.10
2012	2/1/11 4/30/11	$ 32.00	$ 37.92
	5/1/11 7/31/11	$ 32.46	$ 37.99
	8/1/11 10/31/11	$ 22.50	$ 34.33
	11/1/11 1/31/12	$ 25.88	$ 29.42

Holders

There were 81 holders of record of our common stock at March 15, 2012. Such record holders include holders who are nominees for an undetermined number of beneficial owners.

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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 rank senior to our common stock with respect to the payment of dividends and bear a preferred dividend which currently accrues at the rate of 3.875% per year. See Note 8, Convertible Preferred Stock to our consolidated financial statements included in Item 15 of this report, 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.

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, 2007 through January 31, 2012, and the reinvestment of any dividends. The comparisons in the graph below are based upon (i) closing sale prices on NASDAQ for our common stock on January 31, 2007 and each day from July 6, 2010 through January 31, 2012 and (ii) the closing bid quotations (as reported by the Pink Sheets) for all other periods. This data is not indicative of, nor intended to forecast, future performance of our common stock.

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COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Verint Systems, Inc., the NASDAQ Composite Index,

and the NASDAQ Computer & Data Processing Index

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*$100 invested on 1/31/07 in stock or index, including reinvestment of dividends.

Fiscal year ending January 31.

	January 31, 2007	January 31, 2008	January 31, 2009	January 31, 2010	January 31, 2011	January 31, 2012
Verint Systems Inc.	$ 100.00	$ 55.98	$ 19.67	$ 55.37	$ 104.27	$ 85.57
NASDAQ Composite Index	$ 100.00	$ 97.07	$ 60.02	$ 87.95	$ 111.84	$ 116.36

NASDAQ Computer & Data Processing Index	$ 100.00	$ 102.83	$ 63.57	$ 97.39	$ 118.73	$ 120.43

Recent Sales of Unregistered Securities

None.

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Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Period	(a) Total number of shares (or units) purchased (1)	(b) Average price paid per share (or unit)(2)	(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
November 1 November 30, 2011				
December 1 December 31, 2011				
January 1 January 31, 2012	29,659(3)	$ 27.90		

(1) These shares were purchased in-open market transactions. None of these shares were purchased as a part of a publicly announced stock repurchase plan or program.

(2) Represents the approximate weighted-average price paid per share.

(3) As previously disclosed, in connection with the resumption of option exercises following the conclusion of our previous extended filing delay period and the vesting of restricted stock units after the relisting of our common stock on the NASDAQ Global Market, during the summer of 2010, we issued up to an aggregate of approximately 135,000 equity securities to certain current and former employees and a former director in transactions that did not involve public offerings and that were made in reliance on available exemptions from registration under the Securities Act of 1933. In January 2012, we repurchased 29,659 of these securities. We also expect to repurchase an additional 2,250 of these securities in the future.

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Item 6. Selected Financial Data

The following selected consolidated financial data has been derived from our consolidated financial statements. The 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 included in Item 15 of this report.

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)	**2012**	**2011**	**2010**	**2009**	**2008**
Revenue	$ 782,648	$ 726,799	$ 703,633	$ 669,544	$ 534,543
Operating income (loss)	$ 86,478	$ 73,105	$ 65,679	$ (15,026)	$ (114,630)
Net income (loss)	$ 40,625	$ 28,585	$ 17,100	$ (78,577)	$ (197,545)
Net income (loss) attributable to Verint Systems Inc.	$ 36,993	$ 25,581	$ 15,617	$ (80,388)	$ (198,609)
Net income (loss) attributable to Verint Systems Inc. common shares	$ 22,203	$ 11,403	$ 2,026	$ (93,452)	$ (207,290)
Net income (loss) per common share attributable to Verint Systems Inc.:					
Basic	$ 0.58	$ 0.33	$ 0.06	$ (2.88)	$ (6.43)
Diluted	$ 0.56	$ 0.31	$ 0.06	$ (2.88)	$ (6.43)
Weighted-average shares:					
Basic	38,419	34,544	32,478	32,394	32,222
Diluted	39,499	37,179	33,127	32,394	32,222

We have never declared a cash dividend to common stockholders.

Consolidated Balance Sheet Data

	January 31,				
(in thousands)	**2012**	**2011**	**2010**	**2009**	**2008**
Total assets	$ 1,502,868	$ 1,376,127	$ 1,396,337	$ 1,337,393	$ 1,492,275
	597,379	583,234	620,912	625,000	610,000

Long-term debt, including current maturities					
Preferred stock	285,542	285,542	285,542	285,542	293,663
Total stockholders equity (deficit)	144,295	77,687	(14,567)	(76,070)	30,325

During the five-year period ended January 31, 2012, we acquired a number of businesses, the more significant of which were the acquisitions of Witness in May 2007, Vovici Corporation (Vovici) in August 2011, and GMT in October 2011. 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 significantly impacted our revenue and operating results.

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Operating results for the year ended January 31, 2012 include:

- a loss on extinguishment of debt of $8.1 million associated with the termination of a credit agreement;
- amortization of intangible assets associated with the acquisition of Witness of $26.8 million;
- interest expense on our term loans of $28.1 million; and
- stock-based compensation expense of $27.9 million.

Operating results for the year ended January 31, 2011 include:

- amortization of intangible assets associated with the acquisition of Witness of $27.4 million;
- interest expense on our term loan and revolving credit agreement of $26.2 million;
- stock-based compensation expense of $46.8 million;
- realized losses on our interest rate swap of $3.1 million; and
- approximately $29 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 previous extended filing delay status. During this year, we resumed filing timely periodic reports with the SEC.

Operating results for the year 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 previous extended filing delay status.

Operating results for the year 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;

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- 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 previous extended filing delay status; and
- non-cash goodwill impairment charges of $26.0 million.

Operating results for the year 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;
- stock-based compensation expense of $31.0 million;
- 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;
- 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 previous extended filing delay status; and
- non-cash goodwill and intangible asset impairment charges of $23.4 million.

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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 our consolidated financial statements and the related notes thereto included in Item 15 of 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 in 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 more timely and effective decisions to improve enterprise performance and make the world a safer place.

More than 10,000 organizations in over 150 countries including over 85 percent of the Fortune 100 use Verint solutions to capture, distill, and analyze complex and underused information sources, such as voice, video, and unstructured text. In the enterprise intelligence market, our workforce optimization and voice of the customer solutions help organizations enhance the customer service experience, increase customer loyalty, enhance products and services, reduce operating costs, and drive revenue. In the security intelligence market, our communications and cyber intelligence, video and situation intelligence, and public safety solutions help government and commercial organizations in their efforts to protect people and property and neutralize terrorism and crime.

Verint was founded in 1994 and is headquartered in Melville, New York.

Our Business

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

In our Enterprise Intelligence segment, we are a leading provider of enterprise intelligence software and services. Our solutions enable organizations to extract and analyze valuable information from customer interactions and related operational data in order to make more effective, proactive decisions for optimizing the performance of their customer service operations, improving the customer experience, and facilitating compliance, and enhancing products and services. For the years ended January 31, 2012, 2011, and 2010, this segment represented approximately 56%, 57%, and 53% of our total revenue, respectively.

In our Video Intelligence segment, we are a leading provider of networked IP video solutions and a provider of situation intelligence solutions designed to optimize security and enhance operations. Our Video Intelligence solutions portfolio includes IP video

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management software and services, edge devices for capturing, digitizing, and transmitting video over different types of wired and wireless networks, video analytics, networked video recorders, and physical security information management. For the years ended January 31, 2012, 2011, and 2010, this segment represented approximately 18%, 18%, and 21% of our total revenue, respectively.

In our Communications Intelligence segment, we are a leading provider of communications intelligence solutions and a developer of cyber intelligence solutions that help law enforcement, national security, intelligence, and civilian government agencies effectively detect, investigate, and neutralize criminal and terrorist threats and detect and thwart cyber-attacks. Our solutions are designed to handle massive amounts of unstructured and structured information from different sources, quickly make sense of complex scenarios, and generate evidence and intelligence. For the years ended January 31, 2012, 2011, and 2010, this segment represented approximately 26%, 25%, and 26% of our total revenue, respectively.

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

Key Trends and Developments in Our Business

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

- *Market acceptance of Actionable Intelligence for unstructured data, particularly analytics*. We are in an early stage market where the value of certain aspects of our products and solutions is still in the process of market acceptance. We believe that our future growth depends in part on the continued and increasing acceptance of the value of our data analytics across our product offerings.
- *Our capital structure may impact our financing activities, investments, and growth*. We have a majority stockholder that can effectively control our business and affairs. We also are subject to various restrictive covenants under our credit facility, as well as a leverage ratio financial covenant. As a result, our current capital structure limits our ability to issue equity, incur additional debt, engage in mergers or acquisitions, or make certain investments in our business. These limitations may impede our ability to execute upon our business strategy.
- *Information technology spending.* Our growth and results depend in part on general economic conditions and the pace of growth in information technology spending.

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

Our Previous Extended Filing Delay and Related Matters

As previously disclosed, from March 2006 through March 2010, we did not make periodic filings with the SEC. Our previous extended filing delay arose as a result of certain internal and external investigations and reviews of accounting matters discussed in our prior public filings and led to the identification of material weaknesses in our internal control over financial reporting and the delisting of our common stock from NASDAQ. In connection with the foregoing and related matters, we incurred approximately $137 million of professional fees and related expenses during the four years ended January 31, 2011. By June 2010, we had concluded our internal investigation and reviews, filed with the SEC annual reports for all required periods and quarterly reports for certain quarters for which we had not previously filed reports, resumed making timely periodic filings with the SEC, relisted our common stock on NASDAQ, settled an injunctive action by the SEC, and resolved certain other matters with the SEC. As a result, professional fees incurred during the year ended January 31, 2012 were significantly lower than those incurred in each of the four years ended January 31, 2011. We expect future professional fees and related expenses to continue to be significantly lower than those incurred during our previous extended filing delay.

Critical Accounting Policies and Estimates

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

Revenue Recognition

Our revenue recognition policy is a critical component of determining our operating results and is based on a complex set of accounting rules that require us to make significant judgments and estimates. We derive revenue primarily from two sources: product revenue, which includes revenue from hardware and software products, and service and support revenue, which includes revenue from installation services, PCS, project management, hosting services, SaaS, product warranties, and training services. Our customer arrangements may include any combination of these elements. We follow the appropriate revenue recognition rules for each type of revenue. For additional information, see Note 1, Summary of Significant Accounting Policies to our consolidated financial statements included in Item 15 of this report. 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 on each of these factors, and if we were to change any of these assumptions or judgments, it could cause a material increase or decrease in the amount of revenue that we report in a particular period.

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We generally consider a purchase order or executed sales quote, when combined with a master license agreement, to constitute evidence of an arrangement. Delivery occurs when the product is shipped or transmitted and title and risk of loss have transferred to the customers. Our typical customer arrangements do not include products acceptance provisions; however, if such provisions are provided, delivery is deemed to occur upon acceptance. We consider the fee to be fixed or determinable unless the fee is subject to refund or adjustment or is not payable within our standard payment terms.

In October 2009, the Financial Accounting Standards Board (FASB) issued amended revenue recognition accounting standards that removed tangible products containing software components and non-software components that function together to deliver the product s essential functionality from the scope of industry-specific software revenue recognition guidance. Also in October 2009, the FASB amended the accounting standards for many multiple-deliverable revenue arrangements to:

(i) provide updated guidance on when and how the deliverables in a multiple-deliverable arrangement should be separated, and how the consideration should be allocated;

(ii) require an entity to allocate revenue in an arrangement that has separate units of accounting, using estimated selling prices (ESP) of deliverables if a vendor does not have vendor-specific objective evidence (VSOE) of selling price, or third-party evidence of selling price (TPE); and

(iii) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method to the separate units of accounting.

We elected to prospectively adopt the provisions of this new guidance as of February 1, 2011, for new and materially modified transactions entered into on or after that date. Since we have been able to establish VSOE for a significant amount of our service and support offerings included in multiple-element arrangements, we do not consider the impact of implementing the guidance to be significant for the year ended January 31, 2012. For the year ended January 31, 2012, we recognized $12.4 million and $6.3 million of additional revenue and additional income before provision for income taxes, respectively, as a result of adopting the new guidance.

Our multiple-element arrangements consist of a combination of our product and service offerings that may be delivered at various points in time. For arrangements within the scope of the new revenue accounting guidance, a deliverable constitutes a separate unit of accounting when it has stand-alone value and there are no customer-negotiated refunds or return rights for the delivered elements. For multiple-element arrangements comprised only of hardware products and related services, we allocate revenue to each element in an arrangement based on a selling price hierarchy. The selling price for a deliverable is based on its VSOE, if available, TPE, if VSOE is not available, or ESP, if neither VSOE nor TPE is available. The total transaction revenue is allocated to the multiple elements based on each element s relative selling price compared to the total selling price.

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The manner in which we account for multiple-element arrangements that contain only software and software-related elements remains unchanged by the new guidance. We allocate a portion of the total purchase price to the undelivered elements, primarily installation services, PCS, and training, using VSOE of fair value of the undelivered elements. The remaining portion of the total transaction value is allocated to the delivered software, referred to as the residual method. 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.

For new or materially modified multiple-element arrangements entered into on or after February 1, 2011 that are comprised of a combination of hardware and software elements, the total transaction value is bifurcated between the hardware elements and the software elements that are not essential to the functionality of the hardware, based on the relative selling prices of the hardware elements and the software elements as a group. Revenue is then recognized for the hardware and hardware-related services following the hardware revenue recognition methodology outlined above and revenue for the software and software-related services is recognized following the residual method or ratably over the PCS period if VSOE for PCS does not exist.

Our policy for establishing VSOE for installation, consulting, and training is based upon an analysis of separate sales of services. We utilize either the substantive renewal rate approach or the bell-shaped curve approach to establish VSOE for our PCS offerings, depending upon the business segment, geographical region, or product line. The timing of revenue recognition on software licenses and other revenue could be significantly impacted if we are unable to maintain VSOE on one or more undelivered elements during any quarterly period. Loss of VSOE could result in (i) the complete deferral of all revenue or (ii) ratable recognition of all revenue under a customer arrangement until such time as VSOE is re-established. If we are unable to re-establish VSOE on one or more undelivered elements for an extended period of time it would impact our ability to accurately forecast the timing of quarterly revenue, which could have a material adverse effect on our business, financial position, results of operations or cash flows.

We typically are not able to determine TPE for our products or our service and support offerings. TPE of selling price is established by evaluating largely similar and interchangeable competitor products or services in stand-alone sales to similarly situated customers.

If we are unable to determine the selling price because VSOE or TPE does not exist, we determine ESP for the purposes of allocating the arrangement by considering several external and internal factors including, but not limited to, pricing practices, similar product offerings, margin objectives, geographies in which we offer our products and services, internal costs, competition, and product lifecycle. The determination of ESP is made through consultation with and approval by our management, taking into consideration our go-to-market strategies. ESP for each element is updated, when appropriate, to ensure that it reflects recent pricing experience.

PCS revenue is 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

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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 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.

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.

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. 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.

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.

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

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

For multiple-element arrangements that contain software and software related elements 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. 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

We allocate the purchase price of acquired companies to the tangible and intangible assets acquired, including in-process research and development assets, and liabilities assumed, based upon their estimated fair values at the acquisition date. These fair values are

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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.

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 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.

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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. We review goodwill for impairment utilizing either a qualitative assessment or a two-step process. If we decide that it is appropriate to perform a qualitative assessment and conclude that the fair value of a reporting unit more likely than not exceeds its carrying value, no further evaluation is necessary. For reporting units where we perform the two-step process, the first step requires us to estimate the fair value of each reporting unit and compare that fair value to the respective carrying value, which includes goodwill. If the fair value of the reporting unit exceeds its carrying value, the goodwill is not considered impaired and no further evaluation is necessary. If the carrying value is higher than the estimated fair value, there is an indication that impairment may exist and the second step is required. In the second step, the implied fair value of goodwill is calculated as the excess of the fair value of a reporting unit over the fair values assigned to its assets and liabilities. If the implied fair value of goodwill is less than the carrying value of the reporting unit s goodwill, the difference is recognized as an impairment charge.

For reporting units where we decide to perform a qualitative assessment, our management assesses and makes judgments regarding a variety of factors which potentially impact the fair value of a reporting unit, including general economic conditions, industry and market-specific conditions, customer behavior, cost factors, our financial performance and trends, our strategies and business plans, capital requirements, management and personnel issues, and our stock price, among others. Management then considers the totality of these and other factors, placing more weight on the events and circumstances that are judged to most affect a reporting unit s fair value or the carrying amount of its net assets, to reach a qualitative conclusion regarding whether it is more likely than not that the fair value of a reporting unit exceeds its carrying amount.

For reporting units where we perform the two-step process, we utilize three primary approaches to assess 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 consideration of valuation approaches (income approach, comparable public company approach, and comparable transaction approach), (b) estimates of our future cost structure, (c) discount rates for our estimated cash flows, (d) selection of peer group companies for the comparable public company and the comparable transaction approaches, (e) required levels of working capital, (f) assumed terminal value, and (g) time horizon of cash flow forecasts.

The determination of reporting units also requires management judgment. We assess whether a reporting unit exists within a reportable segment by identifying the unit, determining whether the unit qualifies as a business under GAAP, and assessing the availability and regular review by segment management of discrete financial information for the unit.

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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.

We did not record any impairments of goodwill for the years ended January 31, 2012, 2011 or 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, 2011, and no indicators of potential impairment were identified between November 1, 2011 and January 31, 2012, 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 assessments are reasonable and appropriate, a material change in any of our assumptions or external factors could lead to future goodwill or other intangible asset impairment charges.

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 our 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 deferred taxes. 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, and 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

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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.

Cost of Revenue

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.

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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.

Results of Operations

Financial Overview

The following table sets forth a summary of certain key financial information for the years ended January 31, 2012, 2011, and 2010:

	Year Ended January 31,		
(in thousands, except per share data)	**2012**	**2011**	**2010**
Revenue	$ 782,648	$ 726,799	$ 703,633
Operating income	$ 86,478	$ 73,105	$ 65,679
Net income attributable to Verint Systems Inc. common shares	$ 22,203	$ 11,403	$ 2,026
Net income per common share attributable to Verint Systems Inc.:			
Basic	$ 0.58	$ 0.33	$ 0.06
Diluted	$ 0.56	$ 0.31	$ 0.06

Year Ended January 31, 2012 compared to Year Ended January 31, 2011. Our revenue increased approximately 8%, or $55.8 million, to $782.6 million in the year ended January 31, 2012 from $726.8 million in the year ended January 31, 2011. In our Enterprise Intelligence segment, revenue increased $27.5 million, or 7%. The increase was primarily due to a $30.1 million increase in service revenue due primarily to an increase in our customer install base and the related support revenue generated from this customer base during the year ended January 31, 2012 and, to a lesser extent, acquisitions in our Enterprise Intelligence segment during the year ended January 31, 2012 (primarily Vovici). We continue to see expansion of our implementation services revenue due to the growth of our professional services organization to meet the demands of our customer base. The increase in service revenue was partially offset by a $2.6 million decrease in product revenue, which relates to a large transaction whereby product delivery occurred in the year ended January 31, 2012 but a significant portion of the product revenue was not able to be recognized in the year ended January 31, 2012 due to certain contractual terms which required the remaining product revenue to be recognized in future periods. There were no comparable transactions in the prior year. In our Communications Intelligence segment, revenue increased $24.4 million, or 13%, primarily due to a $15.0 million increase in service revenue. Approximately $6.7 million of the increase is attributable to an increase in our customer install base and the related support revenue generated from this customer install base. The remaining increase is due primarily to the progress realized during the current-year period on certain large projects, some of which commenced in the previous fiscal year, which resulted in an increase in service revenue during the year ended January 31, 2012 compared to the year ended January 31, 2011. Product revenue in our Communications Intelligence segment increased $9.4 million, or 8%, primarily due to new

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communications intelligence product offerings. In our Video Intelligence segment, revenue increased $4.0 million, or 3%, primarily due to increased product deliveries to customers compared to the prior year and recognition of revenue associated with the completion of an implementation of a project for a large customer during the year ended January 31, 2012 compared to the prior year, partially offset by a reduction in revenue recognized from prior fiscal years multiple-element arrangements. These arrangements are being recognized ratably over several quarters or years primarily due to the prior business practice of providing implied PCS to Video Intelligence customers for which VSOE did not exist. For more details on our revenue by segment, see Revenue by Operating Segment . Revenue in the Americas, EMEA, and APAC represented approximately 53%, 27%, and 20% of our total revenue, respectively, in the year ended January 31, 2012 compared to approximately 53%, 26%, and 21%, respectively, in the year ended January 31, 2011.

Operating income was $86.5 million in the year ended January 31, 2012 compared to operating income of $73.1 million in the year ended January 31, 2011. The increase in operating income was primarily due to an increase in gross profit of $25.8 million to $514.3 million, from $488.5 million, partially offset by an increase in operating expenses of $13.6 million to $429.0 million, from $415.4 million. The increase in gross profit was primarily due to increases in our Enterprise Intelligence and Communication Intelligence segments as a result of increases in our customer install base and the related support revenue generated from this customer base during the year ended January 31, 2012, which carry higher margins than our implementation services. The increase in operating expenses was primarily due to a $14.5 million increase in research and development costs, net, due primarily to an increase in employee headcount and the impact of the weakening U.S. dollar against the Israeli shekel and the Canadian dollar on research and development wages in our Israeli and Canadian research and development facilities, partially offset by a $3.5 million decrease in selling, general and administrative expenses. The $3.5 million decrease is primarily due a $27.9 million decrease in professional fees, excluding fees associated with business combinations, following the completion of our restatement of previously filed financial statements and the conclusion of our previous extended filing delay period in June 2010, a $12.0 million decrease in stock-based compensation primarily due to a decrease in the number of outstanding stock-based compensation arrangements accounted for as liability awards, and lower average amounts of outstanding restricted stock units compared to the year ended January 31, 2011. These decreases were partially offset by increases of $19.2 million in employee compensation and related expenses, a $4.0 million increase in employee travel expenses, both of which were due to an increase in headcount, a $2.8 million increase in facilities expenses, partially due to business combinations which closed during the year ended January 31, 2012, a $1.8 million increase in sales and marketing costs, and a $3.2 million increase in contractor costs primarily due to increased use of contractors resulting from acquisitions, as well as other internal support activities. In addition, costs associated with business combinations increased by $4.8 million, primarily due to $6.8 million of higher legal and other professional fees and $1.6 million of other acquisition-related costs, both resulting principally from business combinations which closed during the year ended January 31, 2012, partially offset by a $3.6 million net decrease in the change in fair value of contingent consideration arrangements. Further discussion surrounding our business combinations appears in Note 4, Business Combinations to our consolidated financial statements included in Item 15 of this report.

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Net income attributable to Verint Systems Inc. common shares was $22.2 million and diluted net income per common share was $0.56 in the year ended January 31, 2012 compared to net income attributable to Verint Systems Inc. common shares of $11.4 million and diluted net income per common share of $0.31 in the year ended January 31, 2011. The increase in net income attributable to Verint Systems Inc. common shares and diluted net income per common share in the year ended January 31, 2012 was due to our increased operating income, as described above, partially offset by $5.7 million of higher other expense, net, which was primarily driven by an $8.1 million loss on extinguishment of debt recorded in connection with the termination of our prior credit agreement (Prior Credit Agreement) during the year ended January 31, 2012 and a $2.5 million increase in interest expense due to a higher interest rate on our borrowings associated with a July 2010 amendment to our Prior Credit Agreement as compared to our new Credit Agreement, which was effective April 2011, offset by a $4.7 million decrease in other expense, net, due primarily to a $5.0 million decrease in losses on derivative financial instruments. Also contributing to the increase in net income attributable to Verint Systems Inc. common shares is a $4.4 million decrease in the provision for income taxes. For additional information on other expenses, net, and the provision for income taxes, see - Other Income (Expense), Net, and Provision for Income Taxes below.

A portion of our business is conducted in currencies other than the U.S. dollar, and therefore our revenue and operating expenses are affected by fluctuations in applicable foreign currency exchange rates as noted above. When comparing average exchange rates for the year ended January 31, 2012 to average exchange rates for the year ended January 31, 2011, the U.S. dollar weakened relative to the British pound sterling, euro, Israeli shekel, Canadian dollar, Australian dollar, Singapore dollar, and Brazilian real, which are the major foreign currencies in which we transacted business, resulting in increases in our revenue, cost of revenue and operating expenses on a dollar-denominated basis. For the year ended January 31, 2012, had foreign exchange rates remained unchanged from rates in effect for the year ended January 31, 2011, our revenue would have been approximately $12.9 million lower and our cost of revenue and operating expenses would also have been approximately $12.9 million lower, which would have resulted in a minimal impact on operating income.

Year Ended January 31, 2011 compared to Year Ended January 31, 2010. Our revenue increased approximately 3%, or $23.2 million, to $726.8 million in the year ended January 31, 2011 from $703.6 million in the year ended January 31, 2010. The increase was due to a revenue increase in our Enterprise Intelligence segment, partially offset by a revenue decrease in our Video Intelligence and Communications Intelligence segments. In our Enterprise Intelligence segment, revenue increased by $35.7 million, or 10%, primarily due to an increase in our customer install base and the related support revenue generated from this customer base during the year ended January 31, 2011. In addition, our implementation service revenue increased as a result of the growth of our professional services organization to meet the demand of our customer base, and our product revenue increased as a result of increased customer order activity. In our Communications Intelligence segment, revenue decreased $1.6 million, or 1%, primarily due to substantially completing our deliverables for certain large projects during the prior fiscal year, partially offset by a higher volume of projects completed during the year ended January 31, 2011. In our Video Intelligence segment, revenue decreased $11.0 million, or 8%, primarily due to a reduction of product deliveries to a major customer in the year ended January 31, 2011, partially offset by an increase in revenue from other customers. For more details on our revenue by segment, see   Revenue by Operating Segment   . Revenue in the Americas, EMEA, and APAC represented approximately 53%, 26%, and 21% of our total revenue, respectively, in the year ended January 31, 2011 compared to approximately 55%, 25%, and 20%, respectively, in the year ended January 31, 2010.

Operating income was $73.1 million in the year ended January 31, 2011 compared to $65.7 million in the year ended January 31, 2010. The increase in operating income was primarily due to an increase in gross profit of $24.8 million to $488.5 million from $463.7 million, partially offset by an increase in operating expenses of $17.4 million to $415.4 million from $398.0 million. The increase in gross profit was primarily due to higher revenue in our Enterprise Intelligence operating segment. The increase in operating expenses was primarily due to an increase in employee compensation of $27.4 million as a result of an increase in employee headcount and salary increases as well as the foreign currency impact as described below. Other increases to operating expenses included an increase in stock-based compensation expense of $2.2 million primarily due to the impact of the increase in our stock price on certain stock-based compensation arrangements accounted for as liability awards, an increase in employee sales commissions of $1.9 million and travel expenses of $2.1 million. These increases were partially offset by a reduction in professional fees of $17.1 million following the completion of our restatement of previously filed financial statements and our previous extended filing delay.

Net income attributable to Verint Systems Inc. common shares was $11.4 million and diluted net income per common share was $0.31 in the year ended January 31, 2011 compared to net income attributable to Verint Systems Inc. common shares of $2.0 million and diluted net income per common share of $0.06 in the year ended January 31, 2010. The increase in net income attributable to Verint Systems Inc. common shares and diluted net income per common share in the year ended January 31, 2011 was due to our increased operating income as described above, lower other expense, net of $6.9 million and a $2.8 million increase in provision for income taxes.

The U.S. dollar strengthened relative to the British pound sterling and euro and weakened relative to the Israeli shekel, Canadian dollar, Australian dollar, Singapore dollar and Brazilian real, which are the major foreign currencies in which we transacted business, during the year ended January 31, 2011 compared to the year ended January 31, 2010, resulting in a decrease in our revenue and an increase in our cost of revenue and our operating expenses. Had foreign exchange rates remained constant in these periods, our revenue would have been approximately $1.0 million higher and our operating expenses and cost of revenue would have been approximately $6.0 million lower, which would have resulted in approximately $7.0 million of higher operating income.

As of January 31, 2012, we employed approximately 3,200 employees, including part-time employees and certain contractors, as compared to approximately 2,800 as of January 31, 2011.

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Revenue by Operating Segment

The following table sets forth revenue for each of our three operating segments for the years ended January 31, 2012, 2011, and 2010:

	Year Ended January 31,			% Change	
(in thousands)	**2012**	**2011**	**2010**	**2012 - 2011**	**2011 - 2010**
Enterprise Intelligence	$ 438,018	$ 410,529	$ 374,778	7%	10%
Video Intelligence	138,016	134,012	144,970	3%	(8)%
Communications Intelligence	206,614	182,258	183,885	13%	(1)%
Total revenue	**$ 782,648**	**$ 726,799**	**$ 703,633**	8%	3%

Enterprise Intelligence Segment

Year Ended January 31, 2012 compared to Year Ended January 31, 2011. Enterprise Intelligence revenue increased approximately 7%, or $27.5 million, to $438.0 million in the year ended January 31, 2012 from $410.5 million in the year ended January 31, 2011. The increase was primarily due to a $30.1 million increase in service revenue due primarily to an increase in our customer install base and the related support revenue generated from this customer base during the year ended January 31, 2012 and, to a lesser extent, acquisitions in our Enterprise Intelligence segment (primarily Vovici) during the year ended January 31, 2012. We continue to see expansion of our implementation services revenue due to the growth of our professional services organization to meet the demands of our customer base. The increase in service revenue was partially offset by a $2.6 million decrease in product revenue, which primarily relates to a large transaction whereby product delivery occurred in the year ended January 31, 2012 but a significant portion of the product revenue was not able to be recognized in the year ended January 31, 2012 due to certain contractual terms which required the remaining product revenue to be recognized in future periods. There were no comparable transactions in the prior year.

Year Ended January 31, 2011 compared to Year Ended January 31, 2010. Enterprise Intelligence revenue increased approximately 10%, or $35.7 million, to $410.5 million in the year ended January 31, 2011 from $374.8 million in the year ended January 31, 2010. The increase was primarily due to an increase in our customer install base and the related support revenue generated from this customer base during the year ended January 31, 2011. In addition, our implementation service revenue increased as a result of the growth of our professional services organization to meet the demand of our customer base, and our product revenue increased as a result of increased customer order activity.

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Video Intelligence Segment

Year Ended January 31, 2012 compared to Year Ended January 31, 2011. Video Intelligence revenue increased approximately 3%, or $4.0 million, to $138.0 million in the year ended January 31, 2012 from $134.0 million in the year ended January 31, 2011. The increase was primarily due to an $8.5 million increase in product revenue attributable to an increase in product deliveries to customers and recognition of revenue associated with the completion of a project for a large customer during the year ended January 31, 2012, partially offset by a reduction in product revenue recognized from prior years multiple-element arrangements. These arrangements are being recognized ratably and allocated between product and service revenue over several quarters or years primarily due to the prior business practice of providing implied PCS to Video Intelligence customers for which VSOE did not exist. The increase in product revenue was partially offset by a $4.5 million decrease in service revenue due to a reduction in service revenue recognized from prior years multiple-element arrangements where the entire arrangement was being recognized ratably over several quarters or years primarily due to the prior business practice of providing implied PCS to Video Intelligence customers for which VSOE did not exist.

Year Ended January 31, 2011 compared to Year Ended January 31, 2010. Video Intelligence revenue decreased approximately 8%, or $11.0 million, to $134.0 million in the year ended January 31, 2011 from $145.0 million in the year ended January 31, 2010. The decrease was primarily due to a reduction of product deliveries to a major customer in the year ended January 31, 2011, partially offset by an increase in revenue from other customers.

Communications Intelligence Segment

Year Ended January 31, 2012 compared to Year Ended January 31, 2011. Communications Intelligence revenue increased approximately 13%, or $24.4 million, to $206.6 million in the year ended January 31, 2012 from $182.3 million in the year ended January 31, 2011. This increase was primarily due to a $15.0 million increase in service revenue. Approximately $6.7 million of the increase was attributable to an increase in our customer install base and the related support revenue generated from this customer install base. The remaining increase was primarily attributable to the progress realized during the current-year period on certain large projects, some of which commenced in the previous fiscal year, which resulted in an increase in service revenue during the year ended January 31, 2012 compared to the year ended January 31, 2011. Product revenue increased $9.4 million, or 8%, primarily due to new communications intelligence product offerings.

Year Ended January 31, 2011 compared to Year Ended January 31, 2010. Communications Intelligence revenue decreased approximately 1%, or $1.6 million, to $182.3 million in the year ended January 31, 2011 from $183.9 million in the year ended January 31, 2010. This decrease was primarily a result of substantially completing our deliverables for certain large projects during the year ended January 31, 2010 partially offset by a higher volume of projects completed during the year ended January 31, 2011. In addition, we established professional services VSOE in the three months ended April 30, 2010, thereby allowing revenue recognition upon product delivery.

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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.

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 our consolidated financial statements included in Item 15 of this report.

The following table sets forth revenue for products and service and support for the years ended January 31, 2012, 2011, and 2010:

	Year Ended January 31,			% Change	
(in thousands)	**2012**	**2011**	**2010**	**2012 - 2011**	**2011 - 2010**
Product revenue	$ 390,392	$ 375,164	$ 374,272	4%	0%
Service and support revenue	392,256	351,635	329,361	12%	7%
Total revenue	**$ 782,648**	**$ 726,799**	**$ 703,633**	8%	3%

Product Revenue

Year Ended January 31, 2012 compared to Year Ended January 31, 2011. Product revenue increased approximately 4%, or $15.2 million, to $390.4 million in the year ended January 31, 2012 from $375.2 million in the year ended January 31, 2011 due to increases in product revenue in our Video Intelligence and Communication Intelligence segments of $8.5 million and $9.4 million, respectively, offset by a decrease in product revenue in our Enterprise Intelligence segment of $2.6 million. For additional information see Revenue by Operating Segment .

Year Ended January 31, 2011 compared to Year Ended January 31, 2010. Product revenue increased $0.9 million, to $375.2 million in the year ended January 31, 2011 from $374.3 million in the year ended January 31, 2010. The product revenue increases in our Enterprise Intelligence and Communications Intelligence segments were partially offset by a decrease in our Video Intelligence segment. For additional information see Revenue by Operating Segment .

Service and Support Revenue

Year Ended January 31, 2012 compared to Year Ended January 31, 2011. Service and support revenue increased approximately 12%, or $40.6 million, to $392.3 million for the year ended January 31, 2012 from $351.6 million for the year ended January 31, 2011. The increase was primarily attributable to increases of $30.1 million and $15.0 million in our Enterprise

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Intelligence and Communications Intelligence segments, respectively, partially offset by a $4.5 million decrease in our Video Intelligence segment. For additional information see Revenue by Operating Segment .

Year Ended January 31, 2011 compared to Year Ended January 31, 2010. Service and support revenue increased approximately 7%, or $22.2 million, to $351.6 million for the year ended January 31, 2011 from $329.4 million for the year ended January 31, 2010. The increase was in our Enterprise Intelligence segment due to higher support revenue as well as higher professional services revenue associated with installation, consulting and training, partially offset by decreases in our Video Intelligence and Communications Intelligence segments. For additional information see Revenue by Operating Segment .

Cost of Revenue

The following table sets forth cost of revenue by product and service and support, as well as amortization of acquired technology for the years ended January 31, 2012, 2011, and 2010:

	Year Ended January 31,			% Change	
(in thousands)	**2012**	**2011**	**2010**	**2012 - 2011**	**2011 - 2010**
Product cost of revenue	$ 126,050	$ 111,989	$ 122,961	13%	(9)%
Service and support cost of revenue	129,911	117,261	108,953	11%	8%
Amortization of acquired technology	12,400	9,094	8,021	36%	13%
Total cost of revenue	**$ 268,361**	**$ 238,344**	**$ 239,935**	13%	(1)%

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 solutions. When revenue is deferred, we also defer hardware material costs and third-party software royalties and recognize those costs over the same period that the product revenue is recognized. Product cost of revenue also includes amortization of capitalized software development costs, 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 for resources dedicated to project management and associated product delivery.

Year Ended January 31, 2012 compared to Year Ended January 31, 2011. Product cost of revenue increased approximately 13% to $126.1 million in the year ended January 31, 2012 from $112.0 million in the year ended January 31, 2011. Our overall product gross margins decreased to 68% in the year ended January 31, 2012 from 70% in the year ended January 31, 2011. Product gross margins in our Communications Intelligence segment decreased to 59% for the year ended January 31, 2012 from 68% in the year ended January 31, 2011 as a result of higher profit margins on projects recognized in the year ended January 31, 2011 as compared to the year ended January 31, 2012 due to an increase in projects requiring customized implementation services, which carry lower gross margins than our standard implementation services. Product gross margins in our Enterprise Intelligence segment increased to 90% in

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the year ended January 31, 2012 from 87% in the year ended January 31, 2011 as a result of growth in sales of software licenses, as we continue to transition to a more software-based solution within the Enterprise Intelligence segment. Product gross margins in our Video Intelligence segment decreased to 56% in the year ended January 31, 2012 from 58% in the year ended January 31, 2011 primarily due to a change in product mix.

Year Ended January 31, 2011 compared to Year Ended January 31, 2010. Product cost of revenue decreased approximately 9% to $112.0 million in the year ended January 31, 2011 from $123.0 million in the year ended January 31, 2010. Our overall product margins increased to 70% in the year ended January 31, 2011 from 67% in the year ended January 31, 2010 primarily as a result of an increase in product revenue and product margins in our Enterprise Intelligence and Communications Intelligence segments. Product costs in our Communications Intelligence segment decreased $8.9 million resulting in an increase in product margins to 68% for the year ended January 31, 2011 from 60% in the year ended January 31, 2010 as a result of a higher profitability of projects recognized in the year ended January 31, 2011 as compared to the year ended January 31, 2010. Product costs in our Enterprise Intelligence segment decreased $1.6 million resulting in an increase in product margins to 87% in the year ended January 31, 2011 from 86% in the year ended January 31, 2010. Product margins in our Video Intelligence segment decreased to 58% in the year ended January 31, 2011 from 61% in the year ended January 31, 2010 primarily due to a decrease in revenue, resulting in less efficient utilization of overhead costs, as well as a change in 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 includes stock-based compensation expenses, facility costs, and other overhead expenses. 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 Percentage of Completion Method.

Year Ended January 31, 2012 compared to Year Ended January 31, 2011. Service and support cost of revenue increased approximately 11% to $129.9 million in the year ended January 31, 2012 from $117.3 million in the year ended January 31, 2011. Employee compensation and related expenses increased $14.0 million primarily in our Enterprise Intelligence and Communication Intelligence segments due to an increase in employee headcount required to deliver the increased implementation services. Our overall service and support gross margins remained constant at 67% in each of the years ended January 31, 2012 and 2011.

Year Ended January 31, 2011 compared to Year Ended January 31, 2010. Service and support cost of revenue increased approximately 8% to $117.3 million in the year ended January 31, 2011 from $109.0 million in the year ended January 31, 2010. Employee compensation and related expenses increased $8.0 million primarily in our Enterprise Intelligence segment due to an increase in employee headcount required to support increased implementation services, as well as salary increases. Our overall service and support margins remained constant at 67% in the year ended January 31, 2011.

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Amortization of Acquired Technology

Amortization of acquired technology consists of amortization of technology assets acquired in connection with business combinations.

Year Ended January 31, 2012 compared to Year Ended January 31, 2011. Amortization of acquired technology increased approximately 36% to $12.4 million in the year ended January 31, 2012, from $9.1 million in the year ended January 31, 2011 primarily due to an increase in amortization expense of acquired technology-based intangible assets associated with business combinations that closed during the year ended January 31, 2012. Further discussion regarding our business combinations appears in Note 4, Business Combinations to our consolidated financial statements included in Item 15 of this report.

Year Ended January 31, 2011 compared to Year Ended January 31, 2010. Amortization of acquired technology increased approximately 13% to $9.1 million in the year ended January 31, 2011 from $8.0 million in the year ended January 31, 2010 primarily due to an increase in amortization expense of acquired technology associated with the Iontas Limited (Iontas) acquisition.

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 continue to be capitalized through the general release of the related software product.

The following table sets forth research and development, net expense for the years ended January 31, 2012, 2011, and 2010:

	Year Ended January 31,			% Change	
(in thousands)	**2012**	**2011**	**2010**	**2012 - 2011**	**2011 - 2010**
Research and development, net	$ 111,001	$ 96,525	$ 83,797	15%	15%

Year Ended January 31, 2012 compared to Year Ended January 31, 2011. Research and development, net increased approximately 15%, or $14.5 million, to $111.0 million in the year ended January 31, 2012 from $96.5 million in the year ended January 31, 2011. Employee compensation and related expenses increased $16.0 million, which was attributable to an increase in employee headcount as well as an increase due to the impact of the weakening U.S. dollar against the Israeli shekel and Canadian dollar on research and development wages in our Israeli and Canadian research and development facilities. Also contributing to the increase in research and development costs was a $2.0 million increase in contractor costs primarily due to additional headcount required for R&D efforts in the twelve months ended January 31, 2012 compared to the twelve months ended January 31, 2011. The increases were partially offset by a decrease in stock-based compensation of $4.0 million due to a decrease in the number of outstanding stock-based compensation arrangements accounted for as liability awards compared to the year ended January 31, 2011 and lower average amounts of outstanding restricted stock units, in each case associated with our research and development employees.

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Year Ended January 31, 2011 compared to Year Ended January 31, 2010. Research and development, net increased approximately 15% to $96.5 million in the year ended January 31, 2011 from $83.8 million in the year ended January 31, 2010. Employee compensation and related expenses increased $15.6 million due to an increase in employee headcount and salary increases, and higher expenses in our Communications Intelligence segment as a result of a higher portion of employees time devoted to generic product development rather than specific customization work for projects accounted for under the Contract Accounting Method, as well as the impact of the weakening U.S. dollar against the Israeli shekel and Canadian dollar on research and development wages in our Israeli and Canadian research and development facilities. This increase was partially offset by an increase in research and development reimbursements from government programs of $1.4 million primarily due to new programs approved by the OCS of Israel received during the year ended January 31, 2011 as well as a decrease in contractor costs of $1.0 million.

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.

The following table sets forth selling, general and administrative expenses for the years ended January 31, 2012, 2011, and 2010:

	Year Ended January 31,			% Change	
(in thousands)	**2012**	**2011**	**2010**	**2012 - 2011**	**2011 - 2010**
Selling, general and administrative	$ 293,906	$ 297,365	$ 291,954	(1)%	2%

Year Ended January 31, 2012 compared to Year Ended January 31, 2011. Selling, general and administrative expenses decreased approximately 1%, or $3.5 million, to $293.9 million in the year ended January 31, 2012 from $297.4 million in the year ended January 31, 2011. Professional fees, excluding fees associated with business combinations, decreased by $27.9 million following the completion of our restatement of previously filed financial statements and the conclusion of our previous extended filing delay period in June 2010. Stock-based compensation decreased by $12.0 million primarily due to a decrease in the number of outstanding stock-based compensation arrangements accounted for as liability awards and lower average amounts of outstanding restricted stock units compared to the year ended January 31, 2011. These decreases were partially offset by increases of $19.3 million in employee compensation and related expenses, a $4.0 million increase in employee travel expenses, both of which were due to an increase in headcount, a $2.8 million increase in facilities expenses, partially due to business combinations which closed during the year ended January 31, 2012, a $1.8 million increase in sales and marketing costs, and a $3.2 million increase in contractor costs primarily due to increased use of contractors resulting from acquisitions, as well as other internal support activities. In addition, costs associated with business combinations increased by $4.8 million, primarily due to $6.8 million of higher legal and other professional fees and $1.6

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million of other acquisition-related costs, both resulting principally from business combinations which closed during the year ended January 31, 2012, offset by a $3.6 million net decrease in the change in fair value of contingent consideration arrangements. Further discussion surrounding our business combinations appears in Note 4, Business Combinations to our consolidated financial statements included in Item 15 of this report.

Year Ended January 31, 2011 compared to Year Ended January 31, 2010. Selling, general and administrative expenses increased approximately 2% to $297.4 million in the year ended January 31, 2011 from $291.8 million in the year ended January 31, 2010. Employee compensation and related expenses increased $11.8 million due to an increase in headcount, as well as salary increases. Stock-based compensation increased $3.1 million primarily due to the impact of the increase in our stock price on certain stock-based compensation arrangements accounted for as liability awards. Sales commissions increased $2.0 million due to an increase in headcount as well as an increase in customer orders received during the year ended January 31, 2011. Marketing expenses increased $0.7 million primarily due to our global brand awareness marketing campaign. Other expense increases include increases in travel and entertainment expenses of $2.1 million, recruitment and other personnel expenses totaling $1.4 million primarily as a result of the increase in headcount and other expenses totaling $1.2 million. These increases were partially offset by a reduction in professional fees of $17.1 million following the completion of our restatement of previously filed financial statements and our previous extended filing delay in June 2010.

Amortization of Other Acquired Intangible Assets

Amortization of other acquired intangible assets consists of amortization of certain intangible assets acquired in connection with business combinations, including customer relationships, distribution networks, trade names and non-compete agreements.

The following table sets forth amortization of other acquired intangible assets for the years ended January 31, 2012, 2011, and 2010:

	Year Ended January 31,			% Change	
(in thousands)	**2012**	**2011**	**2010**	**2012 - 2011**	**2011 - 2010**
Amortization of other acquired intangible assets	$ 22,902	$ 21,460	$ 22,268	7%	(4)%

Year Ended January 31, 2012 compared to Year Ended January 31, 2011. Amortization of other acquired intangible assets increased approximately 7% to $22.9 million in the year ended January 31, 2012 from $21.5 million in the year ended January 31, 2011 primarily due to an increase in amortization associated with business combinations that closed during the year ended January 31, 2012. Further discussion regarding our business combinations appears in Note 4, Business Combinations to our consolidated financial statements included in Item 15 of this report.

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Year Ended January 31, 2011 compared to Year Ended January 31, 2010. Amortization of other acquired intangible assets decreased approximately 4% to $21.5 million in the year ended January 31, 2011 from $22.3 million in the year ended January 31, 2010 primarily due to certain intangible assets becoming fully amortized during the year ended January 31, 2011, as well as certain intangible assets impacted by the weakening British pound sterling. These decreases were partially offset by an increase in amortization expense of acquired intangible assets associated with the Iontas acquisition.

Other Income (Expense), Net

The following table sets forth total other expense, net for the years ended January 31, 2012, 2011, and 2010:

	Year Ended January 31,			% Change	
(in thousands)	**2012**	**2011**	**2010**	**2012 - 2011**	**2011 - 2010**
Interest income	$ 661	$ 454	$ 616	46%	(26)%
Interest expense	(32,358)	(29,896)	(24,964)	8%	20%
Loss on extinguishment of debt	(8,136)			*	*
Other income (expense):					
Foreign currency gains (losses), net	1,382	857	(1,898)	61%	(145)%
Losses on derivatives, net	(896)	(5,864)	(14,709)	(85)%	(60)%
Other, net	(974)	(131)	(516)	644%	(75)%
Total other income (expense)	(488)	(5,138)	(17,123)	(91)%	(70)%
Total other expense, net	**$ (40,321)**	**$ (34,580)**	**$ (41,471)**	17%	(17)%

* Percentage is not meaningful.

Year Ended January 31, 2012 compared to Year Ended January 31, 2011. Total other expense, net, increased by $5.7 million, to $40.3 million in the year ended January 31, 2012 from $34.6 million in the year ended January 31, 2011. Interest expense increased to $32.4 million in the year ended January 31, 2012 from $29.9 million in the year ended January 31, 2011 primarily due to a higher interest rate on our borrowings associated with a July 2010 amendment to our Prior Credit Agreement as compared to our new Credit Agreement, which was effective April 2011. We recorded a $1.4 million gain on foreign currency in the year ended January 31, 2012 compared to a $0.9 million gain in the year ended January 31, 2011. Foreign currency gains in the year ended January 31, 2012 resulted from the weakening of the U.S. dollar against the British pound sterling, euro, and Singapore dollar during such period, which resulted in gains on U.S. dollar-denominated net liabilities in certain entities which use those functional currencies.

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In the year ended January 31, 2012, there was a net loss on derivative financial instruments (not designated as hedging instruments) of $0.9 million. This loss was primarily attributable to losses on foreign currency forward contracts due to the weakening of the U.S. dollar against the Singapore dollar and euro during such period. In the year ended January 31, 2011, net loss on derivative financial instruments was $5.9 million. This loss was primarily attributable to a loss in connection with our $450.0 million interest rate swap agreement entered into concurrently with our Prior Credit Agreement. This interest rate swap agreement was not designated as a hedging instrument under derivative accounting guidance, and accordingly, gains and losses from changes in the fair value were recorded in other income (expense), net.

During the year ended January 31, 2012, we recorded an $8.1 million loss upon termination of our Prior Credit Agreement and repayment of the prior term loan. Further discussion regarding our credit agreements appears in Note 6, Long-term Debt to our consolidated financial statements included in Item 15 of this report.

Year Ended January 31, 2011 compared to Year Ended January 31, 2010. Total other expense, net, decreased $6.9 million, to an expense of $34.6 million in the year ended January 31, 2011 compared to an expense of $41.5 million in the year ended January 31, 2010. Interest expense increased to $29.9 million in the year ended January 31, 2011 from $25.0 million in the year ended January 31, 2010 primarily due to a higher interest rate associated with the amendment to our Prior Credit Agreement we entered into in July 2010. We recorded a $0.9 million foreign currency gain in the year ended January 31, 2011 compared to a $1.9 million loss in the year ended January 31, 2010. The foreign currency gain in the year ended January 31, 2011 primarily resulted from the weakening of the U.S. dollar against the Singapore dollar during the year ended January 31, 2011.

In the year ended January 31, 2011, net loss on derivative financial instruments was $5.9 million. This loss was primarily attributable to a loss in connection with our $450.0 million interest rate swap agreement entered into concurrently with our Prior Credit Agreement. This interest rate swap agreement was 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. In the year ended January 31, 2010, net loss on derivative financial instruments was $14.7 million primarily attributable to fair value adjustments on our interest rate swap agreement.

Provision for Income Taxes

The following table sets forth our provision for income taxes for the years ended January 31, 2012, 2011, and 2010:

	Year Ended January 31,			% Change	
(in thousands)	**2012**	**2011**	**2010**	**2012 - 2011**	**2011 - 2010**
Provision for income taxes	$ 5,532	$ 9,940	$ 7,108	(44)%	40%

Year Ended January 31, 2012 compared to Year Ended January 31, 2011. Our effective tax rate was 12.0% for the year ended January 31, 2012, compared to 25.8% for the year ended January 31, 2011. For the year ended January 31, 2012, our effective income

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tax rate was lower than the U.S. federal statutory rate of 35% primarily due to the level and mix of income and losses by jurisdiction, the recognition of unrecognized tax benefits and the partial release of a valuation allowance. We recorded an income tax provision on income from certain foreign subsidiaries taxed at rates lower than the U.S. federal statutory rate, but we do not recognize a U.S. federal income tax benefit on losses incurred by certain domestic operations where we maintain valuation allowances. We recorded deferred tax liabilities related to a business combination with a corresponding release of valuation allowance in the U.S, resulting in an income tax benefit. The result was an income tax provision of $5.5 million on $46.2 million of pre-tax income, which represents an effective tax rate of 12.0%. For the year ended January 31, 2011, our effective income tax rate was lower than the U.S. federal statutory rate of 35%. The rate was decreased because pre-tax income in our profitable jurisdictions, where we recorded tax provisions, was partially offset by our domestic losses where we maintain valuation allowances and did not record the related tax benefits. The result was an income tax provision of $9.9 million on $38.5 million of pre-tax income, which represents an effective tax rate of 25.8%. The comparison of our effective tax rates between periods is impacted by the level and mix of earnings and losses by tax jurisdiction, foreign income tax rate differentials, amount of permanent book to tax differences, and the effects of valuation allowances on certain loss jurisdictions.

Year Ended January 31, 2011 compared to Year Ended January 31, 2010. Our effective tax rate was 25.8% for the year ended January 31, 2011, as compared to 29.4% for the year ended January 31, 2010. For the year ended January 31, 2011, our overall effective tax rate was lower than the U.S. federal statutory rate of 35% primarily due to the mix of income and losses by jurisdiction. In addition, we maintain valuation allowances and did not record significant income tax expense or income tax benefit in the United States, but recorded an income tax provision on income from our foreign subsidiaries. Our effective tax rate for the year ended January 31, 2010 was lower than the U.S. federal statutory rate because we recorded an income tax provision on income from certain foreign subsidiaries taxed at rates lower than the U.S. federal statutory rate. The impact of lower foreign tax rates is partially offset because we did not record a significant U.S. federal income tax because we maintain a valuation allowance. The comparison of our effective tax rate between periods is impacted by the level and mix of earnings and losses by tax jurisdiction, foreign income tax rate differentials, relative impacts of permanent book to tax differences, and the effects of valuation allowances on certain loss jurisdictions.

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

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.

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Liquidity and Capital Resources

Overview

Our primary source of cash is the collection of proceeds from the sale of products and services to our customers, including cash periodically collected in advance of delivery or performance.

In April 2011, we entered into a new credit agreement and terminated our Prior Credit Agreement. The new credit agreement includes a term loan facility, with an outstanding balance of $597.0 million at January 31, 2012, and a $170.0 million revolving line of credit, which was unused at January 31, 2012. Further discussion of our credit agreements appears below, under Credit Agreements .

Our primary recurring use of cash is payment of our operating costs, which consist primarily of employee-related expenses, such as compensation and benefits, as well as general operating expenses for marketing, facilities and overhead costs, and capital expenditures. We also utilize cash for debt service under our credit agreement and periodically for business acquisitions. Cash generated from operations is our primary source of operating liquidity, and we believe that internally generated cash flows are sufficient to support our current business operations, including debt service and capital expenditure requirements.

We have historically expanded our business in part by investing in strategic growth initiatives, including acquisitions of products, technologies, and businesses. We have used cash as consideration for substantially all of our historical business acquisitions, including $109.8 million of net cash expended for business acquisitions during the year ended January 31, 2012. To the extent that we continue this strategy, our future cash requirements and liquidity may be impacted. We may utilize external capital sources, including debt and equity, to supplement our internally generated sources of liquidity as necessary and if available. We also may consider initiatives to modify the debt and equity components of our current capitalization, as we did during the year ended January 31, 2012 by entering into a new credit agreement and terminating our Prior Credit Agreement.

A considerable portion of our operating income is earned outside the United States. Cash and cash equivalents held by our subsidiaries outside the United States are generally used to fund the subsidiaries operating requirements and to invest in company growth initiatives, including business acquisitions. Other than for potential business acquisition transactions, we currently do not anticipate that we will need funds generated from foreign operations to fund our domestic operations for the next 12 months and for the foreseeable future.

Should other circumstances arise whereby we require more capital in the United States than is generated by our domestic operations, or should we otherwise consider it in our best interests, we could repatriate future earnings from foreign jurisdictions, which could result in higher effective tax rates. We have not provided for deferred taxes on the excess of the amount for financial reporting over the tax basis of investments in our foreign subsidiaries because we currently plan to indefinitely reinvest such earnings outside the United States.

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In the past, we have periodically reported a working capital deficit (current liabilities in excess of current assets), due largely to the impact of changes in our deferred revenue balances. Because deferred revenue is not a cash-settled liability, working capital in this case may not be a meaningful indicator of our liquidity. We believe our liquidity is better measured and assessed by our operating cash flow.

The following table sets forth, for the years ended January 31, 2012 and 2011, cash and cash equivalents, preferred stock and long-term debt:

	January 31,			
(in thousands)		**2012**		**2011**
Cash and cash equivalents	$	150,662	$	169,906
Preferred stock (at carrying value)	$	285,542	$	285,542
Long-term debt	$	591,151	$	583,234

At January 31, 2012, our cash and cash equivalents totaled $150.7 million, a decrease of $19.2 million from $169.9 million at January 31, 2011. We generated $106.5 million of operating cash flow during the year ended January 31, 2012, which was more than offset by $109.8 million paid for business acquisitions and $16.5 million of payments for capital expenditures and capitalized software development costs. Further discussion of these items appears below.

Statements of Cash Flows

The following table summarizes selected items from our statements of cash flows for the years ended January 31, 2012, 2011, and 2010:

	Year Ended January 31,					
(in thousands)		**2012**		**2011**		**2010**
Net cash provided by operating activities	$	106,498	$	70,520	$	100,837
Net cash used in investing activities		(126,848)		(77,833)		(24,599)
Net cash provided by (used in) financing activities		2,078		(6,937)		(10,491)
Effect of exchange rate changes on cash and cash equivalents		(972)		(179)		2,660
Net increase (decrease) in cash and cash equivalents	**$**	**(19,244)**	**$**	**(14,429)**	**$**	**68,407**

Net Cash Provided by Operating Activities

Net cash provided by operating activities is driven primarily by our net income or loss, adjusted for non-cash items, and working capital changes. Operating activities generated $106.5 million of net cash during the year ended January 31, 2012, compared to $70.5 million of cash provided by operating activities during the year ended January 31, 2011. Part of the improved operating cash flow in the current year resulted from our improved operating results, including a $13.4 million increase in operating income compared to the prior year. Operating cash flow for the prior year included significant payments for professional fees and related expenses associated

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with our restatement of previously filed financial statements and our previous extended filing delay, and such significant payments were not incurred during the current year.

Operating activities generated $70.5 million of net cash during the year ended January 31, 2011 compared to $100.8 million in the prior year. Our operating cash flow in the year ended January 31, 2011 was adversely impacted by several factors. During the year ended January 31, 2011, we filed our comprehensive annual report on Form 10-K for the years ended January 31, 2008, 2007 and 2006, our annual reports on Form 10-K for the years ended January 31, 2009 and 2010, and our quarterly reports on Form 10-Q for the quarters ended April 30, July 31, and October 31, 2009. Payments of professional fees and related costs, primarily associated with the completion and filing of these financial statements, were approximately $22 million higher in the year ended January 31, 2011 compared to the prior year. Beginning with our Quarterly Report on Form 10-Q for the three months ended April 30, 2010, filed in June 2010, we resumed making timely periodic filings with the SEC after our previous extended filing delay. In addition, payments made upon vesting of cash-settled equity awards, the amount of which is dependent upon our stock price on the vesting date, were $20.4 million higher in the year ended January 31, 2011 compared to the prior year, resulting primarily from increases in our stock price. Payments for compensation and benefits were also higher in the year ended January 31, 2011 compared to the prior year, reflecting the combination of an increase in headcount, salary increases, and higher benefit costs per employee.

Operating activities generated $100.8 million of cash in the year ended January 31, 2010 compared to $53.6 million in the prior year. This $47.2 million increase is primarily due to our improved operating performance for the year ended January 31, 2010, during which we generated operating income of $65.7 million compared to an operating loss of $15.0 million in the prior year. Lower expenses, largely due to lower staff levels and other cost reduction initiatives, improved our operating cash flow. In addition, payments for professional fees and interest on debt were approximately $14 million and $12 million lower, respectively, in the year ended January 31, 2010 compared to the prior year.

Net Cash Used in Investing Activities

During the year ended January 31, 2012, our investing activities used $126.8 million of net cash, of which the most significant use was $109.8 million of net cash utilized for business acquisitions, including $56.0 million of net cash paid to acquire Vovici in August 2011, and $24.6 million of net cash paid to acquire GMT in October 2011. In addition, we made $16.5 million of payments for property, equipment, and capitalized software development costs during this year.

During the year ended January 31, 2011, our investing activities used $77.8 million of net cash, including $15.2 million of net cash utilized to acquire Iontas, and $34.8 million paid for settlements of derivative financial instruments not designated as hedges, $21.7 million of which was paid in August 2010 in connection with the termination of our interest rate swap agreement. We also increased our restricted cash and bank time deposit balances by $8.5 million during the year, primarily reflecting short-term deposits to secure bank guarantees in connection with sales contracts. In addition, we made $11.1 million of payments for property, equipment, and capitalized software development costs during this year.

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During the year ended January 31, 2010, our investing activities used $24.6 million of net cash, primarily due to settlements of derivative financial instruments not designated as hedges of $19.4 million and payments for property, equipment, and capitalized software development costs of $7.7 million.

Currently, we have no significant commitments for capital expenditures.

Net Cash Provided by (Used in) Financing Activities

During the year ended January 31, 2012, our financing activities provided $2.1 million of net cash. During this year, we borrowed $597.0 million under our new credit agreement (consisting of gross borrowings of $600.0 million, reduced by a $3.0 million original issuance discount), repaid $583.2 million of outstanding borrowings under our Prior Credit Agreement, and paid $15.3 million of debt issuance and other debt-related costs. The net impact of this debt refinancing activity was a use of $1.5 million of cash for the year. We also received $12.5 million of proceeds from exercises of stock options during the year.

During the year ended January 31, 2011, our financing activities used $6.9 million of net cash. Financing activities during the year included $38.2 million in repayments of financing arrangements, including a $22.1 million excess cash flow payment on our term loan in May 2010 and the December 2010 repayment of $15.0 million previously borrowed under our revolving credit agreement. We also acquired, at market value, $4.1 million of treasury stock from directors and officers during the year, for purposes of providing funds for the recipient s obligation to pay associated income taxes in connection with the vesting of stock awards. In addition, we paid $4.0 million of fees and expenses related to our Prior Credit Agreement during the year, $3.6 million of which were consideration for amendments to the agreement. Partially offsetting these uses of cash was $40.8 million of proceeds from exercises of stock options. Following the completion of certain delayed SEC filings in June 2010, stock option holders were permitted to resume exercising vested stock options. Stock option exercises had been suspended during our previous extended filing delay period.

During the year ended January 31, 2010, our financing activities used $10.5 million of net cash, 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.

Liquidity and Capital Resources Requirements

Based on past performance and current expectations, we believe that our cash, cash equivalents, and cash generated from operations will be sufficient to meet anticipated operating costs, required payments of principal and interest, working capital needs, ordinary course capital expenditures, research and development spending, and other commitments for at least the next 12 months. Currently, we have no plans to pay any cash 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 service and support, including the impact of changes in customer buying behavior due to the economic environment. If 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.

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Credit Agreements

In May 2007, we entered into a $675.0 million secured credit agreement (Prior Credit Agreement) comprised of a $650.0 million seven-year term loan facility and a $25.0 million six-year revolving line of credit. The borrowing capacity under the revolving line of credit was increased to $75.0 million in July 2010.

In April 2011, we entered into a new credit agreement (Credit Agreement) and concurrently terminated the Prior Credit Agreement. The Credit Agreement provides for $770.0 million of secured credit facilities, comprised of a $600.0 million term loan maturing in October 2017 and a $170.0 million revolving credit facility maturing in April 2016, subject to increase (up to a maximum increase of $300.0 million) and reduction from time to time according to the terms of the Credit Agreement.

The majority of the new term loan proceeds were used to repay all $583.2 million of outstanding term loan borrowings under the Prior Credit Agreement at the closing date of the Credit Agreement. There were no outstanding borrowings under the prior revolving credit facility at the closing date.

The Credit Agreement included an original issuance term loan discount of 0.50%, or $3.0 million, resulting in net term loan proceeds of $597.0 million. This discount is being amortized as interest expense over the term of the term loan using the effective interest method.

Loans under the Credit Agreement bear interest, payable quarterly or, in the case of Eurodollar loans with an interest period of three months or shorter, at the end of any interest period, at a per annum rate of, at our election:

(a) in the case of Eurodollar loans, the Adjusted LIBO Rate plus 3.25% (or if our corporate ratings are at least BB- and Ba3 or better, 3.00%). The Adjusted LIBO Rate is the greater of (i) 1.25% per annum and (ii) the product of the LIBO Rate and Statutory Reserves (both as defined in the Credit Agreement), and

(b) in the case of Base Rate loans, the Base Rate plus 2.25% (or if our corporate ratings are at least BB- and Ba3 or better, 2.00%). The Base Rate is the greatest of (i) the administrative agent s prime rate, (ii) the Federal Funds Effective Rate (as defined in the Credit Agreement) plus 0.50% and (iii) the Adjusted LIBO Rate for a one-month interest period plus 1.00%.

We are required to pay a commitment fee equal to 0.50% per annum on the undrawn portion of the revolving credit facility, payable quarterly, and customary administrative agent and letter of credit fees.

The Credit Agreement requires us to make term loan principal payments of $1.5 million per quarter through August 2017, beginning in August 2011, with the remaining balance due in October 2017. Optional prepayments of the loans are permitted without premium or penalty, other than customary breakage costs associated with the prepayment of loans bearing interest based on LIBO Rates and a 1.0% premium applicable in the event of a Repricing Transaction (as defined in the Credit Agreement) prior to April 30, 2012. The loans are also subject to mandatory prepayment requirements with respect to certain asset sales, excess cash flow (as defined in the

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Credit Agreement), and certain other events. Prepayments are applied first to the eight immediately following scheduled term loan principal payments, then pro rata to other remaining scheduled term loan principal payments, if any, and thereafter as otherwise provided in the Credit Agreement.

Obligations under the Credit Agreement are guaranteed by substantially all of our domestic subsidiaries and certain foreign subsidiaries that have elected to be disregarded for U.S. tax purposes and are secured by security interests in substantially all of our and their assets, subject to certain exceptions detailed in the Credit Agreement and related ancillary documentation.

The Credit Agreement contains customary affirmative and negative covenants for credit facilities of this type, and also contains a financial covenant that requires us to maintain a Consolidated Total Debt to Consolidated EBITDA (each as defined in the Credit Agreement) leverage ratio until July 31, 2013 of no greater than 5.00 to 1 and thereafter of no greater than 4.50 to 1. At January 31, 2012, our consolidated leverage ratio was approximately 2.7 to 1 compared to a permitted consolidated leverage ratio of 5.00 to 1, and our EBITDA for the twelve-month period then ended exceeded by at least $80.0 million the minimum EBITDA required to satisfy the leverage ratio covenant given our outstanding debt as of such date.

The Credit Agreement provides for customary events of default with corresponding grace periods. Upon an event of default, all of our indebtedness under the Credit Agreement may be declared immediately due and payable, and the lenders commitments to provide loans under the Credit Agreement may be terminated.

We incurred debt issuance costs of $14.8 million associated with the Credit Agreement, which we have deferred and are classified within Other assets. We are amortizing these deferred costs as interest expense over the term of the Credit Agreement. At the closing date of the Credit Agreement, there were $9.0 million of unamortized deferred costs associated with the Prior Credit Agreement. Upon termination of the Prior Credit Agreement and repayment of the prior term loan, $8.1 million of these fees were expensed as a loss on extinguishment of debt. The remaining $0.9 million of these fees were associated with lenders that provided commitments under both the new and the prior revolving credit facilities, which remained deferred and are being amortized over the term of the Credit Agreement.

Convertible Preferred Stock

Our capitalization includes convertible preferred stock originally issued in May 2007 which, as of January 31, 2012, has a carrying value of $285.5 million and a liquidation preference and redemption value of $352.0 million. All of the convertible preferred stock was originally issued to, and continues to be held by, Comverse.

Further details regarding the convertible preferred stock s various rights and preferences, including dividend and conversion rights, appear in Note 8, Convertible Preferred Stock to our consolidated financial statements included in Item 15 of this report.

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Contractual Obligations

At January 31, 2012, 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	$ 749,238	$ 33,209	$ 65,448	$ 64,425	$ 586,156
Operating lease obligations	78,876	13,212	18,914	14,155	32,595
Capital lease obligations	755	210	545		
Purchase obligations	47,545	44,497	3,048		
Other long-term obligations	641	513	128		
Total contractual obligations	**$ 877,055**	**$ 91,641**	**$ 88,083**	**$ 78,580**	**$ 618,751**

The long-term debt obligations reflected above include projected interest payments over the term of the debt, assuming an interest rate of 4.50%, which was the interest rate in effect for our term loan borrowings as of January 31, 2012. The terms of our long-term debt obligations are further discussed in Note 6, Long-term Debt to our consolidated financial statements included in Item 15 of this report.

Operating lease obligations reflected above exclude future sublease income from certain space we have subleased to third parties. As of January 31, 2012, total expected future sublease income is $2.8 million and ranges from $0.5 million to $0.6 million on an annual basis through February 2017.

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. Agreements to purchase goods or services that have cancellation provisions with no penalties are excluded from these purchase obligations.

Our consolidated balance sheet at January 31, 2012 includes $23.4 million of non-current tax reserves, net of related benefits (including interest and penalties of $8.2 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 12 months.

Contingent Payments Associated with Business Combinations

In connection with certain of our business combinations, we have agreed to make contingent cash payments to the former shareholders of the acquired companies based upon achievement of performance targets following the acquisition dates. During the year ended January 31, 2012, we completed seven business combinations, all of which included contingent cash consideration arrangements. Please refer to Note 4, Business Combinations to our consolidated financial statements included in Item 15 of this report for information regarding our business combinations.

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As of January 31, 2012, potential future cash payments under contingent consideration arrangements total $79.2 million, the estimated fair value of which was $38.6 million, of which $10.1 million is included within accrued expenses and other current liabilities, and $28.5 million is included within other liabilities. The performance periods associated with these potential payments extend through January 2015.

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, 2012, we had approximately $41.2 million of outstanding letters of credit and surety bonds relating primarily to these performance guarantees. As of January 31, 2012, 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 effect 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.

As of January 31, 2012, we do not have any off-balance sheet arrangements that we believe have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

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Recent Accounting Pronouncements

Accounting Pronouncements Implemented:

In January 2010, the FASB issued amended standards that require additional fair value disclosures. These disclosure requirements were effective in two phases. The initial phase, which was effective for us as of February 1, 2010, requires enhanced disclosures about inputs and valuation techniques used to measure fair value as well as disclosures about significant transfers. The second phase, which was effective for us as of February 1, 2011, requires presentation of disaggregated activity within the reconciliation for fair value measurements using significant unobservable inputs (Level 3). The adoption of these standards did not have a material impact on our consolidated financial statements.

In December 2010, the FASB issued updated accounting guidance to clarify that pro forma disclosures should be presented as if a business combination occurred at the beginning of the prior annual period for purposes of preparing both the current reporting period and the prior reporting period pro forma financial information. These disclosures should be accompanied by a narrative description about the nature and amount of material, nonrecurring pro forma adjustments. This new accounting guidance is effective for business combinations consummated in periods beginning after December 15, 2010 and should be applied prospectively as of the date of adoption, although early adoption is permitted. We adopted this new guidance effective February 1, 2011. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In December 2010, the FASB issued updated accounting guidance related to the calculation of the carrying amount of a reporting unit when performing the first step of a goodwill impairment test. This update modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider and assess whether there are any adverse qualitative factors indicating that impairment may exist. For public companies, this new accounting guidance is effective for impairment tests performed during fiscal years (and interim periods within those years) that began after December 15, 2010. We adopted this new guidance effective February 1, 2011. The adoption of this new guidance did not have a material impact on our November 1, 2011 tests for goodwill impairment, and we do not believe that it will materially impact future tests for goodwill impairment.

In September 2011, the FASB issued amended standards intended to simplify how tests for potential goodwill impairment are performed. These amended standards permit an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit in which goodwill resides is less than its carrying value. For reporting units in which this assessment concludes it is more likely than not that the fair value is more than its carrying value, these amended standards eliminate the requirement to perform further goodwill impairment testing as required under the previous standards. We adopted these standards on November 1, 2011 and they did not materially impact our consolidated financial statements. We do not expect these new standards to materially impact our future consolidated financial statements.

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New Accounting Pronouncements to be Implemented:

In May 2011, the FASB issued updated accounting guidance to amend existing requirements for fair value measurements and disclosures. The guidance expands the disclosure requirements around fair value measurements categorized in Level 3 of the fair value hierarchy and requires disclosure of the level in the fair value hierarchy of items that are not measured at fair value but whose fair value must be disclosed. It also clarifies and expands upon existing requirements for fair value measurements of financial assets and liabilities as well as instruments classified in stockholders equity. The guidance is effective for us beginning with our three-month period ending April 30, 2012. We are assessing the impact that the application of this guidance may have on our consolidated financial statements.

In June 2011, the FASB issued amended standards regarding the presentation of comprehensive income. These amendments eliminate the option to present components of other comprehensive income as part of the statement of stockholders equity and require the presentation of comprehensive income, the components of net income, and the components of other comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB updated this guidance to indefinitely defer the requirement to present items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. This guidance does not change the items that must be reported within other comprehensive income and the criteria for determining when an item of other comprehensive income must be reclassified to net income. These amended standards are effective for us beginning with our three-month period ending April 30, 2012 and must be applied retrospectively. Other than the change in presentation, these changes will not have an impact on 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 speculative purposes.

Interest Rate Risk on Our Debt

In April 2011, we entered into our new Credit Agreement and concurrently terminated our Prior Credit Agreement. The Credit Agreement provides for $770.0 million of secured credit facilities, comprised of a $600.0 million term loan maturing in October 2017 and a $170.0 million revolving credit facility maturing in April 2016, subject to increase (up to a maximum

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increase of $300.0 million) and reduction from time to time according to the terms of the Credit Agreement.

The majority of the new term loan proceeds were used to repay all $583.2 million of outstanding term loan borrowings under our prior credit agreement at the closing date of the Credit Agreement.

Loans under the Credit Agreement bear interest, payable quarterly or, in the case of Eurodollar loans with an interest period of three months or shorter, at the end of any interest period, at a per annum rate of, at our election:

(a) in the case of Eurodollar loans, the Adjusted LIBO Rate plus 3.25% (or if our corporate ratings are at least BB- and Ba3 or better, 3.00%). The Adjusted LIBO Rate is the greater of (i) 1.25% per annum and (ii) the product of the LIBO Rate and Statutory Reserves (both as defined in the Credit Agreement), and

(b) in the case of Base Rate loans, the Base Rate plus 2.25% (or if our corporate ratings are at least BB- and Ba3 or better, 2.00%). The Base Rate is the greatest of (i) the administrative agent s prime rate, (ii) the Federal Funds Effective Rate (as defined in the Credit Agreement) plus 0.50% and (iii) the Adjusted LIBO Rate for a one-month interest period plus 1.00%.

Because the interest rates applicable to borrowings under the Credit Agreement are variable, we are exposed to market risk from changes in the underlying index rates, which affect our cost of borrowing. The periodic interest rate on our term loan is currently a function of several factors, most importantly the LIBO Rate and the applicable interest rate margin. However, borrowings are subject to a 1.25% LIBO Rate floor in the interest rate calculation, which currently reduces the likelihood of increases in the periodic interest rate, because current short-term LIBO Rates are well below 1.25%. Although the periodic interest rate may still fluctuate based upon our corporate ratings, which determine the interest rate margin, changes in short-term LIBO Rates will not impact the calculation unless those rates increase above 1.25%. Based upon our January 31, 2012 borrowings, for each 1% increase in the applicable LIBO Rate above 1.25%, our annual interest payments would increase by approximately $6.0 million.

We had utilized a pay-fixed/receive-variable interest rate swap agreement to partially mitigate the variable interest rate risk associated with our prior credit agreement. We terminated that agreement in July 2010. We may consider utilizing interest rate swap agreements, or other agreements intended to mitigate variable interest rate risk, in the future.

Interest Rate Risk on Our 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. We have not invested in marketable debt or equity securities during the three-year period ended January 31, 2012, but may do so in the future as permitted under our investment guidelines.

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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, 2012 and 2011, we had cash and cash equivalents totaling approximately $150.7 million and $169.9 million, respectively, consisting of demand deposits and bank time deposits having maturities of three months or less. At such dates we also held $12.9 million and $13.6 million, respectively, of cash equivalents which were restricted and were not available for general operating use. These balances primarily represent short-term deposits to secure bank guarantees in connection with sales contracts. The amounts of these deposits can vary depending upon the terms of the underlying contracts.

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, 2013, average short-term interest rates increase or decrease by 50 basis points relative to average rates realized during the year ended January 31, 2012. Such a change would cause our projected interest income from cash, cash equivalents, and bank time deposits to increase or decrease by approximately $0.8 million, assuming a similar level of investments in the year ended January 31, 2013 as in the year ended January 31, 2012.

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 our consolidated financial statements included in Item 15 of this report for more information regarding our short-term investments.

Foreign Currency Exchange Risk

The functional currency for most of our foreign subsidiaries is the respective local currency, of which the notable exceptions are 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 (loss) 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. We also generate some of our revenue in foreign currencies, mainly the British pound sterling and euro. 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 transact.

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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 $1.4 million and $0.9 million of net foreign currency gains for the years ended January 31, 2012 and 2011, respectively, and $1.9 million of net foreign currency losses for the year ended January 31, 2010.

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 generally limited to durations of approximately 12 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 U.S. dollar payments to its suppliers. These contracts are generally limited to durations of approximately 12 months or less. We have also periodically entered into foreign currency forward contracts to manage exposures resulting from forecasted customer collections denominated in currencies other than the respective entity s functional currency.

We have not entered into any foreign currency forward contracts for trading or speculative purposes.

During the years ended January 31, 2012, 2011 and 2010, we realized net losses of $1.3 million, $0.7 million and $2.6 million, respectively, on settlements of foreign currency forward contracts not designated as hedges. We had $0.4 million of net unrealized gains on outstanding foreign currency forward contracts as of January 31, 2012, with notional amounts totaling $94.1 million. We had $1.8 million of net unrealized losses on outstanding foreign currency forward contracts as of January 31, 2011, with notional amounts totaling $51.1 million.

A sensitivity analysis was performed on all of our foreign exchange derivatives as of January 31, 2012. 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, and assuming no changes in interest rates. 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 $6.0 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 $7.3 million.

The counterparties to these foreign currency forward contracts are multinational commercial banks. While we believe the risk of counterparty nonperformance is not material, the disruption in the global financial markets in recent years 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.

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Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data required by this Item 8 are included in Item 15 of this report.

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 management s assessment of our internal control over financial reporting in each case as of January 31, 2012.

Evaluation of Disclosure Controls and Procedures

Management 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, 2012. 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 effective as of January 31, 2012.

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

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may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may decrease over time.

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, 2012. In making this assessment, our management utilized the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework. As a result of this evaluation, our management concluded that our internal control over financial reporting was effective as of January 31, 2012.

Our independent registered accounting firm, Deloitte & Touche LLP, has audited the effectiveness of our internal control over financial reporting as stated in their report included herein.

Changes in Internal Control Over Financial Reporting

Under applicable SEC rules (Exchange Act Rules 13a-15(c) and 15d-15(c)) management is required to evaluate any change in internal control over financial reporting that occurred during each fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

In evaluating whether there were any reportable changes in our internal control over financial reporting during the quarter ended January 31, 2012, management determined, with the participation of our Chief Executive Officer and Chief Financial Officer, that there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Verint Systems Inc.

Melville, New York

We have audited the internal control over financial reporting of Verint Systems Inc. and subsidiaries (the Company) as of January 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on that risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods

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are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2012, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended January 31, 2012 of the Company and our report dated April 2, 2012 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the adoption of the Financial Accounting Standards Board s Accounting Standards Update (ASU) 2009-13, *Multiple Deliverable Revenue Arrangements* and ASU 2009-14, *Certain Revenue Arrangements That Include Software Elements.*

/s/ DELOITTE & TOUCHE LLP

New York, New York
April 2, 2012

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Item 9B. **Other Information**

Not applicable.

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PART III

PART III

Except as set forth below, the information required by Items 10 through 14 is included in our definitive proxy statement under the captions Election of Directors , Corporate Governance , Executive Officers , Executive Compensation , Compensation Committee Interlocks and Insider Participation , Security Ownership of Certain Beneficial Owners and Management , Section 16(a) Beneficial Ownership Reporting Compliance , Certain Relationships and Related Person Transactions , and Audit Matters . Such information is incorporated herein by reference.

Corporate Governance Guidelines

All of our employees, including our executive officers, are required to comply with our Code of Conduct. Additionally, our Chief Executive Officer, Chief Financial Officer, and senior officers must comply with our Code of Business Conduct and Ethics for Senior Officers. The purpose of these corporate policies is to ensure to the greatest possible extent that our business is conducted in a consistently legal and ethical manner. The text of the Code of Conduct and the Code of Business Conduct and Ethics for Senior Officers is available on our website (www.verint.com). We intend to disclose on our website any amendment to, or waiver from, a provision of our policies as required by law.

Securities Authorized for Issuance Under Equity Compensation Plans.

The following table sets forth certain information regarding our equity compensation plans as of January 31, 2012.

Plan Category	(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants, and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (1)	(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	3,033,956(2)	$ 30.41	1,640,446
Equity compensation plans not approved by security holders			
Total	3,033,956	$ 30.41	1,640,446

(1) The weighted-average price relates to outstanding stock options only (as of the applicable date). Other outstanding awards carry no exercise price and are therefore excluded from the weighted-average price.

(2) Consists of 1,114,343 stock options and 1,919,613 restricted stock units.

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PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) Documents filed as part of this report

(1) Financial Statements.

The consolidated financial statements filed as part of this report are listed on the Index to Consolidated Financial Statements on page F-1.

(2) Financial Statement Schedules.

All financial statement schedules have been omitted here because they are not applicable, not required, or the information is shown in the consolidated financial statements or notes thereto.

(3) Exhibits.

See (b) below.

(b) Exhibits

Number	Description	Filed Herewith / Incorporated by Reference from
2.1	Agreement and Plan of Merger, dated as of February 11, 2007, among Verint Systems Inc., White Acquisition Corporation and Witness Systems, Inc.	Form 8-K filed on February 15, 2007
3.1	Amended and Restated Certificate of Incorporation of Verint Systems Inc.	Form S-1 (Commission File No. 333-82300) effective on May 16, 2002
3.2	Certificate of Designation, Preferences and Rights of the Series A Convertible Perpetual Preferred Stock	Form 8-K filed on May 30, 2007
3.3	Amended and Restated By-laws of Verint Systems Inc.	Form 8-K filed on January 7, 2011
4.1	Specimen Common Stock certificate	Form S-1 (Commission File No. 333-82300) effective on May 16, 2002
4.2	Specimen Series A Convertible Perpetual Preferred Stock certificate	Form 10-K filed on March 17, 2010

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Number	Description	Filed Herewith / Incorporated by Reference from
10.1	Form of Indemnification Agreement	Form S-1 (Commission File No. 333-82300) effective on May 16, 2002
10.2	Verint Systems Inc. 2002 Employee Stock Purchase Plan	Form S-1 (Commission File No. 333-82300) effective on May 16, 2002
10.3	Verint Systems Inc. Stock Incentive Compensation Plan (as amended through December 12, 2002)	Form 10-K filed on May 1, 2003
10.4	Amendment No. 1 to Verint Systems Inc. Stock Incentive Compensation Plan (dated December 23, 2008)	Form 10-K filed on March 17, 2010
10.5	Amendment No. 2 to Verint Systems Inc. Stock Incentive Compensation Plan (dated March 4, 2009)	Form 10-K filed on March 17, 2010
10.6	Verint Systems Inc. 2004 Stock Incentive Compensation Plan, as amended and restated	Form 8-K filed on January 10, 2006
10.7	Amendment No. 1 to Verint Systems Inc. 2004 Stock Incentive Compensation Plan, as amended and restated (dated December 23, 2008)	Form 10-K filed on March 17, 2010
10.8	Witness Systems Amended and Restated Stock Incentive Plan	Witness Systems, Inc. Form 10-Q for the period ended June 30, 2005
10.9	Amendment No. 1 to Witness Systems Amended and Restated Stock Incentive Plan (dated May 29, 2001)	Witness Systems, Inc. Form 10-K filed on March 17, 2006
10.10	Amendment No. 2 to Witness Systems Amended and Restated Stock Incentive Plan (dated January 15, 2004)	Witness Systems, Inc. Form 10-K filed on March 15, 2004
10.11	Amendment No. 3 to Witness Systems Amended and Restated Stock Incentive Plan (dated December 6, 2007)	Form 10-K filed on March 17, 2010
10.12	Amendment No. 4 to Witness Systems Amended and Restated Stock Incentive Plan (dated December 23, 2008)	Form 10-K filed on March 17, 2010
10.13	Verint Systems Inc. 2010 Stock Incentive Plan	Form S-8 (Commission File No. 333-169768) effective on October 5, 2010
10.14	Vovici Corporation Amended and Restated Stock Plan	Filed herewith
10.15	Form of Stock Option Award Agreement*	Form 8-K filed on December 7, 2004
10.16	Form of Time-Based Restricted Stock Unit Award Agreement*	Form 10-K filed on March 17, 2010

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Number	Description	Filed Herewith / Incorporated by Reference from
10.17	Form of Performance-Based Restricted Stock Unit Award Agreement*	Form 10-K filed on March 17, 2010
10.18	Form of Time-Based Deferred Stock Award Agreement*	Form 10-K filed on March 17, 2010
10.19	Form of Performance-Based Deferred Stock Award Agreement*	Form 10-K filed on March 17, 2010
10.20	Form of Amendment to Time-Based and Performance-Based Equity Award Agreements*	Form 10-K filed on March 17, 2010
10.21	Form of Time-Based Restricted Stock Unit Award Agreement Solely Related to 2010 Grant*	Form 10-K filed on April 8, 2010
10.22	Form of Performance-Based Restricted Stock Unit Award Agreement Solely Related to 2010 Grant*	Form 10-K filed on April 8, 2010
10.23	Form of Time-Based Deferred Stock Award Agreement Solely Related to 2010 Grant*	Form 10-K filed on April 8, 2010
10.24	Form of Performance-Based Deferred Stock Award Agreement Solely Related to 2010 Grant*	Form 10-K filed on April 8, 2010
10.25	Form of Global Performance-Based Restricted Stock Unit Award*	Form 10-K filed on April 6, 2011
10.26	Form of Global Time-Based Restricted Stock Unit Award*	Form 10-K filed on April 6, 2011
10.27	Form of Performance-Based Restricted Stock Unit Award Agreement for Grants Subsequent to March 2012*	Filed herewith
10.28	Form of Time-Based Restricted Stock Unit Award Agreement for Grants Subsequent to March 2012*	Filed herewith
10.29	Credit Agreement dated as of May 25, 2007 among Verint Systems Inc., as Borrower, the Lenders as parties thereto and Lehman Commercial Paper Inc., as Administrative Agent	Form 8-K filed on May 30, 2007
10.30	Amendment, Waiver, and Consent, dated April 27, 2010, to Credit Agreement among Verint Systems Inc., as Borrower, the Lenders, as parties thereto, and Credit Suisse AG, Cayman Islands Branch, as Administrative Agent	Form 8-K filed on May 3, 2010
10.31	Amendment No. 3 to Credit Agreement, dated July 27, 2010, among Verint Systems Inc., the lenders from time to time party thereto, and the administrative agent party thereto, to the Credit Agreement, dated as of May 25, 2007, among Verint Systems Inc., the lenders from time to time party thereto, and the administrative agent party thereto.	Form 8-K filed on August 2, 2010

Number	Description	Filed Herewith / Incorporated by Reference from
10.32	Incremental Amendment and Joinder Agreement, dated July 30, 2010, among Verint Systems Inc., the additional lenders party thereto, and the administrative agent.	Form 8-K filed on August 2, 2010
10.33	Credit Agreement dated as of April 29, 2011 among Verint Systems Inc., as Borrower, the lenders from time to time party thereto, and Credit Suisse AG, as administrative agent and collateral agent.	Form 8-K filed on May 2, 2011
10.34	Employment Agreement, dated February 23, 2010, between Verint Systems Inc. and Dan Bodner*	Form 8-K filed on February 23, 2010
10.35	Amended and Restated Employment Agreement, dated July 13, 2011, between Verint Systems Inc. and Douglas Robinson*	Form 8-K filed on July 14, 2011
10.36	Second Amended and Restated Employment Agreement, dated July 13, 2011, between Verint Systems Inc. and Elan Moriah*	Form 8-K filed on July 14, 2011
10.37	Contract of Employment, dated July 10, 2011, by and among Meir Sperling, Verint Systems Ltd., and Verint Systems Inc. *	Form 8-K filed on July 14, 2011
10.38	Employment Agreement, dated April 16, 2001, between Comverse Infosys UK Limited and David Parcell*	Form 10-K filed on March 17, 2010
10.39	Amended and Restated Supplemental Employment Agreement, dated July 13, 2011, between Verint Systems UK Limited and David Parcell*	Form 8-K filed on July 14, 2011
10.40	Second Amended and Restated Employment Agreement, dated July 13, 2011, between Verint Systems Inc. and Peter Fante*	Form 8-K filed on July 14, 2011
10.41	Summary of the Terms of Verint Systems Inc. Executive Officer Annual Bonus Plan*	Form 10-K filed on May 19, 2010
10.42	2009 Executive Officer Retention Letter*	Form 10-K filed on March 17, 2010
10.43	Federal Income Tax Sharing Agreement, dated as of January 31, 2002, between Comverse and Verint Systems Inc.	Form S-1 (Commission File No. 333-82300) effective on May 16, 2002
10.44	Business Opportunities Agreement dated as of March 19, 2002, between Comverse and Verint Systems Inc.	Form S-1 (Commission File No. 333-82300) effective on May 16, 2002

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Number	Description	Filed Herewith / Incorporated by Reference from
10.45	Contribution Agreement, dated as of February 1, 2001, between Comverse and Verint Systems Inc.	Form S-1 (Commission File No. 333-82300) effective on May 16, 2002
10.46	Stock Purchase Agreement, dated as of January 31, 2002, between Comverse, Inc. and Verint Systems Inc.	Form S-1 (Commission File No. 333-82300) effective on May 16, 2002
10.47	Registration Rights Agreement, dated as of January 31, 2002, between Comverse and Verint Systems Inc.	Form S-1 (Commission File No. 333-82300) effective on May 16, 2002
10.48	Registration Rights Agreement, by and between Verint Systems Inc. and Comverse Technology, Inc., dated May 25, 2007	Form 8-K filed on May 30, 2007
10.49	Securities Purchase Agreement, by and between Verint Systems Inc. and Comverse Technology, Inc., dated May 25, 2007	Form 8-K filed on May 30, 2007
10.50	Letter Agreement, dated July 16, 2010, between Comverse Technology, Inc. and Verint Systems Inc.	Form 8-K filed on July 19, 2010
21.1	Subsidiaries of Verint Systems Inc.	Filed herewith
23.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm	Filed herewith
31.1	Certification of Dan Bodner, Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of Douglas E. Robinson, Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of the Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350(1)	Filed herewith
32.2	Certification of the Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350(1)	Filed herewith
101.INS**	XBRL Instance Document	Filed herewith
101.SCH**	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith

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Number	Description	Filed Herewith / Incorporated by Reference from
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith

(1) These exhibits are being furnished with this periodic report and are not deemed filed with the Securities and Exchange Commission and are not incorporated by reference in any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934.

* Denotes a management contract or compensatory plan or arrangement required to be filed as an exhibit to this form pursuant to Item 15(b) of this report.

**In accordance with Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

(c) Financial Statement Schedules

None.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Verint Systems Inc.

Melville, New York

We have audited the accompanying consolidated balance sheets of Verint Systems Inc. and subsidiaries (the Company) as of January 31, 2012 and 2011, and the related consolidated statements of operations, stockholders equity (deficit), and cash flows for each of the three years in the period ended January 31, 2012. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Verint Systems Inc. and subsidiaries as of January 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

As noted in Note 1 to the consolidated financial statements, the Company changed its method of recognizing revenue for multiple element arrangements for the year ended January 31, 2012 in accordance with the Financial Accounting Standards Board s Accounting Standards Update (ASU) 2009-13, *Multiple Deliverable Revenue Arrangements* and ASU 2009-14, *Certain Revenue Arrangements That Include Software Elements*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of January 31, 2012, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 2, 2012 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

New York, New York

April 2, 2012

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Financial Statements

VERINT SYSTEMS INC. AND SUBSIDIARIES

Consolidated Balance Sheets

As of January 31, 2012 and 2011

	January 31,	
(in thousands, except share and per share data)	**2012**	**2011**
Assets		
Current Assets:		
Cash and cash equivalents	$ 150,662	$ 169,906
Restricted cash and bank time deposits	12,863	13,639
Accounts receivable, net of allowance for doubtful accounts of $2.9 million and $5.4 million, respectively	154,753	150,769
Inventories	14,414	16,987
Deferred cost of revenue	11,951	6,269
Deferred income taxes	13,060	13,179
Prepaid expenses and other current assets	42,987	31,195
Total current assets	**400,690**	**401,944**
Property and equipment, net	28,289	23,176
Goodwill	831,687	738,674
Intangible assets, net	184,873	157,071
Capitalized software development costs, net	5,846	6,787
Long-term deferred cost of revenue	13,285	21,715
Long-term deferred income taxes	9,237	6,700
Other assets	28,961	20,060
Total assets	**$ 1,502,868**	**$ 1,376,127**
Liabilities, Preferred Stock, and Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 49,411	$ 36,861
Accrued expenses and other current liabilities	168,125	162,650
Current maturities of long-term debt	6,228	
Deferred revenue	156,772	142,465
Deferred income taxes	1,056	379
Liabilities to affiliates	1,760	1,847
Total current liabilities	**383,352**	**344,202**
Long-term debt	591,151	583,234
Long-term deferred revenue	25,987	40,424
Long-term deferred income taxes	13,353	13,226
Other liabilities	59,188	31,812
Total liabilities	**1,073,031**	**1,012,898**
Preferred Stock - $0.001 par value; authorized 2,500,000 shares. Series A convertible preferred stock; 293,000 shares issued and outstanding; aggregate liquidation preference and redemption value of $352,034 at January 31, 2012.	**285,542**	**285,542**
Commitments and Contingencies		
Stockholders Equity:		
Common stock - $0.001 par value; authorized 120,000,000 shares. Issued 39,265,000 and 37,349,000 shares, respectively; outstanding 38,982,000 and 37,089,000 shares as of	40	38

January 31, 2012 and 2011, respectively.				
Additional paid-in capital		554,351		519,834
Treasury stock, at cost 283,000 and 260,000 shares as of January 31, 2012 and 2011, respectively.		(7,466)		(6,639)
Accumulated deficit		(357,764)		(394,757)
Accumulated other comprehensive loss		(47,736)		(42,069)
Total Verint Systems Inc. stockholders equity		**141,425**		**76,407**
Noncontrolling interest		2,870		1,280
Total stockholders equity		**144,295**		**77,687**
Total liabilities, preferred stock, and stockholders equity	**$**	**1,502,868**	**$**	**1,376,127**

See notes to consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES

Consolidated Statements of Operations

For the Years Ended January 31, 2012, 2011, and 2010

	Year Ended January 31,		
(in thousands, except per share data)	**2012**	**2011**	**2010**
Revenue:			
Product	$ 390,392	$ 375,164	$ 374,272
Service and support	392,256	351,635	329,361
Total revenue	**782,648**	**726,799**	**703,633**
Cost of revenue:			
Product	126,050	111,989	122,961
Service and support	129,911	117,261	108,953
Amortization of acquired technology	12,400	9,094	8,021
Total cost of revenue	**268,361**	**238,344**	**239,935**
Gross profit	**514,287**	**488,455**	**463,698**
Operating expenses:			
Research and development, net	111,001	96,525	83,797
Selling, general and administrative	293,906	297,365	291,954
Amortization of other acquired intangible assets	22,902	21,460	22,268
Total operating expenses	**427,809**	**415,350**	**398,019**
Operating income	**86,478**	**73,105**	**65,679**
Other income (expense), net:			
Interest income	661	454	616
Interest expense	(32,358)	(29,896)	(24,964)
Loss on extinguishment of debt	(8,136)		
Other income (expense), net	(488)	(5,138)	(17,123)
Total other expense, net	**(40,321)**	**(34,580)**	**(41,471)**
Income before provision for income taxes	**46,157**	**38,525**	**24,208**
Provision for income taxes	5,532	9,940	7,108
Net income	**40,625**	**28,585**	**17,100**
Net income attributable to noncontrolling interest	3,632	3,004	1,483
Net income attributable to Verint Systems Inc.	**36,993**	**25,581**	**15,617**
Dividends on preferred stock	(14,790)	(14,178)	(13,591)
Net income attributable to Verint Systems Inc. common shares	**$ 22,203**	**$ 11,403**	**$ 2,026**
Net income per common share attributable to Verint Systems Inc.			
Basic	**$ 0.58**	**$ 0.33**	**$ 0.06**
Diluted	**$ 0.56**	**$ 0.31**	**$ 0.06**
Weighted-average common shares outstanding			
Basic	**38,419**	**34,544**	**32,478**
Diluted	**39,499**	**37,179**	**33,127**

See notes to consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity (Deficit)

For the Years Ended January 31, 2012, 2011, and 2010

	Verint Systems Inc. Stockholders Equity (Deficit)								
(in thousands)	**Common Stock Shares**	**Common Stock Par Value**	**Additional Paid-in Capital**	**Treasury Stock**	**Accumulated Deficit**	**Accumulated Other Comprehensive Loss**	**Total Verint Systems Inc. Stockholders Equity (Deficit)**	**Noncontrolling Interest**	**Total Stockholders Equity (Deficit)**
Balances as of January 31, 2009	**32,535**	**$ 32**	**$ 419,937**	**$ (2,353)**	**$ (435,955)**	**$ (58,404)**	**$ (76,743)**	**$ 673**	**$ (76,070)**
Comprehensive income:									
Net income					15,617		15,617	1,483	**17,100**
Unrealized gains on derivative financial instruments, net						5	5		**5**
Unrealized gains on available-for-sale securities, net						34	34		**34**
Foreign currency translation adjustments						15,231	15,231	46	**15,277**
Total comprehensive income					**15,617**	**15,270**	**30,887**	**1,529**	**32,416**
Stock-based compensation - equity portion			31,195				31,195		**31,195**
Common stock issued for stock awards	64	1					1		**1**
Forfeitures of restricted stock awards	(4)		34	(34)					
Purchases of treasury stock	(11)			(106)			(106)		**(106)**
Dividends to noncontrolling interest								(2,003)	**(2,003)**
Balances as of January 31, 2010	**32,584**	**33**	**451,166**	**(2,493)**	**(420,338)**	**(43,134)**	**(14,766)**	**199**	**(14,567)**
Comprehensive income:									
Net income					25,581		25,581	3,004	**28,585**
Unrealized losses on derivative financial instruments, net						(351)	(351)		**(351)**
Foreign currency translation adjustments						1,416	1,416	268	**1,684**
Total comprehensive income					**25,581**	**1,065**	**26,646**	**3,272**	**29,918**
Stock-based compensation - equity portion			28,784				28,784		**28,784**
Common stock issued for stock awards	2,498	3	(3)						
Exercises of stock options	2,164	2	40,833				40,835		**40,835**
Purchases of treasury stock	(157)			(4,146)			(4,146)		**(4,146)**
Dividends to noncontrolling interest								(2,191)	**(2,191)**
Tax effects from stock award plans			(946)				(946)		**(946)**

Balances as of January 31, 2011	**37,089**	**38**	**519,834**	**(6,639)**	**(394,757)**	**(42,069)**	**76,407**	**1,280**	**77,687**
Comprehensive income (loss):									
Net income					36,993		36,993	3,632	**40,625**
Unrealized gains on derivative financial instruments and other, net						906	906		**906**
Foreign currency translation adjustments						(6,573)	(6,573)	(112)	**(6,685)**
Total comprehensive income (loss)					**36,993**	**(5,667)**	**31,326**	**3,520**	**34,846**
Stock-based compensation - equity portion			21,781				21,781		**21,781**
Common stock issued for stock awards	1,323	1	(52)	51					
Exercises of stock options	623	1	12,843				12,844		**12,844**
Purchases of treasury stock	(53)			(1,655)			(1,655)		**(1,655)**
Treasury stock retired			(777)	777					
Stock options issued in business combination			60				60		**60**
Dividends to noncontrolling interest								(1,930)	**(1,930)**
Tax effects from stock award plans			662				662		**662**
Balances as of January 31, 2012	**38,982**	**$ 40**	**$ 554,351**	**$ (7,466)**	**$ (357,764)**	**$ (47,736)**	**$ 141,425**	**$ 2,870**	**$ 144,295**

See notes to consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended January 31, 2012, 2011, and 2010

(in thousands)	Year Ended January 31, 2012	2011	2010
Cash flows from operating activities:			
Net income	$ 40,625	$ 28,585	$ 17,100
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	53,040	48,951	49,290
Provision for doubtful accounts	1,055	1,863	849
Stock-based compensation - equity portion	21,781	28,784	31,195
Provision (benefit) for deferred income taxes	(11,101)	(1,092)	(62)
Excess tax benefits from stock award plans	(847)	(815)	
Non-cash losses on derivative financial instruments, net	896	5,863	14,709
Loss on extinguishment of debt	8,136		
Other non-cash items, net	(802)	1,139	1,443
Changes in operating assets and liabilities, net of effects of business combinations:			
Accounts receivable	(2,942)	(24,574)	(13,910)
Inventories	1,080	(3,471)	5,686
Deferred cost of revenue	3,199	16,616	14,082
Prepaid expenses and other assets	6,339	9,924	(11,542)
Accounts payable and accrued expenses	(7,192)	15,839	12,912
Deferred revenue	(3,424)	(51,226)	(21,143)
Other liabilities	(3,326)	(5,933)	471
Other, net	(19)	67	(243)
Net cash provided by operating activities	**106,498**	**70,520**	**100,837**
Cash flows from investing activities:			
Cash paid for business combinations, net of cash acquired	(109,780)	(23,485)	(96)
Purchases of property and equipment	(13,080)	(8,536)	(4,965)
Sales and maturities of investments	245		
Settlements of derivative financial instruments not designated as hedges	(1,313)	(34,783)	(19,414)
Cash paid for capitalized software development costs	(3,399)	(2,527)	(2,715)
Change in restricted cash and bank time deposits	479	(8,502)	2,591
Net cash used in investing activities	**(126,848)**	**(77,833)**	**(24,599)**
Cash flows from financing activities:			
Proceeds from borrowings, net of original issuance discount	597,136		
Repayments of borrowings and other financing obligations	(587,549)	(38,163)	(6,088)
Proceeds from exercises of stock options	12,474	40,787	
Payment of debt issuance and other debt-related costs	(15,276)	(4,039)	(152)
Dividends paid to noncontrolling interest	(1,930)	(2,191)	(4,145)
Purchases of treasury stock	(1,655)	(4,146)	
Excess tax benefits from stock award plans	847	815	
Other financing activities	(1,969)		(106)
Net cash provided by (used in) financing activities	**2,078**	**(6,937)**	**(10,491)**
Effect of exchange rate changes on cash and cash equivalents	**(972)**	**(179)**	**2,660**
Net increase (decrease) in cash and cash equivalents	**(19,244)**	**(14,429)**	**68,407**

Cash and cash equivalents, beginning of year		**169,906**		**184,335**		**115,928**
Cash and cash equivalents, end of year	**$**	**150,662**	**$**	**169,906**	**$**	**184,335**

See notes to consolidated financial statements.

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VERINT SYSTEMS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Unless the context otherwise requires, the terms Verint , we , us , and our in these notes to consolidated financial statements refer to Verint® Systems Inc. and its consolidated subsidiaries.

Verint is a global leader in Actionable Intelligence® solutions and value-added services. Our solutions enable organizations of all sizes to make more timely and effective decisions to improve enterprise performance and make the world a safer place. Our solutions are used to capture, distill, and analyze complex and underused information sources, such as voice, video, and unstructured text. In the enterprise intelligence market, our workforce optimization and voice of the customer solutions help organizations enhance customer service operations in contact centers, branches, and back-office environments to increase customer satisfaction, reduce operating costs, identify revenue opportunities, and improve profitability. In the security intelligence market, our communications and cyber intelligence, video and situation intelligence, and public safety solutions help government and commercial organizations in their efforts to protect people and property and neutralize terrorism and crime.

Significant Ownership

Comverse Technology, Inc. (Comverse), beneficially owns a majority of our common stock (assuming the conversion of Comverse s preferred stock holdings into common stock) and holds a majority of the voting power of our common stock. During the three years ended January 31, 2012, Comverse did not provide us with material levels of corporate or administrative services.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Verint Systems Inc., our wholly owned subsidiaries, and a joint venture in which we hold a 50% equity interest. This joint venture functions as a systems integrator for Asian markets and is a variable interest entity in which we are the primary beneficiary and is therefore included within our consolidated financial statements. Investments in companies in which we have less than a 20% ownership interest and do not exercise significant influence are accounted for at cost. We have included the results of operations of acquired companies from the date of acquisition. All significant intercompany transactions and balances have been eliminated.

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Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires our management to make estimates and assumptions, which may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash primarily consists of cash on hand and bank deposits. Cash equivalents primarily consist of interest-bearing money market accounts and other highly liquid investments with an original maturity of three months or less when purchased.

Restricted Cash and Bank Time Deposits

Restricted cash and restricted bank time deposits are pledged as collateral or otherwise restricted as to use for vendor payables, general liability insurance, workers compensation insurance, warranty programs, and other obligations. Restricted bank time deposits generally consist of certificates of deposit with original maturities of between 30 and 360 days.

Investments

As of January 31, 2012 and 2011, all of our excess funds are cash, cash equivalents, restricted cash, or restricted time deposits. Historically, investments generally consist of marketable debt securities of corporations, the U.S. government, and agencies of the U.S. government. We do not invest in auction rate securities as a matter of policy.

Our investments in marketable securities are classified as available-for-sale, and are stated at fair value based on market quotes. Investments with stated maturities beyond one year are classified as short-term if the securities are highly marketable and readily convertible into cash for current operations. Unrealized gains and losses, net of deferred taxes, are recorded as a component of accumulated other comprehensive income (loss) in stockholders equity (deficit). We recognize realized gains and losses upon sale of short-term investments and declines in value deemed to be other than temporary using the specific identification method. Interest on short-term investments is recognized within income when earned.

We periodically review our investments for indications of possible impairment in value. Factors considered in determining whether a loss is other than temporary include the length of time and extent to which fair value has been below the cost basis, the financial condition and near-term prospects of the investee, and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. Upon sale, the cumulative unrealized gain or loss associated with the sold security that was previously recorded in accumulated other comprehensive income (loss) is reclassified into the consolidated statement of operations as a realized gain (loss), which is included in other income (expense), net.

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Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents, bank time deposits, short-term investments, and trade accounts receivable. We invest our cash in bank accounts, certificates of deposit, and money market accounts with major financial institutions, in U.S. Treasury and agency obligations, and in debt securities of corporations. By policy, we seek to limit credit exposure on investments through diversification and by restricting our investments to highly rated securities.

We grant credit terms to our customers in the ordinary course of business. Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of customers comprising our customer base and their dispersion across different industries and geographic areas.

Accounts Receivable, Net

Trade accounts receivable are recorded at the invoiced amount and are not interest-bearing.

Accounts receivable, net, includes costs in excess of billings and estimated earnings on arrangements recognized under contract accounting methods, representing revenue recognized on contracts for which billing will occur in subsequent periods, in accordance with the terms of the contracts. Costs in excess of billings and estimated earnings on such contracts was $11.2 million and $4.4 million as of January 31, 2012 and 2011, respectively.

The application of our revenue recognition policies sometimes results in circumstances for which we are unable to recognize revenue relating to sales transactions that have been billed, but the related account receivable has not been collected. For consolidated balance sheet presentation purposes, we do not recognize the deferred revenue or the related account receivable and no amounts appear in our consolidated balance sheets for such transactions. Only to the extent that we have received cash for a given deferred revenue transaction is the amount included in deferred revenue on the consolidated balance sheets.

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.

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The following table summarizes the activity in our allowance for doubtful accounts for the years ended January 31, 2012, 2011, and 2010:

	Year Ended January 31,		
(in thousands)	**2012**	**2011**	**2010**
Balance at beginning of year	$ 5,395	$ 4,706	$ 5,989
Provisions charged to expense	399	1,832	801
Amounts written off	(2,912)	(1,126)	(2,210)
Other (1)	47	(17)	126
Balance at end of year	**$ 2,929**	**$**	