VERINT SYSTEMS INC
Form 10-K/A
April 25, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

Annual Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

for the Year ended January 31, 2005

Commission File Number 000-49790

VERINT SYSTEMS INC.

(Exact name of registrant as specified in its charter)

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

330 South Service Road

Melville, New York 11747

(Address of principal executive offices)

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
Not applicable	Not applicable

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

Common Stock, $.001 par value per share

(Title of Class)

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: ¨

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

x

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of The Act).

Yes: x No: ¨

The aggregate market value of Common Stock held by non-affiliates of the registrant, based on the closing price for the Common Stock on the NASDAQ National Market on the last business day of the registrant s most recently completed fiscal second quarter (July 31, 2004) was approximately $382,720,000.

There were 31,682,552 shares of the registrant s Common Stock outstanding on April 8, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement for the 2005 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K Report, which Proxy Statement is to be filed within 120 days after the end of the registrant s fiscal year ended January 31, 2005.

Verint®, Powering Actionable Intelligence®, LORONIX®, Intelligent Recording®, OpenStorage Portal®, cctvware®, SmartSight®, vCRM® and Building the Customer Intelligent Enterprise® are registered trademarks, and Actionable Intelligence, NEXTIVA, RELIANT, STAR-GATE, ULTRA, VANTAGE, Universal Database, Verint Systems and Verint s logos are trademarks, of Verint Systems Inc.

EXPLANATORY NOTE

This Form 10-K/A is being filed solely to correct administrative errors in Item 7 of Verint Systems Inc. s Annual Report on Form 10-K for the year ended January 31, 2005, filed with the Securities and Exchange Commission on April 18, 2005. Specifically, in the fourth paragraph under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Overview , the increase in 2004 revenues generated by sales of the Company s security solutions, as compared to fiscal 2003, was reported as approximately 35%, rather than approximately 29%. In addition, in the same paragraph, the increase in 2004 revenues generated by sales of the Company s business intelligence solutions, as compared to fiscal 2003, was reported as approximately 26% rather than approximately 31%. Accordingly, we are amending and restating Item 7 in its entirety. In addition, in connection with the filing of this amendment, we are including as exhibits certain required currently dated certifications of our Chief Executive Officer and Chief Financial Officer. No other changes are being made by means of this filing.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion of Verint s financial condition and results of operations should be read in conjunction with its consolidated financial statements and the related notes thereto which appear elsewhere in this document.

Overview

Verint operates in one business segment providing actionable intelligence solutions. The Company provides analytic software-based actionable intelligence solutions to the security and business intelligence markets. Verint s solutions collect, retain, and analyze voice, fax, video, email, Internet and data transmissions from voice, video and IP networks for the purposes of generating actionable intelligence for decision makers to take more effective action. The Company s initial public offering closed on May 16, 2002.

For the security market, Verint offers its communications interception solutions STAR-GATE, RELIANT and VANTAGE, as well as the Company s suite of networked video security solutions, NEXTIVA. STAR-GATE enables communications service providers in receipt of proper legal authorization to intercept simultaneous communications over a variety of wireline, wireless and IP networks, for delivery to law enforcement and other government agencies, and is sold to communications service providers, Internet service providers and communications equipment manufacturers. RELIANT provides intelligent recording and analysis solutions for communications interception activities and is sold to law enforcement organizations and intelligence agencies. RELIANT equips agencies with an end-to-end solution for live monitoring of intercepted target communications and evidence collection management, regardless of the type of communication or network used. VANTAGE enables government agencies such as national security and intelligence agencies to intercept and analyze large amounts of voice and data communications based on a broad range of filtering criteria. Verint s NEXTIVA networked video security solutions provide recording and analysis of video for security and surveillance applications to government agencies, public organizations and corporations. These solutions can provide live video streaming and camera control over local

and wide area computer networks for use in airports, public buildings, financial institutions, retail stores, correctional facilities and corporate sites.

For the business intelligence market, Verint offers ULTRA as its contact center actionable intelligence solution, as well as its networked video business intelligence solutions. Verint s ULTRA products are sold to contact centers within a variety of enterprises, including financial institutions, communications service providers and utilities. These solutions record customer interactions with contact centers to provide enterprises with business intelligence about their customers and help monitor and improve the performance of their contact centers. Verint s NEXTIVA networked video business intelligence solutions enable enterprises to monitor and improve their operations through the analysis of live and recorded digital video. These solutions are sold primarily to commercial enterprises such as retail chains.

In fiscal 2004 and 2003, sales of the Company s security solutions contributed approximately two thirds of its revenue, with the remaining one third contributed by sales of its business intelligence solutions. Revenues generated by sales of the Company s security solutions increased approximately 29% in fiscal 2004 as compared to fiscal 2003 and approximately 31% in fiscal 2003 as compared to fiscal 2002. Revenues generated by sales of the Company s business intelligence solutions increased approximately 31% in fiscal 2004 as compared to fiscal 2003 and increased approximately 8% in fiscal 2003 as compared to fiscal 2002. The Company s actionable intelligence solutions are sometimes sold to customers who apply them for both security and business intelligence.

In these instances the Company uses its judgment to determine the portion of those revenues that should be allocated as sales in the security or business intelligence markets based on its understanding of the customer s intended use of its solutions.

In addition, the Company derived approximately 35%, 29% and 22% of its revenues in fiscal 2002, 2003 and 2004, respectively, from contracts with various local, regional and national governments (including transportation authorities) worldwide, either directly or through channels. Previously, the Company did not include revenue generated from transportation authorities in the calculation of government revenue. However, since transportation authorities are government agencies (though, sometimes self-funded, as in the case of certain port authorities), the Company has determined it is appropriate to include revenues generated from these transportation authorities in its government revenue information. These percentages related to government sales exclude sales to certain entities buying the Company s products as a result of specific government mandates, such as telecommunications service providers complying with communications interception requirements.

In fiscal years 2004 and 2003, approximately 49% of revenue was derived from direct sales by the Company. In fiscal year 2004, Verint derived approximately 55%, 33% and 12% of its revenues from sales to end users in the Americas, EMEA and APAC, respectively, compared with approximately 55%, 32% and 13% for fiscal year 2003. Further, in fiscal year 2004, approximately 79% of the Company s revenues were derived from sales of products, while the remaining 21% were derived from service and maintenance, as compared to approximately 80% and 20% in fiscal year 2003.

The Company believes that there are many elements to its strategy, including:

- Understanding customer requirements and anticipating customer needs as a basis to improve its existing technology and to introduce new analytic capabilities in its software solutions
- Utilizing and enhancing strategic alliances, such as with systems integrators and software resellers, to enhance its products and increase its customer base
- Using its existing technologies in new markets and new applications
- Pursuing strategic acquisitions to extend the analytic capabilities of its solutions, expand its geographic presence or expand its customer base

The Company believes that many factors affect its continued ability to maintain and to increase revenues and profitability, including:

- Recognition of the value of actionable intelligence solutions by customers in the security and business intelligence markets, and demand for those solutions
- Verint s ability to continue to introduce new, high-quality products and technologies in a timely and cost-effective manner
- Continued aggressive competition in the security and business intelligence markets could cause the Company to have to reduce the prices of its products and services to remain competitive
- Continuing to increase software in its offerings to customers in order to increase gross margins
- The Company s continued ability to sell its solutions to governments and large customers, and expand its relationships with system integrators and resellers
- Take steps to mitigate the effect of having significantly utilized its net operating loss carry forwards in the U.S., which is expected to significantly increase the Company s effective tax rate
- Improve its infrastructure, and continue to attract and retain qualified personnel
- Other factors discussed in Certain Trends and Uncertainties

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The following accounting policies involve a critical accounting estimate because they are particularly dependent on estimates and assumptions made by management about matters that are highly uncertain at the time the accounting estimates are made, and often require the exercise of substantial judgment based on historical experience and other factors.

In addition, while the Company has used its best estimates based on facts and circumstances available to it at the time, different estimates reasonably could have been used in the current period, and changes in the accounting estimates used by the Company are reasonably likely to occur from period to period, which may have a material impact on the presentation of Verint s financial condition and results of operations. The Company reviews these estimates and assumptions periodically and reflects the effects of revisions, if any, in the period that they are determined to be necessary. Actual results could differ from those estimates. The Company has reviewed its critical accounting policies and their application in the preparation of its financial statements and related disclosures with its Audit Committee.

Revenue Recognition. Revenue is generally recognized at the time of shipment for sales of systems which do not require significant customization and collection of the resulting receivable is deemed probable by the Company.

The Company s systems are generally bundled hardware and software that is shipped together. Amounts received from customers pursuant to the terms specified in contracts but for which revenue has not been recognized are recorded as advance payments from customers. The Company generally has no obligations to customers after the date products are shipped, except for product warranties. The Company generally warranties its products for one year after sale. A provision for estimated warranty costs is recorded at the time of sale.

Customers may also purchase separate maintenance contracts, which generally consist of bug-fixing and telephone access to Company technical personnel, but in certain circumstances may also include the right to receive certain product updates, upgrades and enhancements. Revenue from these maintenance contracts is recognized ratably over the contract period. Customers may also place a single order to purchase both the Company s products, as well as maintenance contracts for these products. In such instances, the Company uses vendor-specific objective evidence to determine the fair value of the maintenance portion of the purchase, which is recognized ratably over the maintenance period. Amounts received from customers in excess of revenues earned under maintenance contracts are recorded as advance payments from customers.

Revenue from certain long-term contracts is recognized under the percentage-of-completion method on the basis of physical completion or using actual costs incurred relative to total expected costs under the contract. Revisions in estimates of costs and profits are reflected

in the accounting period in which the facts that require the revision become known. At the time a loss on a contract is known, the entire amount of the estimated loss is accrued. Amounts received from customers in excess of revenues earned under the percentage-of-completion method are recorded as advance payments from customers. Related contract costs include all direct material and labor costs and those indirect costs related to contract performance, and are included in cost of sales in the Consolidated Statements of Operations.

Expense Recognition. Verint s cost of sales includes costs of materials, subcontractor costs, royalties and license fees, salary and related benefits for the operations and service departments, depreciation and amortization of equipment used in the operations and service departments, amortization of capitalized software development costs, travel costs, and an overhead allocation.

Research and development costs include salary and related benefits, subcontracting costs, travel, depreciation and amortization of research and development equipment, an overhead allocation, and other costs associated with research and development activities, and is stated net of amounts reimbursed primarily by government programs. Selling, general and administrative costs include salary and related benefits, travel, depreciation and amortization, sales commissions, marketing and promotional materials, recruiting expenses, professional fees, facility costs, and other costs associated with sales, marketing, finance, human resources and administrative departments.

Software Development Costs. Software development costs are capitalized upon the establishment of technological feasibility and are amortized on a straight-line basis over the estimated useful life of the software, which is generally four years or less. Amortization begins in the period in which the related product is available for general release to customers.

The Company reviews capitalized software development costs for impairment at the end of each fiscal year, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized when the estimated net realizable value of the software is less than its carrying amount. The net realizable value is the estimated future gross revenue from the software reduced by the estimated future costs of completing and supporting the software.

Results of Operations

The following table sets forth, for the periods indicated, certain financial data expressed as a percentage of sales:

	Years Ended January 31,		
	2003	**2004**	**2005**
Sales:			
Product revenues	82.6%	79.5%	79.0%
Service revenues	17.4	20.5	21.0
Total sales	100.0	100.0	100.0
Cost of sales:			
Product costs	35.8	32.7	31.3
Service costs	13.7	13.6	13.8
Total cost of sales	49.5	46.3	45.1
Gross profit	50.5	53.7	54.9
Research and development, net	11.0	12.1	12.8
Selling, general and administrative	33.1	32.7	33.3
In-process research and development			1.3
Acquisition related write-downs			0.6
Income from operations	6.4	8.9	7.0
Interest and other income, net	1.4	1.4	1.4
Income before income taxes	7.8	10.3	8.4
Income tax provision	1.4	1.0	0.8
Net income	6.4%	9.3%	7.6%

Year Ended January 31, 2005 Compared to Year Ended January 31, 2004

Sales. Sales for the year ended January 31, 2005, or fiscal 2004, increased by approximately $57.1 million, or 30%, compared to the year ended January 31, 2004, or fiscal 2003. This increase reflected an increase in both sales of products of approximately $44.0 million and service revenue of approximately $13.0 million. This increase was principally due to an increase in sales volume in the Americas of approximately $33.1 million, and in EMEA of approximately $19.8 million.

The Company sells its 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 that the Company sells, it is unable to quantify the effects of a change in the price of any particular product and/or a change in the number of products sold on its revenues. Sales to international customers

represented approximately 49% of sales for fiscal 2004 as compared to approximately 48% of sales for fiscal 2003.

Cost of Sales. Cost of sales consists primarily of material and overhead costs, operations and service personnel costs, amortization of capitalized software and royalties. Cost of sales for fiscal 2004 increased by approximately $23.5 million, or 26%, compared to fiscal 2003. This increase was attributable to an increase in materials and overhead costs of approximately $14.6 million, an increase in personnel related costs of approximately $4.9 million, mainly due to increased service headcount and increased personnel compensation, and an increase in other service and operation costs of approximately $4.0 million, mainly due to increased royalties, amortization and travel expenses. Gross margin increased to 54.9% in fiscal 2004 from 53.7% in fiscal 2003.

Research and Development Expenses, net. Research and development (R&D) expenses consist primarily of personnel and subcontracting expenses and allocated overhead, net of certain software development costs that are capitalized as well as reimbursement under government programs. Software development costs are capitalized upon the establishment of technological feasibility and until related products are available for general release to customers. Research and development expenses, net, for fiscal 2004 increased by approximately $8.7 million, or 38%, compared to fiscal 2003. The net increase was attributable to an increase in personnel related costs and subcontractors work amounting to approximately $7.3 million, an increase in depreciation and amortization expenses of approximately $0.8 million and an increase of approximately $0.6 million in other expenses. Capitalization of software development costs amounted to approximately $4.2 million and approximately $4.6 million in fiscal 2004 and 2003, respectively. Reimbursement under government and other programs amounted to approximately $4.1 million and approximately $4.0 million in fiscal 2004 and 2003, respectively.

Historically, the Company has received more reimbursement under government programs for R&D expenses in a given fiscal year than it has had to pay to the appropriate government agency in royalties during that fiscal year. In fiscal 2004 and in future fiscal years, the Company paid or may have to pay more in royalties to these government agencies than it receives in reimbursement from these government agencies for R&D expenses in a given fiscal year.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist primarily of personnel costs and related expenses, sales and marketing expenses, including travel and agent commission, and other administrative expenses. Selling, general and administrative expenses, for fiscal 2004 increased by approximately $20.1 million, or 32%, compared to fiscal 2003. This increase was attributable to an increase in compensation and benefits for existing personnel and increase in headcount to support the increased level of sales in fiscal 2004 totaling approximately $11.7 million, an increase in agent commissions of approximately $1.0 million, an increase in travel expenses of approximately $1.3 million, an increase in depreciation and amortization expenses of approximately $1.4 million, an increase in rent and utilities expenses of approximately $0.9 million and an increase in other expenses of approximately $3.8 million. Selling, general and administrative expenses as a percentage of sales increased to 33.3% for fiscal 2004 from 32.7% for fiscal 2003.

In-Process Research and Development. During fiscal 2004, purchased in-process research and development of approximately $3.2 million, resulting from the purchase of ECtel s government surveillance business, was charged to expense in the first quarter of fiscal 2004.

Acquisition Related Write-Downs. As a result of the acquisition of ECtel s government surveillance business, the Company had certain capitalized software development costs that became impaired due to the existence of duplicative technology and, accordingly, were written-down to their net realizable value at the date of acquisition. Such impairment charge amounted to approximately $1.5 million, and was recorded in the first quarter of fiscal 2004.

Interest and Other Income, net. Net interest and other income for fiscal 2004 increased by approximately $0.9 million as compared to fiscal 2003. The increase was attributable to an increase in interest income of approximately $1.6 million due to an increase in interest rates and an increase in interest bearing short-term investments, a decrease in interest expense of approximately $0.3 million due to repayment of loans, and a decrease in other expenses of approximately $0.1 million. These changes were partially offset by a decrease in the Company s share in the profit of an affiliate of approximately $0.4 million and a decrease in currency exchange gains of approximately $0.7 million resulting mainly from fluctuations in the exchange rates of the U.S. dollar against the European and Israeli currencies.

Income Tax Provision. Income tax provision of approximately $1.9 million was recorded in each of fiscal 2004 and fiscal 2003. The effective tax rate for fiscal 2004 was 9.2% as compared to 9.7% in fiscal 2003, reflecting the use of net operating loss carry-forwards in certain tax jurisdictions as well as the tax benefits associated with qualified activities of the Company s Israeli subsidiary, which is entitled to favorable income tax rates under a program of the Israeli Government for Approved Enterprise investments in that country.

To the extent that the Company continues to be profitable in certain tax jurisdictions, it will continue to use available net operating loss carry forwards in these jurisdictions. When the Company ceases to have net operating loss carry forwards available to it in a tax jurisdiction, the Company s effective tax rate would increase in that jurisdiction. The Company s effective tax rate is expected to increase substantially in 2005 which could have a material and adverse effect on the Company s results of operations.

Net Income. Net income increased by approximately $1.1 million for fiscal 2004 compared to fiscal 2003. Net income as a percentage of sales decreased to 7.6% for fiscal 2004 compared to 9.3% in fiscal 2003. This decrease was attributable to the factors described above.

Year Ended January 31, 2004 Compared to Year Ended January 31, 2003

Sales. Sales for the year ended January 31, 2004, or fiscal 2003, increased by approximately $35.0 million, or 22%, compared to the year ended January 31, 2003, or fiscal 2002. This increase reflected an increase in both sales of products of approximately $22.9 million and service revenue of approximately $12.1 million. This increase was principally due to an increase in sales volume in the United States of approximately $21.3 million as a result of increased sales of Verint s digital security and surveillance solutions.

Due to the variety of customized configurations for each product that the Company sells, it is unable to quantify the effects of a change in the price of any particular product and/or a change in the number of products sold on its revenues. Sales to international customers represented approximately 48% of sales for fiscal 2003 as compared to approximately 51% of sales for fiscal 2002.

Cost of Sales. Cost of sales for fiscal 2003 increased by approximately $11.2 million, or 14%, compared to fiscal 2002. This increase was attributable to an increase in materials and overhead costs of approximately $6.4 million, an increase in personnel related costs of approximately $3.1 million, mainly due to increased service headcount and increased personnel compensation, and an increase in other service and operation costs of approximately $1.7 million associated with the increase in revenues. Gross margin increased to 53.7% in fiscal 2003 from 50.5% in fiscal 2002.

Research and Development Expenses, net. Research and development expenses, net, for fiscal 2003 increased by approximately $5.9 million, or 34%, compared to fiscal 2002. The net increase was attributable to an increase in personnel related costs and subcontractors work amounting to approximately $3.9 million, a decrease in government reimbursement of approximately $1.2 million, an increase in travel related expenses of approximately $0.3 million and an increase of approximately $0.5 million in other expenses. Capitalization of software development costs amounted to approximately $4.6 million and approximately $4.8 million in fiscal 2003 and 2002, respectively. Reimbursements under government programs amounted to approximately $4.0 million and approximately $5.2 million in fiscal 2003 and 2002, respectively.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for fiscal 2003 increased by approximately $10.7 million, or 20%, compared to fiscal 2002. This increase was attributable to an increase in compensation and benefits for existing personnel and an increase in headcount to support the increased level of sales in fiscal 2003 totaling approximately $5.3 million, an increase in agent commissions of approximately $0.7 million, an increase in travel expenses of approximately $0.6 million, an increase in marketing related expenses of approximately $1.3 million, an increase in bad debt expenses of approximately $0.7 million and an increase in other expenses of approximately $2.1 million. Selling, general and administrative expenses as a percentage of sales decreased to 32.7% for fiscal 2003 from 33.1% for fiscal 2002.

Interest and Other Income, net. Net interest and other income for fiscal 2003 increased by approximately $0.4 million as compared to fiscal 2002. The increase was attributable to an increase in interest income of approximately $0.5 million due to the increase in interest bearing cash balances following the Company s secondary public offering, a decrease in interest expense of approximately $0.3 million due to repayment of loans and an increase in the Company s share in the profit of an affiliate of approximately $0.9 million. These changes were partially offset by a decrease in currency exchange gains of approximately $1.8 million resulting mainly from fluctuations in the exchange rates of the U.S. dollar against European and Israeli currencies, and a decrease in other expenses of approximately $0.5 million, mainly due to a write-down of a certain investment in fiscal 2002.

Income Tax Provision. During fiscal 2003, the income tax provision decreased by approximately $0.3 million as compared to fiscal 2002. This decrease was mainly attributable to prior years tax adjustment following receipt of final tax assessments. The effective tax rate for fiscal 2003 was 9.7% reflecting prior years tax adjustment mentioned above, use of net operating loss carry-forwards in certain tax jurisdictions and preferential tax rates in Israel.

Net Income. Net income increased by approximately $7.8 million for fiscal 2003 as compared to fiscal 2002. Net income as a percentage of sales improved to 9.3% for fiscal 2003 compared to a loss of 6.4% in fiscal 2002. This increase was attributable to the factors described above.

Geographic Information

Summarized financial information for Verint s reportable geographic segments is presented in the following table. Sales in each geographic segment represents sales originating from that segment. Significant non-cash items represent write-down and impairments of operating assets and a charge for in-process research and development. Reconciling items represent elimination of intercompany transactions between subsidiaries operating in different geographic regions.

	United States	Israel	United Kingdom	Canada	Germany	Other	Reconciling Items	Consolidated Totals
				(In thousands)				
Year Ended January 31, 2003								
Sales	$ 85,817	$ 62,622	$ 22,897	$ 804	$ 9,784	$ 1,028	$ (25,177)	$ 157,775
Costs and expenses	(80,847)	(57,477)	(21,624)	(777)	(10,361)	(1,743)	25,105	(147,724)
Operating income (loss)	$ 4,970	$ 5,145	$ 1,273	$ 27	$ (577)	$ (715)	$ (72)	$ 10,051
Depreciation and amortization	$ 3,631	$ 4,973	$ 354	$	$ 323	$ 126	$	$ 9,407
Significant non-cash items	$	$	$	$	$	$	$	$
Year Ended January 31, 2004								
Sales	$ 101,703	$ 75,805	$ 24,769	$ 8,705	$ 9,924	$ 1,190	$ (29,352)	$ 192,744
Costs and expenses	(88,180)	(68,396)	(25,580)	(7,561)	(11,327)	(2,066)	27,555	(175,555)
Operating income (loss)	$ 13,523	$ 7,409	$ (811)	$ 1,144	$ (1,403)	$ (876)	$ (1,797)	$ 17,189
Depreciation and amortization	$ 3,106	$ 5,415	$ 413	$ 812	$ 495	$ 34	$ (206)	$ 10,069
Significant non-cash items	$ 9	$ 405	$ 2	$ 97	$ 1	$	$	$ 514
Year Ended January 31, 2005								
Sales	$ 125,482	$ 94,156	$ 31,576	$ 21,886	$ 14,010	$ 2,015	$ (39,301)	$ 249,824
Costs and expenses	(111,473)	(92,765)	(31,057)	(18,532)	(15,818)	(2,727)	39,932	(232,440)
Operating income (loss)	$ 14,009	$ 1,391	$ 519	$ 3,354	$ (1,808)	$ (712)	$ 631	$ 17,384
Depreciation and amortization	$ 3,595	$ 7,012	$ 434	$ 831	$ 947	$ 84	$	$ 12,903

Significant non-cash items	$ 1,371	$ 4,789	$	$ 14	$	$	$	$ 6,174

Year Ended January 31, 2005 Compared to Year Ended January 31, 2004

Sales for fiscal 2004 increased in all geographic segments, as compared to fiscal 2003, due to an overall increase in sales volume of products and services. Sales originating from the United States and Israel increased by approximately $23.8 million, or 23%, and by approximately $18.4 million, or 24%, respectively, in fiscal 2004 as compared with fiscal 2003. Costs and expenses in the United States and Israel increased by approximately $23.3 million, or 26%, and by approximately $24.4 million, or 36%, respectively, in fiscal 2004 as compared with fiscal 2003. In the United States, the increase in sales accompanied by a relatively lower dollar increase in costs and expenses increased the operating income for fiscal 2004 as compared to fiscal 2003. In Israel, the increase in costs and expenses at a rate relatively higher than the increase in sales, mainly due to the occurrence of significant non-cash charges of approximately $4.8 million resulting primarily from the acquisition of ECtel, lowered operating income.

Year Ended January 31, 2004 Compared to Year Ended January 31, 2003

Sales for fiscal 2003 increased in all geographic segments, as compared to fiscal 2002, due to an overall increase in sales volume of products and services. Sales originating from the United States and Israel increased by approximately $15.9 million, or 19%, and by approximately $13.2 million, or 21%, respectively, in fiscal 2003 as compared with fiscal 2002. Costs and expenses in the United States and Israel increased by approximately $7.3 million, or 9%, and by approximately $10.9 million, or 19%, respectively. The increase in sales accompanied by a relatively lower increase in costs and expenses, mainly for United States, increased the operating income for fiscal 2003 as compared to fiscal 2002 in those geographies.

Selected Quarterly Results of Operations

The following table sets forth consolidated statements of operations data for each of the eight consecutive fiscal quarters ended January 31, 2005. This information has been derived from our unaudited consolidated financial statements, which have been prepared substantially on the same basis as the audited consolidated financial statements appearing elsewhere in this report and include all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of such information. You should read this information in conjunction with our consolidated financial statements and the related notes thereto appearing elsewhere in this Form 10-K. The operating results for any quarter are not necessarily indicative of the operating results of any future period.

	Three Months Ended							
	April 30, 2003	July 31, 2003	Oct. 31, 2003	Jan. 31, 2004	April 30, 2004	July 31, 2004	Oct. 31, 2004	Jan. 31, 2005
	(In thousands, except percentage data)							
Sales	$ 44,415	$ 46,892	$ 49,012	$ 52,425	$ 56,638	$ 60,167	$ 63,989	$ 69,030
Costs of sales	20,912	21,766	22,560	24,064	25,757	27,106	29,235	30,676
Gross profit	23,503	25,126	26,452	28,361	30,881	33,061	34,754	38,354
Research and development, net	5,335	5,692	5,952	6,254	6,791	7,889	8,409	8,872
Selling, general and administrative	14,669	15,301	16,044	17,006	18,594	19,820	21,290	23,366
In-process research and development					3,154			
Acquisition related write-downs					1,481			
Income from operations	3,499	4,133	4,456	5,101	861	5,352	5,055	6,116
Interests and other income, net	515	420	878	857	582	865	932	1,239
Income before income tax provision	4,014	4,553	5,334	5,958	1,443	6,217	5,987	7,355
Income tax provision (benefit)	502	576	667	176	(71)	546	807	648
Net income	$ 3,512	$ 3,977	$ 4,667	$ 5,782	$ 1,514	$ 5,671	$ 5,180	$ 6,707
As a percentage of sales								
Sales	100%	100%	100%	100%	100%	100%	100%	100%
Costs of sales	47.1	46.5	46.0	45.9	45.5	45.1	45.7	44.4
Gross profit	52.9	53.5	54.0	54.1	54.5	54.9	54.3	55.6
Research and development, net	12.0	12.1	12.1	11.9	12.0	13.1	13.1	12.9
Selling, general and administrative	33.0	32.6	32.8	32.5	32.8	32.9	33.3	33.8
In-process research and development					5.6			
Acquisition related write-downs					2.6			
Income from operations	7.9	8.8	9.1	9.7	1.5	8.9	7.9	8.9
Interests and other income, net	1.1	0.9	1.8	1.6	1.0	1.4	1.5	1.8
Income before income tax provision	9.0	9.7	10.9	11.3	2.5	10.3	9.4	10.7
Income tax provision (benefit)	1.1	1.2	1.4	0.3	(0.2)	0.9	1.3	1.0
Net income	7.9%	8.5%	9.5%	11.0%	2.7%	9.4%	8.1%	9.7%

The Company s results of operations reflect sequential growth of revenues and gross profits over the eight quarters presented.

The Company s quarterly results of operations have varied significantly in the past as a result of various factors, including the global economic slowdown and the general decline in information technology spending. Accordingly, sales and net income in any particular period may be lower than sales and net income in a preceding or comparable period. Period-to-period comparisons of the Company s results of operations may not be meaningful, and should not be relied upon as indicators of the Company s future performance.

Liquidity and Capital Resources

As of January 31, 2005, the Company had cash and cash equivalents of approximately $45.1 million, short-term investments of approximately $195.3 million and working capital of approximately $196.4 million. As of January 31, 2004, the Company had cash and cash equivalents of approximately $77.5 million, short-term investments of approximately $151.2 million and working capital of approximately $204.6 million.

Operating activities for fiscal 2002, 2003 and 2004 provided cash of approximately $36.3 million, $27.4 million, and $57.1 million, respectively. Net income, after adding back non cash items, for fiscal 2002, 2003 and 2004 provided cash of approximately $19.6 million, $29.3 million and $38.3 million, respectively. For fiscal 2002, cash provided from other changes in operating assets and liabilities of approximately $16.7 million primarily consisted of an increase in advances from customers of approximately $5.0 million, an increase in accounts payable and accrued liabilities of approximately $4.7 million, a decrease in accounts receivable of approximately $3.2 million and a change in due to/from related parties of approximately $2.4 million. For fiscal 2003, cash used by other changes in operating assets and liabilities of approximately $1.9 million primarily consisted of an increase in accounts receivable of approximately $5.8 million, an increase in inventories of approximately $6.3 million, an increase in prepaid expenses and other current assets of approximately $1.1 million partially offset by an increase in accounts payable and accrued liabilities of approximately $5.2 million, and an increase in advance payments from customers of approximately $7.7 million. For fiscal 2004, cash provided by other changes in operating assets and liabilities of approximately $18.8 million primarily consisted of an increase in advance payments from customers of approximately $14.4 million, an increase in accounts payable and accrued expenses of approximately $12.7 million, an increase in amounts due to related parties of approximately $2.8 million, partially offset by an increase in accounts receivable of approximately $6.6 million and an increase in prepaid expenses and other current assets of approximately $3.6 million. During fiscal 2004, the Company s cash from operating activities significantly exceeded its net income. The Company does not expect that its cash from operating activities will necessarily exceed its net income in fiscal 2005 or in future fiscal years.

Investing activities for fiscal 2002, 2003 and 2004 used cash of approximately $79.7 million, $107.7 million and $101.5 million, respectively. These amounts primarily include net purchases of short-term securities in fiscal 2002, 2003 and 2004 of approximately $60.4 million, $90.8 million and $44.3 million, respectively, additions to property and equipment of approximately $4.9 million, $6.2 million and $7.4 million, respectively, capitalization of software development costs of approximately $4.8 million, $4.6 million and $4.2 million, respectively, and cash paid for business combinations of approximately $9.7 million, $6.1 million and $45.6 million, respectively.

Financing activities for fiscal 2002, 2003 and 2004 provided cash of approximately $67.1 million, $84.3 million and $12.0 million, respectively. For fiscal 2002, 2003 and 2004 proceeds from the issuances of Common Stock provided approximately $67.2 million, $126.9 million and $12.4 million in cash, respectively. For fiscal 2002 and 2003 net cash provided from issuances of Common Stock is mainly attributable to the completion of the Company s initial and secondary public offerings, which generated net cash of $65.4 million and $122.2 million, respectively. In fiscal 2001, the Company obtained a $42 million bank loan, bearing interest at LIBOR plus 0.55%. The loan was guaranteed by Comverse Technology and was repaid upon maturity in fiscal 2003.

On September 2, 2004, the Company, through a subsidiary, acquired all of the outstanding stock of RP Security, a company in the business of developing and selling mobile digital video security solutions for transportation applications. The purchase price consisted of approximately $9.0 million in cash and 90,144 shares of the Company s Common Stock. In

addition, the shareholders of RP Security will be entitled to receive earn-out payments over three years based on the Company s worldwide sales, profitability and backlog of mobile video products in the transportation market during that period. Shares issued as part of the purchase price were accounted for with value of approximately $3.0 million, or $33.03 per share.

On March 31, 2004, the Company acquired certain assets and assumed certain liabilities of the government surveillance business of ECtel, which provided the Company with additional communication interception capabilities for the mass collection and analysis of voice and data communication. The purchase price was approximately $35 million in cash.

In May 2002, the Company issued 4,500,000 shares of its Common Stock in an initial public offering. Proceeds from the offering, based on the offering price of $16.00 per share, totaled approximately $65.4 million, net of offering expenses.

In June 2003, the Company completed a public offering of 5,750,000 shares of its Common Stock at a price of $23.00 per share. The shares offered included 149,731 shares issued to SmartSight Networks Inc. s former shareholders in connection with its acquisition. The net proceeds of the offering were approximately $122.2 million.

On May 21, 2003, the Company acquired all of the issued and outstanding shares of SmartSight Networks Inc. (SmartSight), a Canadian corporation that develops IP-based video edge devices and software for wireless video transmission. The purchase price consisted of approximately $7.1 million in cash and 149,731 shares of the Company s Common Stock. Shares issued as part of the purchase price were accounted for with value of approximately $3.1 million or $20.46 per share.

On February 1, 2002, the Company acquired the digital video recording business of Lanex LLC (Lanex). The Lanex business provides digital video recording solutions for security and surveillance applications, primarily to North American banks. The purchase price consisted of $9.5 million in cash and a $2.2 million convertible note issued by the Company. The note was non-interest bearing and matured on February 1, 2004. On February 1, 2004, the note was converted into 136,985 shares of the Company s Common Stock at a conversion price of $16.06 per share. The note was guaranteed by Comverse Technology.

The ability of the Company s Israeli subsidiary to pay dividends is governed by Israeli law, which provides that dividends may be paid by an Israeli corporation only out of its earnings as defined in accordance with the Israeli Companies Law of 1999, provided that there is no reasonable concern that such payment will cause such subsidiary to fail to meet its current and expected liabilities as they come due. In the event of a devaluation of the Israeli currency against the U.S. dollar, the amount in U.S. dollars available for payment of cash dividends out of prior years earnings will decrease accordingly. Cash dividends paid by an Israeli corporation to U.S. resident corporate parents are subject to the Convention for the Avoidance of Double Taxation between Israel and the United States. Under the terms of the Convention, such dividends are subject to taxation by both Israel and the United States and, in the case of Israel, such dividends out of income derived in respect of a period for which an Israeli company is entitled to the reduced tax rate applicable to an Approved Enterprise are generally subject to withholding of Israeli income tax at source at a rate of 15%. The Israeli company is also subject to additional

Israeli taxes in respect of such dividends, generally equal to the tax benefits previously granted in respect of the underlying income by virtue of the Approved Enterprise status.

The Company believes that its current cash balances and potential cash flow from operations will be sufficient to meet the anticipated cash needs for working capital, capital expenditures and other activities for at least the next 12 months. Thereafter, if current sources are not sufficient to meet Verint s needs, the Company may seek additional debt or equity financing. In addition, although there is no present understanding, commitment or agreement with respect to any acquisition of other businesses, products, or technologies, the Company may in the future consider such transactions. In the event the Company pursues such acquisitions, its current cash balances and potential cash flow from operations may not be sufficient to consummate such acquisitions. As a result, the Company may require additional debt or equity financing and could have a decrease in its working capital. There can be no assurance that such additional financing would be available on acceptable terms, if at all.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

As part of the Company s ongoing business, it does not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (SPEs), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of January 31, 2005, the Company was not involved in any unconsolidated SPE transactions.

The Company has obtained bank guaranties primarily to secure its performance of certain obligations under contracts with customers.

These guaranties, which aggregated approximately $6.2 million at January 31, 2005, are to be released by Verint s performance of specified contract milestones, which are scheduled to be completed primarily during 2005.

The following table sets forth the impact that Verint s aggregate contractual obligations and commercial commitments as of January 31, 2005 are expected to have on the Company s liquidity and cash flow in future periods (in thousands):

	Payments due by period				
Contractual Obligations	**Total**	**less than 1 year**	**2-3 years**	**4-5 years**	**over 5 years**
Long-term debt obligations, including current portion	$ 2,475	$ 652	$ 727	$ 515	$ 581
Purchase obligations*	19,090	14,035	4,322	733	
Operating lease obligations	34,332	4,558	7,369	7,271	15,134
Total	$ 55,897	$ 19,245	$ 12,418	$ 8,519	$ 15,715

* Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on the Company 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 transaction. Purchase obligations exclude agreements that are cancelable without penalty.

Effect of New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 123 (revised 2004), Share-Based Payment, (SFAS No. 123(R)) which revises SFAS No. 123 and supersedes APB No. 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. Pro forma disclosure of the income statement effects of share-based payments is no longer an alternative. SFAS No. 123(R) is effective for fiscal years beginning after June 15, 2005, which for the Company is February 1, 2006 (the Effective Date). Beginning on the Effective Date, the Company must (i) expense all options granted after the Effective Date over the applicable vesting period, and (ii) expense the non-vested portions of existing option grants going forward over their remaining vesting period. Compensation expense for the non-vested portions of existing option grants as of the Effective Date will be recorded based on the fair value of the awards previously calculated in developing the pro forma disclosures in accordance with the provisions of SFAS No. 123. Under SFAS No. 123(R), the Company is required to adopt a fair value-based method for measuring the compensation expense related to employee stock and stock options awards; which will lead to substantial additional compensation expense. Any such expense, although it will not affect the Company s cash flows, will have a material and adverse impact on the Company s reported results of operations.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4. SFAS No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) by requiring that such items be recognized as current-period charges regardless of whether they meet the ARB No. 43, Chapter 4 criterion of so abnormal. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of SFAS No. 151 is not expected to have a material effect on the Company s consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for reporting periods beginning after June 15, 2005. The adoption of SFAS No. 153 is not expected to have a material effect on the Company s consolidated financial statements.

In March 2004, the Emerging Issues Task Force (EITF) of the FASB reached a consensus on EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its

Application to Certain Investments, which provides additional guidance for assessing impairment losses on investments. Additionally, EITF 03-1 includes new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB delayed the accounting provisions of EITF 03-1; however, the disclosure requirements remain effective for annual periods ending after June 15, 2004. The Company will evaluate the impact of EITF 03-1 once final guidance is issued, however, the adoption of EITF 03-1 in its current form is not expected to have a material effect on the Company s consolidated financial statements.

Related Party Transactions

The Company operates substantially independently from its controlling stockholder, Comverse Technology. However, there continue to be certain arrangements between the Company and Comverse Technology that are material to the Company s continued operations. In each case, the Company believes that the terms and amounts agreed to in these agreements are commercially reasonable and not materially different than the terms the Company would receive from an unaffiliated third party. The agreements are:

Corporate Services Agreement The Company has a corporate services agreement with Comverse Technology. Under this agreement, Comverse Technology provides the Company with the following services:

Maintaining in effect general liability and other insurance policies providing coverage for the Company;

Maintaining in effect a policy of directors and officers insurance covering the Company s directors and officers;

Administration of employee benefit plans;

Routine legal services; and

Consulting services with respect to the Company s public relations.

For the years ended January 31, 2003, 2004 and 2005, the Company recorded expenses of $525,000, $575,000, and $625,000, respectively, for the services provided by Comverse Technology. As of February 1, 2004, the Company pays Comverse Technology a quarterly fee of $156,250, subject to adjustment, for services provided by Comverse Technology during each fiscal quarter. In addition, the Company agreed to reimburse Comverse Technology for any out-of-pocket expenses incurred by Comverse Technology in providing the services. During the years ended January 31, 2003, 2004 and 2005, no amounts were paid to Comverse Technology for reimbursement of out-of-pocket expenses. The term of this agreement extends to January 31, 2006 and is automatically extended for additional twelve-month periods unless terminated by either Comverse Technology or the Company. Not more that once every six month period Comverse Technology and the Company may mutually agree to modify the fee or the scope of services being provided.

Enterprise Resource Planning Software Sharing Agreement In January 2002, the Company entered into an enterprise resource planning (ERP) software sharing agreement with Comverse, Ltd., a subsidiary of Comverse Technology. Under this agreement, Comverse Ltd. agreed to continue to share the use of specific ERP software with the Company and undertook to exert its reasonable commercial efforts to arrange for the ongoing operation, maintenance and support of the software for an annual fee of $100,000. The terms of the ERP Software Sharing Agreement and the fee payable to Comverse Ltd. were determined by arm s length negotiations between the Company and Comverse Ltd. In addition, the Company agreed to reimburse Comverse Ltd. for out-of-pocket expenses incurred by Comverse Ltd. in providing the services. The parties amended this agreement on December 31, 2003, extending the term of the agreement from February 1, 2004 until January 31, 2007, and updating the annual fees for the years ending January 31, 2005, 2006 and 2007 to $142,000, $147,000 and $152,000, respectively. In addition, during the year ended January 31, 2004, the Company agreed to make an additional one-time payment to Comverse Ltd. in the amount of $175,000, in connection with upgrading the ERP system. The total amounts recorded by the Company relating to the ERP software sharing agreement amounted to $100,000, $287,000 and $205,000 for the years ended January 31, 2003, 2004 and 2005, respectively. The amounts recorded for the year ended January 31, 2005 also include reimbursement to Comverse Ltd. of approximately $63,000 for out-of-pocket expenses.

In addition, the parties further amended this agreement on April 11, 2005 to provide for the Company to receive additional software licenses, as well as hosting and support services from Comverse Ltd.

In addition to the payments described above, the Company will pay to Comverse Ltd. an amount not to exceed $377,000 during fiscal 2005 for additional licenses and for services to be performed by Comverse Ltd., and an additional amount per fiscal year thereafter not to exceed $41,000 for continuing support obligations.

Satellite Services Agreement In January 2002, the Company entered into a services agreement with Comverse Inc., a subsidiary of Comverse Technology, pursuant to which Comverse Inc. and its subsidiaries provide the Company with the exclusive use of the services of specified employees of Comverse Inc. and its facilities where such employees are located. Under this agreement, the Company pays Comverse Inc. a fee, which is equal to the expenses Comverse Inc. incurs in providing these services plus ten percent. During the years ended January 31, 2003, 2004 and 2005, the Company recorded expenses of approximately $1,809,000, $2,200,000 and $3,403,000, respectively, for these services provided by Comverse, Inc. during these periods.

For a discussion of Verint s other relationships and transactions with Comverse Technology and its subsidiaries, see Certain Relationships and Related Transactions Relationship with Comverse Technology and its Subsidiaries in the Proxy Statement and Note 15 to Verint s consolidated financial statements.

Certain Trends and Uncertainties

The Company s primary business is providing software-based analytic solutions for communications interception, networked video security and video and contact center business intelligence. Recent legislative and regulatory actions have provided greater surveillance powers to law enforcement agencies, imposed strict requirements on communications service providers to facilitate interception of communications over public networks, and increased the security measures being implemented at public facilities such as airports. However, the Company cannot be assured that these legislative and regulatory actions will result in increased demand for or purchasing of solutions such as those offered by the Company or, if it does, that such solutions will be purchased from the Company. If demand for or purchasing of the Company s solutions does not increase as anticipated, the Company may not be able to sustain or increase profitability on a quarterly or annual basis.

It is difficult for the Company to forecast the timing of revenues from product sales because customers often need a significant amount of time to evaluate its products before purchasing them and, in the case of governmental customers, sales are dependent on budgetary and other bureaucratic processes. The period between initial customer contact and a purchase by a customer may vary from three months to more than a year. During the evaluation period, customers may defer or scale down proposed orders of the Company s products for various reasons, including: (i) changes in budgets and purchasing priorities; (ii) reduced need to upgrade existing systems; (iii) deferrals in anticipation of enhancements or new products; (iv) introduction of products by its competitors; and (v) lower prices offered by its competitors.

The Company faces aggressive competition from numerous and varied competitors in all areas of its business.

Because of this aggressive competition and the fact that many of the Company s customers and potential customers make decisions to purchase largely on price, the Company may have to lower prices of many of its products and services or increase efficiencies and capacity. This can affect the Company in a variety of ways:

- The Company may not be able to maintain or improve revenue and gross margin with its current cost structure, and therefore its profitability could be materially and adversely affected.

- In the face of increased pricing pressure and an effort to maintain or improve revenue and gross margin, the Company may have to reduce costs. For example, the Company invests a significant amount in research and development, which the Company views as necessary for its long-term competitiveness. If, to decrease its cost structure, the Company reduces its investment in research and development, the Company may adversely impact its long-term competitiveness in an effort to maintain or improve its revenue and income in the short-term.

Even if the Company is able to maintain or increase market share for a particular product, revenue could decline due to increased competition from other types of products or because the product is in a maturing industry.

Because of the intensely competitive markets in which the Company operates, the Company s competitors may simply execute better than the Company and, resultantly, reduce the Company s market share. Some of the Company s competitors have, in relation to it, 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 and other resources. Further, there has been significant consolidation among the Company s competitors, improving the competitive position of several of its competitors. As a result of the competitive position of the Company s competitors, the Company s market share and, therefore, results of operations may be materially and adversely affected.

The Company s competitors may be able to develop more quickly or adapt faster to new or emerging technologies and changes in customer requirements, or devote greater resources to the development, promotion and sale of their products. New competitors continue to emerge and there continues to be consolidation among existing competitors which may reduce the Company s market share. In addition, some of the Company s customers and partners may in the future decide to internally develop their own solutions instead of purchasing them from the Company. Increased competition could force the Company to lower its prices or take other actions to differentiate its products.

The Company derives a significant amount of its revenues from various government contracts worldwide. The Company expects that government contracts will continue to be a significant source of its revenues for the foreseeable future. The Company s business generated from government contracts may be materially and adversely affected if: (i) its reputation or relationship with government agencies is impaired; (ii) it is suspended or otherwise prohibited from contracting with a domestic or foreign government or any significant law enforcement agency; (iii) levels of government expenditures and authorizations for law enforcement and security related programs decrease, remain constant or shift to programs in areas where it does not provide products and services; (iv) it is 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; (v) it is not granted security clearances that are required to sell its products to domestic or foreign governments or such security clearances are revoked; (vi) there is a change in government procurement procedures; or (vii) there is a change in political climate that adversely affects the Company s existing or prospective relationships.

The Company s quarterly operating results are difficult to predict and may fluctuate significantly in the future, which in turn may result in volatility in its stock price. The following factors, among others, many of which are outside its control, can cause fluctuations in the Company s operating results and stock price volatility: (i) the size, timing, terms and conditions of orders from and shipments to its customers; (ii) unanticipated delays or problems in releasing new products; (iii) the timing and success of its customers deployment of its products and services; (iv) the amount and timing of its investments in research and development activities; (v) costs associated with providing the Company s goods and services; (vi) the fluctuation of foreign currency exchange rates; and (vii) the impairment or devaluation of the Company s assets (for instance, intangibles or goodwill).

To the extent that the Company continues to be profitable in certain tax jurisdictions, it will continue to use available net operating loss carry forwards in these jurisdictions. When the Company ceases to have net operating loss carry forwards available to it in a tax jurisdiction, the Company s effective tax rate would increase in that jurisdiction. The Company s effective tax rate is expected to increase substantially in 2005 which could materially and adversely affect the Company s results of operations.

While it has no single customer that is material, the Company has many significant customers and receives multi-million dollar orders from time to time. The deferral or loss of one or more significant orders or a delay in an expected implementation of such an order could materially and adversely affect the Company s operating results in any fiscal quarter, particularly if there are significant sales and marketing expenses associated with the deferred, lost or delayed sales. The Company bases its current and future expense levels on its internal operating plans and sales forecasts, and its operating costs are, to a large extent, fixed. As a result, the Company may not be able to sufficiently reduce its costs in any quarter to compensate for an unexpected near-term shortfall in revenues.

The Company has historically derived a significant portion of its sales from contracts for large system installations with major customers. The Company continues to emphasize sales to larger customers in its product development and marketing strategies. Contracts for large installations typically involve a lengthy and complex bidding and selection process, and the ability of the Company to obtain particular contracts is inherently difficult to predict. The timing and scope of these opportunities are difficult to forecast, and the pricing and margins may vary substantially from transaction to transaction. The Company s future operating results may accordingly exhibit a high degree of volatility, and also may be more volatile than the Company has experienced in prior periods. The degree of dependence by the Company on large system orders, and the investment required to enable the Company to perform such orders, without assurance of continuing order flow from the same customers, increases the risk associated with its business.

The Company has continued to expand its gross margins primarily as a result of reducing hardware as a part of its product offerings. This gross margin expansion has contributed to the growth of the Company s net income at a rate greater than the growth of its revenue. The Company s ability to continue to expand gross margins in this manner is largely contingent upon customers obtaining the hardware necessary to operate the Company s software solutions from another vendor. If customers insist that the Company provide all necessary hardware, the Company may not be able to continue to expand gross margins at the rate that it has or at all, which would reduce the rate of growth of the Company s net income. If the rate of growth of the Company s net income is reduced, it could materially and adversely affect the share price of its Common Stock.

The market for the Company s business intelligence solutions has been adversely affected by the global economic slowdown and the decline in information technology spending, which has caused many companies to reduce or, in extreme cases, entirely eliminate, information technology spending. While there exists some evidence in the market that information technology spending is increasing, the rate of this spending by its customers in the near term remains uncertain and the Company is uncertain whether it will be able to increase or maintain

its revenues. If sales do not increase as anticipated or if expenses increase at a greater pace than revenues, the Company may not be able to sustain or increase profitability on a quarterly or annual basis.

The markets for the Company s products are characterized by rapidly changing technology and evolving industry standards. The introduction of products embodying new technology and the emergence of new industry standards can render the Company s existing products obsolete and unmarketable and can exert price pressures on existing products. It is critical to the Company s success for it to be able to:

anticipate changes in technology or in industry standards;

successfully develop and introduce new, enhanced and competitive products; and

introduce these new and enhanced products on a timely basis with high quality.

The Company may not be able to successfully develop new products or introduce new applications for existing products. For example, the market for the Company s communications interception solutions has been characterized by new protocols as well as by increased use encryption, and the Company s ability to compete in this market is dependent on its ability to introduce products that address these new developments. In addition, new products and applications introduced by the Company such as the Company s content analytic software may not achieve market acceptance or the introduction of new products or technological developments by its competitors may render the Company s products obsolete. If the Company is unable to introduce new products that address the needs of its customers or that achieve market acceptance, there may be a material and adverse impact on the Company s reputation with its customers and its financial results.

The Company s products are complex and involve sophisticated technology that performs critical functions to highly demanding standards. The Company s existing and future products may develop operational problems, In addition, when the Company introduces a product to the market or as it releases new versions of an existing product, the product may contain undetected defects or errors. The Company may not discover such defects, errors or other operational problems until after a product has been released and used by the customer. Significant costs may be incurred to correct undetected defects, errors or other operational problems in the Company s products, including product liability claims. In addition, defects or errors in the Company s products may result in questions regarding the integrity of the products, which could cause adverse publicity and impair their market acceptance, resulting in lost future sales.

The global market for analytic solutions for security and business applications is intensely competitive, both in the number and breadth of competing companies and products and the manner in which products are sold. For example, the Company often competes for customer contracts through a competitive bidding process that subjects it to risks associated with: (i) the frequent need to bid on programs in advance of the completion of their design, which may result in unforeseen technological difficulties and cost overruns; and (ii) the substantial time and effort, including design, development and marketing activities, required to prepare bids and proposals for contracts that may not be awarded to the Company.

The Company s products are often used by customers to compile and analyze highly sensitive or confidential information and data, including information or data used in intelligence gathering or law enforcement activities. The Company may come into contact with such information or data when it performs support or maintenance functions for its customers. While the Company has internal policies, procedures and training for employees in connection with performing these functions, even the perception that such potential contact may pose a security risk or that any of the Company s employees has improperly handled sensitive or confidential information and data of a customer could harm its reputation and could inhibit market acceptance of its products.

The markets for the Company s security and business intelligence products are still emerging. The Company s growth is dependent on, among other things, the size and pace at which the markets for its products develop. If the markets for its products decrease, remain constant or grow slower than the Company anticipates, the Company will not be able to maintain its growth. In addition, in markets where the Company is a sole source supplier, the Company s growth may be adversely impacted if customers seek to and succeed in developing alternative sources for the Company s products. Continued growth in the demand for the Company s products is uncertain as, among other reasons, its existing customers and potential customers may: (i) not achieve a return on their investment in its products; (ii) experience technical difficulty in utilizing its products; or (iii) use alternative solutions to achieve their security, intelligence or business objectives. In addition, as the Company s business intelligence products are sold primarily to contact centers, slower than anticipated growth or a contraction in the number of contact centers will have a material adverse effect on the Company s ability to maintain its growth.

A significant portion of the Company s revenues are generated by sales made through strategic and technology partners, distributors, value added resellers and systems integrators. In addition, many of these sales channels also partner with the Company s competitors and may even offer the products of the Company and its competitors when presenting bids to certain customers. The Company s ability to achieve revenue growth depends to some extent on maintaining and adding to these sales channels. If the Company s relationships with these sales channels deteriorate or terminate, the Company may lose important sales and marketing opportunities.

On September 2, 2004, the Company acquired RP Security. If the Company is unable to successfully integrate RP Security with its business, it may be unable to realize the anticipated benefits of this acquisition. The Company may experience technical difficulties that could delay the integration of RP Security s products into the Company s solutions, resulting in business disruptions.

On March 31, 2004, the Company completed its acquisition of certain assets and liabilities of ECtel comprising its communications interception business. As a result of this acquisition, the Company and ECtel have a variety of ongoing contractual relationships related to providing certain resources to one another and fulfillment of certain obligations to former ECtel customers. If ECtel does not perform its post-acquisition contractual obligations to the Company, the Company may not continue to realize the benefits of the acquisition realized by

the Company or have a negative impact on the Company s operations and the transitioning of ECtel s customers to Verint.

Many of the Company s government contracts contain provisions that give the governments party to those contracts rights and remedies not typically found in private commercial contracts, including provisions enabling the governments to: (i) terminate or cancel existing contracts for convenience; (ii) in the case of the U.S. Government, suspend the Company from doing business with a foreign government or prevent the Company from selling its products in certain countries; (iii) audit and object to the Company s contract-related costs and expenses, including allocated indirect costs; and (iv) change specific terms and conditions in the Company s contracts, including changes that would reduce the value of its contracts. In addition, many jurisdictions have laws and regulations that deem government contracts in those jurisdictions to include these types of provisions, even if the contract itself does not contain them. If a government terminates a contract with the Company for convenience, the Company may not recover its incurred or committed costs, any settlement expenses or profit on work completed prior to the termination. If a government terminates a contract for default, the Company may not recover those amounts, and, in addition, it may be liable for any costs incurred by a government in procuring undelivered items and services from another source. Further, an agency within a government may share information regarding the Company s termination with other government agencies. As a result, the Company s on-going or prospective relationships with such other government agencies could be impaired.

The Company 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 the Company does business with government agencies in various countries and may impose added costs on its business. For example, in the United States the Company is subject to the Federal Acquisition Regulations, which comprehensively regulate the formation, administration and performance of federal government contracts, and to the Truth in Negotiations Act, which requires certification and disclosure of cost and pricing data in connection with contract negotiations. The Company is subject to similar regulations in foreign countries as well.

If a government review or investigation uncovers improper or illegal activities, the Company may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and suspension or debarment from doing business with government agencies, which could materially and adversely affect its business, financial condition and results of operations. In addition, a government may reform its procurement practices or adopt new contracting rules and regulations that could be costly to satisfy or that could impair the Company s ability to obtain new contracts.

The Company s recent growth has strained its managerial and operational resources. The Company s continued growth may further strain its resources, which could hurt its business and results of operations. There can be no assurance that the Company s managers will be able to manage growth effectively. To manage future growth, the Company s management must continue to improve the Company s operational and financial systems, procedures and controls and expand, train, retain and manage its employee base. If the Company s systems, procedures and controls are inadequate to support its operations, the Company s expansion could slow or

come to a halt, and it could lose its opportunity to gain significant market share. Any inability to manage growth effectively could materially harm the Company s business, results of operations and financial condition.

The Company depends on the continued services of its executive officers and other key personnel. In addition, in order to continue to grow effectively, the Company expects to need to attract and retain a substantial number of new employees, including managers, sales and marketing personnel and technical personnel, who understand and have experience with its products and services. The market for such personnel is intensely competitive in most if not all of the geographies in which the Company operates, and on occasion it has had to relocate personnel to fill positions in locations where it could not attract qualified experienced personnel. Further, competition for personnel for certain positions in the Company s industry is intense, and the Company has in the past and may in the future experience difficulty in recruiting qualified personnel due to the market demand for their services. If the Company is unable to attract and retain qualified employees, its ability to grow could be impaired. Further, if the costs of attracting and retaining qualified personnel increase significantly, the Company s financial results be materially and adversely affected.

The Company has significant operations in foreign countries, including sales, research and development, customer support and administrative service. The countries in which the Company has its most significant foreign operations include Israel, Germany, the United Kingdom and Canada, and the Company intends to continue to expand its operations internationally. The Company s business may suffer if it is unable to successfully expand and maintain foreign operations. The Company s foreign operations are, and any future foreign expansion will be, subject to a variety of risks, many of which are beyond its control, including risks associated with: (i) foreign currency fluctuations; (ii) political and economic instability in foreign countries; (iii) changes in and compliance with local laws and regulations, including tax laws, labor laws, employee benefits, currency restrictions and other requirements; (iv) differences in tax regimes and potentially adverse tax consequences of operating in foreign countries; (v) customizing products for foreign countries; (vi) legal uncertainties regarding liability, export and import restrictions, tariffs and other trade barriers; (vii) hiring qualified foreign employees; and (viii) difficulty in accounts receivable collection and longer collection periods. In addition, the tax authorities in the various jurisdictions in which the Company operates may review from time to time the pricing arrangements between the Company and its subsidiaries. An adverse determination by one or more tax authorities in this regard may have a material and adverse effect on the Company s financial results.

The Company s subsidiary, Verint Technology Inc. (Verint Technology), which markets, sells and supports its communications interception solutions to various U.S. government agencies, is required by the National Industrial Security Program to maintain facility security clearances and to be insulated from foreign ownership, control or influence. To comply with the National Industrial Security Program requirements, in January 1999 the Company, Verint Technology, Comverse Technology and the Department of Defense entered into a proxy agreement with respect to the ownership and operations of Verint Technology, which agreement was superseded in May 2001 to comply with the Department of Defense s most recent requirements. Under the proxy agreement, the Company, among other things, appointed three individuals who are U.S. citizens holding the requisite security clearances as holders of proxies

to vote the Verint Technology stock. The proxy holders have the power to exercise all prerogatives of ownership of Verint Technology. These three individuals are responsible for the oversight of Verint Technology s security arrangements.

The proxy agreement may be terminated and Verint Technology s facility security clearance may be revoked in the event of a breach of the proxy agreement, or if it is determined by the Department of Defense that termination is in the national interest. If Verint Technology s facility security clearance is revoked, the Company may lose all or a substantial portion of its sales to U.S. government agencies and its business, financial condition and results of operations would be harmed. In addition, concerns about the security of the Company or its products can materially and adversely affect Verint Technology s sales to U.S. government agencies.

As the communications industry continues to evolve, governments may increasingly regulate products that monitor and record voice, video and data transmissions over public communications networks, such as the solutions that the Company offers. For example, products which the Company sells in the United States to law enforcement agencies and which interface with a variety of wireline, wireless and Internet protocol networks, must comply with the technical standards established by the Federal Communications Commission pursuant to CALEA and products that it sells in Europe must comply with the technical standards established by ETSI. The adoption of new laws or regulations governing the use of the Company s products or changes made to existing laws or regulations could cause a decline in the use of its products and could result in increased expenses for the Company, particularly if it is required to modify or redesign its products to accommodate these new or changing laws or regulations.

The Company is required to obtain export licenses from the U.S., Israeli and German governments to export some of the products that it develops or manufactures in these countries. The Company cannot be assured that it will be successful in obtaining or maintaining the licenses and other authorizations required to export its products from applicable governmental authorities. The Company s failure to receive or maintain any required export license or authorization would hinder its ability to sell its products and could materially and adversely affect its business, financial condition and results of operations.

As part of the Company s growth strategy, it intends to pursue new strategic alliances. The Company considers and engages in strategic transactions from time to time and may be evaluating alliances or joint ventures at any time. The Company competes with other analytic solution providers for these opportunities. The Company cannot be assured that it will be able to effect these transactions on commercially reasonable terms or at all. If the Company enters into these transactions, it also cannot be sure that it will realize the benefits it anticipates.

The Company incorporates software that it licenses from third parties into the vast majority of its products. If the Company loses or is unable to maintain any software licenses, it could incur additional costs or experience unexpected delays until equivalent software can be developed or licensed and integrated into its products.

While the Company occasionally files patent applications, it cannot be assured that patents will be issued on the basis of such applications or that, if such patents are issued, they

will be sufficiently broad to protect its technology. In addition, the Company cannot be assured that any patents issued to it will not be challenged, invalidated or circumvented.

In order to safeguard its unpatented proprietary know-how, trade secrets and technology, the Company relies primarily upon trade secret protection and non-disclosure provisions in agreements with employees and others having access to confidential information. The Company cannot be assured that these measures will adequately protect it from improper disclosure or misappropriation of its proprietary information.

While the Company implements sophisticated security measures, third parties may attempt to breach its security or inappropriately use its products through computer viruses, electronic break-ins and other disruptions. If successful, confidential information, including passwords, financial information or other personal information may be improperly obtained and the Company may be subject to lawsuits and other liability. Even if the Company is not held liable, such security breaches could harm its reputation, and even the perception of security risks, whether or not valid, could inhibit market acceptance of its products with both government and commercial purchasers.

The information technology industry is characterized by frequent allegations of intellectual property infringement. In the past, third parties have asserted that certain of the Company s products infringe their intellectual property, and similar claims may be made in the future. Any allegation of infringement against the Company could be time consuming and expensive to defend or resolve, result in substantial diversion of management resources, cause product shipment delays, or force it to enter into royalty or license agreements rather than dispute the merits of such allegation. If patent holders or other holders of intellectual property initiate legal proceedings against the Company, it may be forced into protracted and costly litigation. The Company may not be successful in defending such litigation and it may not be able to procure any required royalty or license agreements on terms acceptable to it, or at all. The Company generally indemnifies its customers with respect to infringement by its products of the proprietary rights of third parties. Third parties may assert infringement claims against the Company s customers. These claims may require the Company to initiate or defend protracted and costly litigation, regardless of the merits of these claims. If any of these claims succeed, the Company may be forced to pay damages or may be required to obtain licenses for the products its customers use. If the Company cannot obtain all necessary licenses on commercially reasonable terms, its customers may be forced to stop using, or, in the case of value added resellers, selling, its products.

Although the Company generally uses standard parts and components in its products, it does use some non-standard parts and equipment. The Company relies on non-affiliated suppliers for the supply of certain standard and non-standard components and on manufacturers of assemblies that are incorporated in all of its products. The Company does not have long term supply or manufacturing agreements with all of these suppliers and manufacturers. If these suppliers or manufacturers (a) experience financial, operational, manufacturing capacity or quality assurance difficulties, or cease production and sale of such products at the end of their life cycle; or (b) if there is any other disruption in its relationships with these suppliers or manufacturers, the Company will be required to locate alternative sources of supply. The Company s inability to obtain sufficient quantities of these components, if and as required in the

future, entails the following risks: (i) delays in delivery or shortages in components could interrupt and delay manufacturing and result in cancellations of orders for its products; (ii) alternative suppliers could increase component prices significantly and with immediate effect; (iii) it may not be able to develop alternative sources for product components; (iv) it may be required to modify its products, which may cause delays in product shipments, increased manufacturing costs and increased product prices; and (v) it may be required to hold more inventory than it otherwise might in order to avoid problems from shortages or discontinuance, which may result in write-offs if the Company is unable to use all such products in the future.

The Company has in the past and may in the future pursue acquisitions of businesses, products and technologies, or the establishment of joint venture arrangements. The negotiation of potential acquisitions or joint ventures as well as the integration of an acquired or jointly developed business, technology or product could result in a substantial diversion of management resources. Future acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities, amortization of certain identifiable intangible assets, research and development write-offs and other acquisition-related expenses. These investments may be made in immature businesses with unproven track records and technologies. Such investments have a high degree of risk, with the possibility that the Company may lose the total amount of its investments, or more than its total investment if such businesses have liabilities not identified by the Company. The Company may not be able to identify suitable investment candidates, and, even if it does, it may not be able to make those investments on acceptable terms, or at all. In addition, the Company also may fail to successfully integrate acquired businesses with its operations or successfully realize the intended benefits of any acquisition, either of which could affect the Company s continued growth and profitability. And, the integration process may further strain the Company s existing financial and managerial controls and reporting systems and procedures. Due to rapidly changing market conditions, the Company may find the value of its acquired technologies and related intangible assets, such as goodwill, as recorded in its financial statements, to be impaired, resulting in charges to operations. The Company may also fail to retain the acquired or merged company s key employees and customers.

Currently, the Company accounts for employee stock options in accordance with Accounting Principles Board (APB) Opinion No. 25 and related Interpretations, which provide that any compensation expense relative to employee stock options be measured based on intrinsic value of the stock options. As a result, when options are priced at or above fair market value of the underlying stock on the date of the grant, as currently is the Company s practice, the Company incurs no compensation expense. On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), Share-Based Payment , which is a revision of SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. Pro forma disclosure of the income statement effects of share-based payments is no longer an alternative. SFAS No. 123(R) is effective for fiscal years beginning after June 15, 2005, which for the Company is February 1, 2006 (the Effective Date). Beginning on the Effective Date, the Company must (i) expense all options granted after the Effective Date over the applicable vesting period, and (ii) expense the non-vested portions of existing option grants going forward. Compensation expense for the unvested awards as of the Effective Date will be recorded based

on the fair value of the awards previously calculated in developing the pro forma disclosures in accordance with the provisions of SFAS No. 123(R). Under SFAS No. 123(R), the Company is required to adopt a fair value-based method for measuring the compensation expense related to employee stock and stock options awards; this will lead to substantial additional compensation expense. Any such expense, although it would not affect the Company s cash flows, will have a material and adverse impact on the Company s reported results of operations.

The Company receives conditional grants from the Government of Israel through the Office of the Chief Scientist of the Ministry of Industry and Trade, or the OCS, for the financing of a portion of its research and development expenditures in Israel. The terms of these conditional grants limit the Company s ability to manufacture products outside of Israel if such products or technologies were developed using these grants. On March 29, 2005, the Israeli parliament approved an amendment to Israeli Law for Encouragement of Industrial Research and Development, which permits under certain conditions the transfer of such technology outside of Israel. Even if the Company receives approval to manufacture products, or to transfer technology, developed using these conditional grants outside of Israel, it may be required to pay a significantly increased amount of royalties on an accelerated basis to the Government of Israel, depending on the manufacturing volume that is performed outside of Israel, or in respect of a transfer of technology it may be required, prior to such transfer, to pay a redemption price to be determined under regulations that have not yet been promulgated. This restriction may impair the Company s ability to outsource manufacturing or engage in similar arrangements for those products or technologies. In addition, if the Company fails to comply with any of the conditions imposed by the OCS, it may be required to refund any grants previously received together with interest and penalties, and it may be subject to criminal charges. Further, from time to time the Government of Israel may audit the sales of products incorporating technology partially funded through OCS programs which, while not increasing the aggregate amount of royalties that may be due from the Company, may cause the Company to have to pay royalties on additional products, effectively accelerating the pace at which it pays royalties to the Government of Israel in repayment of the benefits received under such programs. In recent years, the Government of Israel has accelerated the rate of repayment of OCS grants and may further accelerate them in the future. The Company currently pays royalties of between 3% and 5% (or 6% under certain circumstances) of associated product revenues (including service and other related revenues) to the Government of Israel in consideration of benefits received under this program. Such royalty payments by the Company are currently required to be made until the government has been reimbursed the amounts received by it, linked to the U.S. dollar, plus, for amounts received under projects approved by the OCS after January 1, 1999, interest on such amounts at a rate equal to the 12-month LIBOR rate in effect on January 1 of the year in which approval is obtained. As of January 31, 2005, the Company has received approximately $55.9 million in cumulative grants and has recorded approximately $26.5 million in cumulative royalties to the OCS. Further, the Government of Israel has reduced the benefits available under these programs in recent years and these programs may be discontinued or curtailed in the future. In addition, the Company expects that OCS grants as a percentage of its consolidated research and development expenses will decrease in future periods due to an expected increase in the portion of research and development activities that will not be reimbursed by the OCS and an expected increase in research and development activities outside of Israel. The continued reduction in these benefits or the termination of the Company s eligibility to receive these benefits may materially and adversely affect the Company s business, financial condition and results of

operations. Alternatively to paying royalties over time, there may be circumstances in which a company would repay all or substantially all of the amounts due to the OCS in a single payment. If the Company was to repay all or substantially all of the amounts due to the OCS in a single payment, this could significantly reduce or eliminate the Company s net income for a given fiscal year or cause the Company to report a loss for the fiscal year in which such a payment is made.

To date, most of the Company s sales have been denominated in U.S. dollars, while a significant portion of its expenses, primarily labor expenses in Israel, Germany, the United Kingdom and Canada, are incurred in the local currencies of these countries. As a result, the Company is exposed to the risk that fluctuations in the value of these currencies relative to the U.S. dollar could increase the dollar cost of its operations in Israel, Germany, the United Kingdom or Canada, and would therefore have a material adverse effect on its results of operations.

In addition, since a portion of the Company s sales are made in foreign currencies, primarily the British pound and the euro, fluctuation in the value of these currencies relative to the U.S. dollar could decrease its revenues and materially and adversely affect its results of operations. In addition, the Company s costs of operations have at times been negatively affected by changes in the cost of its operations in Israel, Germany and Canada, resulting from changes in the value of the relevant local currency relative to the U.S. dollar.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, which in the past and may in the future, lead to security and economic problems for Israel. From October 2000, until recently, terrorist violence in Israel increased significantly, primarily in the West Bank and Gaza Strip, and Israel has experienced terrorist incidents within its borders. During this period, peace negotiations between Israel and representatives of the Palestinian Authority have been sporadic and currently are suspended. On June 6, 2004, the Government of Israel approved a disengagement plan, stating that it is Israel s intention to relocate all Israeli settlements in the Gaza Strip and four settlements in the West Bank by the end of 2005. There can be no assurance that the relative recent calm and renewed discussions with the Palestinian representatives will continue. Current and future conflicts and political, economic and/or military conditions in Israel and the Middle East region can directly affect the Company s operations in Israel. The Company could be materially adversely affected by hostilities involving Israel, the interruption or curtailment of trade between Israel and its trading partners, or a significant downturn in the economic or financial condition of Israel. In addition, the sale of products manufactured in Israel may be materially adversely affected in certain countries by restrictive laws, policies or practices directed toward Israel or companies having operations in Israel. The continuation or exacerbation of violence in Israel or the outbreak of violent conflicts involving Israel may impede the Company s ability to sell its products or otherwise adversely affect the Company. In addition, many of the Company s Israeli employees in Israel are required to perform annual compulsory military service in Israel 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 upon the Company s operations.

The Company s investment programs in manufacturing equipment and leasehold improvements at its facility in Israel has been granted approved enterprise status and it is therefore eligible for tax benefits under the Israeli Law for Encouragement of Capital Investments. The Government of Israel may reduce or eliminate the tax benefits available to approved enterprise programs such as the programs provided to the Company. The Company cannot be assured that these tax benefits will be continued in the future at their current levels or at all. If these tax benefits are reduced or eliminated, the amount of taxes that the Company pays in Israel will increase. In addition, if the Company fails to comply with any of the conditions and requirements of the investment programs, the tax benefits it has received may be rescinded and it may be required to refund the amounts it received as a result of the tax benefits, together with interest and penalties.

The Company s business is subject to evolving corporate governance and public disclosure regulations that have increased both costs and the risk of noncompliance, which could have an adverse effect on the Company s stock price. Because the Company s Common Stock is publicly traded on the NASDAQ National Market, the Company is subject to rules and regulations promulgated by a number of governmental and self-regulated organizations, including the Securities and Exchange Commission, NASDAQ and the Public Company Accounting Oversight Board, which monitors the accounting practices of public companies. Many of these regulations have only recently been enacted, and continue to evolve, making compliance more difficult and uncertain. In addition, the Company s efforts to comply with these new regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In particular, Section 404 of the Sarbanes-Oxley Act of 2002 and related regulations require the Company to include a management assessment of its internal controls over financial reporting and auditor attestation of that assessment in its annual report for the Company s fiscal year ending January 31, 2005. While the Company is now able to assert, in the management certifications filed with this Annual Report on Form 10-K, that the Company s internal control over financial reporting is effective as of January 31, 2005 and that no material weaknesses have been identified, the Company must continue to monitor and assess the internal control over financial reporting. The Company cannot provide any assurances that material weaknesses will not be discovered in the future. If the Company s management identifies one or more material weaknesses in the internal control over financial reporting that remain unremediated, the Company will be unable to assert that such internal control over financial reporting is effective. If the Company is unable to assert that the internal control over financial reporting is effective for any given reporting period (or if the Company s auditors are unable to attest that the management s report is fairly stated or are unable to express an opinion on the effectiveness of the internal controls), the Company could lose investor confidence in the accuracy and completeness of the Company s financial reports, which would have an adverse effect on the Company s stock price. The effort regarding Section 404 has required, and continues to require, the commitment of significant financial and managerial resources.

Comverse Technology beneficially owns a majority of the Company s outstanding shares of Common Stock. Consequently, Comverse Technology effectively controls the outcome of all matters submitted for stockholder action, including the composition of the Company s board of directors and the approval of significant corporate transactions. Through its representation on

the Company s board of directors, Comverse Technology has a controlling influence on the Company s management, direction and policies, including the ability to appoint and remove its officers. As a result, Comverse Technology may cause the Company to take actions which may not be aligned with the Company s interests or those of its other stockholders. For example, Comverse Technology may prevent or delay any transaction involving a change in control or in which stockholders might receive a premium over the prevailing market price for their shares. In particular, as a result of Comverse Technology s majority ownership, the Company has relied on the controlled company exemption from certain requirements under Rule 4350(c)(5) of the listing standards of the National Association of Securities Dealers, Inc., and does not have an independent Compensation Committee or Nominating Committee, as non-controlled companies are required to have.

The Company receives insurance, legal and certain administrative services from Comverse Technology under a corporate services agreement. The Company s enterprise resource planning software is maintained and supported by Comverse Ltd., a subsidiary of Comverse Technology, under an enterprise resource planning software sharing agreement. The Company also obtains personnel and facility services from Comverse, Inc. under a satellite services agreement. If these agreements are terminated, the Company may be required to obtain similar services from other entities or, alternatively, it may be required to hire qualified personnel and incur other expenses to obtain these services. The Company may not be able to hire such personnel or to obtain comparable services at prices and on terms as favorable as it currently has under these agreements.

The Company has entered into a business opportunities agreement with Comverse Technology that addresses potential conflicts of interest between Comverse Technology and the Company. This agreement allocates between Comverse Technology and the Company opportunities to pursue transactions or matters that, absent such allocation, could constitute corporate opportunities of both companies. As a result, the Company may lose valuable business opportunities. In general, the Company is precluded from pursuing opportunities offered to officers or employees of Comverse Technology who may also be its directors, officers or employees unless Comverse Technology fails to pursue these opportunities.

Seven of the Company s thirteen directors are officers and/or directors or employees of Comverse Technology, or otherwise affiliated with Comverse Technology. These directors have fiduciary duties to both companies and may have conflicts of interest on matters affecting both the Company and Comverse Technology and in some circumstances may have interests adverse to the Company. The Company s Chairman, Kobi Alexander, is the chairman of Comverse Technology. This position with Comverse Technology imposes significant demands on Mr. Alexander s time and presents potential conflicts of interest.

Prior to the Company s initial public offering in May 2002, it was included in the Comverse Technology consolidated group for federal income tax purposes and did not file its own federal income tax return. Following the Company s initial public offering, it ceased to be included in the Comverse Technology consolidated group for federal income tax purposes. To the extent Comverse Technology or other members of the group fail to make any federal income tax payments required of them by law in respect of years for which Comverse Technology filed a consolidated federal income tax return which included the Company, the Company would be

liable for the shortfall. Similar principles apply for state income tax purposes in many states. In addition, by virtue of its controlling ownership and its tax sharing agreement with the Company, Comverse Technology effectively controls all of the Company s tax decisions for periods ending prior to the completion of its initial public offering. For periods during which the Company was included in the Comverse Technology consolidated group for federal income tax purposes, Comverse Technology has sole authority to respond to and conduct all federal income tax proceedings and audits relating to the Company, to file all federal income tax returns on its behalf and to determine the amount of its liability to, or entitlement to payment from, Comverse Technology under its tax sharing agreement. Despite this agreement, federal law provides that each member of a consolidated group is liable for the group s entire tax obligation and the Company could, under certain circumstances, be liable for taxes of other members of the Comverse Technology consolidated group.

The trading price of the Company s shares of Common Stock has been affected by the factors disclosed in this section as well as prevailing economic and financial trends and conditions in the public securities markets. Share prices of companies in technology-related industries, such as the Company s, tend to exhibit a high degree of volatility. The announcement of financial results that fall short of the results anticipated by the public markets could have an immediate and significant negative effect on the trading price of the Company s shares in any given period. Such shortfalls may result from events that are beyond the Company s immediate control, can be unpredictable and, since a significant proportion of its sales during each fiscal quarter tend to occur in the latter stages of the quarter, may not be discernible until the end of a financial reporting period. These factors may contribute to the volatility of the trading value of the Company s shares regardless of its long-term prospects. The trading price of the Company s shares may also be affected by developments, including reported financial results and fluctuations in trading prices of the shares of other publicly-held companies in its industry generally, and its business segment in particular, which may not have any direct relationship with its business or prospects.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. The Company could be the target of similar litigation in the future. Securities litigation could result in the expenditure of substantial costs, divert management s attention and resources, harm the Company s reputation in the industry and the securities markets and reduce its profitability.

Terrorist attacks and other acts of war, and any response to them, may lead to armed hostilities and such developments would likely cause instability in financial markets. Armed hostilities and terrorism may directly impact the Company s facilities, personnel and operations which are located in the United States, Canada, Israel, Europe, the Far East, Australia and South America, as well as those of its clients. Furthermore, severe terrorist attacks or acts of war may result in temporary halts of commercial activity in the affected regions, and may result in reduced demand for its products. These developments could have a material adverse effect on the Company s business and the trading price of its Common Stock.

The Company s board of directors ability to designate and issue up to 2,500,000 shares of preferred stock and to issue additional shares of Common Stock could adversely affect the voting power of the holders of Common Stock, and could have the effect of making it more

difficult for a person to acquire, or could discourage a person from seeking to acquire, control of the Company. If this occurs, investors could lose the opportunity to receive a premium on the sale of their shares in a change of control transaction.

Forward-Looking Statements

From time to time, the Company makes forward-looking statements. Forward-looking statements include financial projections, statements of plans and objectives for future operations, statements of future economic performance, and statements of assumptions relating thereto. Forward-looking statements are often identified by future or conditional words such as will, plans, expects, intends, believes, seeks, esti anticipates, or by variations of such words or by similar expressions.

The Company may include forward-looking statements in its periodic reports to the Securities and Exchange Commission on Forms 10-K, 10-Q, and 8-K, in its annual report to shareholders, in its proxy statements, in its press releases, in other written materials, and in statements made by employees to analysts, investors, representatives of the media, and others.

By their very nature, forward-looking statements are subject to uncertainties, both general and specific, and risks exist that those predictions, forecasts, projections and other forward-looking statements will not be achieved. Actual results may differ materially due to a variety of factors, including without limitation those discussed under Certain Trends and Uncertainties and elsewhere in this report. Investors and others should carefully consider these and other uncertainties and events, whether or not the statements are described as forward-looking.

Forward-looking statements made by the Company are intended to apply only at the time they are made, unless explicitly stated to the contrary. Moreover, whether or not stated in connection with a forward-looking statement, the Company makes 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. If the Company were in any particular instance to update or correct a forward-looking statement, investors and others should not conclude that the Company would make additional updates or corrections thereafter.

ITEM 2. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(c) Exhibits.

Exhibits.

Number	Description
31.3	Certification of the Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)
31.4	Certification of the Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)
32.3	Certification of the Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350n
32.4	Certification of the Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350n

n = 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.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VERINT SYSTEMS INC.

(Registrant)

April 25, 2005 By: /s/ DAN BODNER
Dan Bodner, President and Chief Executive Officer;

Director
(Principal Executive Officer)

Index to Exhibits

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