

VERINT SYSTEMS INC
Form 10-K
April 06, 2011

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 31, 2011
Commission File Number 001-34807
VERINT SYSTEMS INC.
(Exact name of registrant as specified in its charter)**

Delaware
(State or other jurisdiction of
incorporation or organization)

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

330 South Service Road, Melville, New York 11747

(Address of principal executive offices) (Zip code)

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

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

| | |
|---|--|
| Title of each class | Name of each exchange on which registered |
| Common Stock, \$.001 par value per share | The NASDAQ Stock Market, LLC |
| Securities registered pursuant to Section 12(g) of the Act: | |

None

Title of class

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).*

Yes No

* The registrant is not presently required to submit Interactive Data Files.

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.

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

Large accelerated filer Accelerated filer

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

Smaller reporting
company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
The aggregate market value of common stock held by non-affiliates of the registrant, based on the closing price for the registrant's common stock on the NASDAQ Global Market on the last business day of the registrant's most recently completed second fiscal quarter (July 31, 2010) was approximately \$465,597,000.

There were 37,142,644 shares of the registrant's common stock outstanding on March 23, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement to be filed under Regulation 14A within 120 days of the end of the registrant's fiscal year ended January 31, 2011 are incorporated by reference into Part III of this Annual Report on Form 10-K.

| | |
|--|-----|
| <u>Cautionary Note on Forward-Looking Statements</u> | ii |
| <u>PART I</u> | |
| <u>Item 1. Business</u> | 1 |
| <u>Item 1A. Risk Factors</u> | 20 |
| <u>Item 1B. Unresolved Staff Comments</u> | 42 |
| <u>Item 2. Properties</u> | 43 |
| <u>Item 3. Legal Proceedings</u> | 44 |
| <u>Item 4. Removed and Reserved</u> | 44 |
| <u>PART II</u> | |
| <u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u> | 45 |
| <u>Item 6. Selected Financial Data</u> | 49 |
| <u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 53 |
| <u>Item 7A. Quantitative and Qualitative Disclosures about Market Risk</u> | 89 |
| <u>Item 8. Financial Statements and Supplementary Data</u> | 93 |
| <u>Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure</u> | 93 |
| <u>Item 9A. Controls and Procedures</u> | 93 |
| <u>Item 9B. Other Information</u> | 99 |
| <u>PART III</u> | |
| <u>Item 10. Directors, Executive Officers, and Corporate Governance</u> | 100 |
| <u>Item 11. Executive Compensation</u> | 100 |
| <u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 100 |
| <u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u> | 100 |
| <u>Item 14. Principal Accounting Fees and Services</u> | 100 |

PART IV

| | |
|---|-----|
| <u>Item 15. Exhibits, Financial Statement Schedules</u> | 101 |
|---|-----|

| | |
|--------------------------|-----|
| <u>SIGNATURES</u> | 106 |
|--------------------------|-----|

Exhibit 10.28

Exhibit 10.29

Exhibit 21.1

Exhibit 23.1

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

Table of Contents

Cautionary Note on Forward-Looking Statements

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

- uncertainties regarding the impact of general economic conditions, particularly in information technology spending, on our business;
- risks due to aggressive competition in all of our markets, including with respect to maintaining margins and sufficient levels of investment in our business;
- risks associated with keeping pace with technological changes and evolving industry standards in our product offerings and with successfully introducing new, quality products which meet customer needs and achieve market acceptance;
- risks created by continued consolidation of competitors or introduction of large competitors in our markets with greater resources than we have;
- risks that customers or partners delay or cancel orders or are unable to honor contractual commitments due to liquidity issues, challenges in their business, or otherwise;
- risks relating to our implementation and maintenance of adequate systems and internal controls for our current and future operations and reporting needs and related risks of financial statement omissions, misstatements, restatements, or filing delays;
- risks associated with being a consolidated, controlled subsidiary of Comverse Technology, Inc. (Comverse) and formerly part of Comverse s consolidated tax group, including risks of any future impact on us resulting from Comverse s extended filing delay or any other future issues;
- risks associated with Comverse controlling our board of directors and the outcome of all matters submitted for stockholder action, including the approval of significant corporate transactions, such as certain equity issuances or mergers and acquisitions, as well as speculation or announcements regarding Comverse s strategic plans;

Table of Contents

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

risks associated with allocating limited financial and human resources to opportunities that may not come to fruition or produce satisfactory returns;

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

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

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

risks associated with mergers and acquisitions and with related system integrations and asset impairments;

challenges in accurately forecasting revenue and expenses and maintaining profitability;

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

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

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

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

risks associated with our dependence on a limited number of suppliers or original equipment manufacturers (OEMs) for certain components of our products;

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

risks that contract terms may expose us to unlimited liability or other unfavorable positions and risks that we may experience losses that are not covered by insurance;

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

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

Table of Contents

risks that we will be unable to comply with the leverage ratio covenant or financial statement delivery covenant under our credit facility;
risks that our credit rating could be downgraded or placed on a credit watch;
risks relating to timely implementation of new accounting pronouncements or new interpretations of existing accounting pronouncements and related risks of future restatements or filing delays;
risks associated with future regulatory actions or private litigations relating to our extended filing delay and related circumstances; and
risks that use of our tax benefits may be restricted or eliminated in the future.

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

Table of Contents

PART I

Item 1. Business

Our Company

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

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

We have established leadership positions in both the enterprise workforce optimization and security intelligence markets by leveraging our core competency in developing highly scalable, enterprise-class applications with advanced, integrated analytics for both unstructured and structured information. Our innovative solutions are developed by approximately 900 employees and contractors in research and development, representing approximately one-third of our total headcount, and are evidenced by more than 500 patents and patent applications worldwide. We offer a range of customer services, from initial implementation to ongoing maintenance and support, to maximize the value our customers receive from our Actionable Intelligence solutions and allow us to extend our customer relationships.

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

Our Markets Enterprise Workforce Optimization and Security Intelligence

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

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

Table of Contents

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

Company Background

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

In May 2002, we completed our initial public offering (IPO), and, as of January 31, 2011, Comverse held approximately a 56.2% beneficial ownership position in us assuming conversion of all of our Series A Convertible Preferred Stock, par value \$0.001 per share (Preferred Stock) into common stock. Since our IPO, we have acquired a number of companies that have strengthened our position in both the enterprise workforce optimization and security intelligence markets. Our largest acquisition was of Witness Systems, Inc. (Witness) in May 2007, which strengthened our leadership position in the enterprise workforce optimization market.

We participate in the enterprise workforce optimization and security intelligence markets through three operating segments: Enterprise Workforce Optimization Solutions (Workforce Optimization), Video Intelligence Solutions (Video Intelligence), and Communications Intelligence and Investigative Solutions (Communications Intelligence), each of which is described in greater detail below and in Management's Discussion and Analysis of Financial Condition and Results of Operations under Item 7. See also Note 18, Segment, Geographic, and Significant Customer Information to our consolidated financial statements included in Item 15 of this report for additional information and financial data about each of our operating segments and geographic regions.

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

Table of Contents

Our Strengths

Workforce Optimization

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

Comprehensive, unified suite of workforce optimization applications. A core part of our product strategy has been to tightly integrate our workforce optimization applications. Our comprehensive, unified suite of workforce optimization applications offers many advantages in terms of both functionality and total cost of ownership, and we believe that this approach helps further differentiate us in the workforce optimization market.

Advanced Customer Interaction Analytics. We were an early innovator of speech analytics for call centers, and today we offer an advanced suite of Customer Interaction Analytics , which includes speech, data, text, and customer feedback survey solutions. We believe that these solutions are attractive to a broad set of customers, enabling them to better understand workforce performance, the customer experience, and the factors underlying important business trends.

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

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

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

Table of Contents

Video Intelligence

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

Broad IP video portfolio. Our Video Intelligence portfolio includes Internet Protocol (IP) video management software and services, edge devices for capturing, digitizing, and transmitting video over different types of wired and wireless networks, video analytics, network video recorders, and a physical security information management system. Our broad portfolio enables organizations to deploy an end-to-end IP video solution with analytics or evolve to IP video solutions over time, enabling organizations to generate Actionable Intelligence from video and related data.

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

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

Communications Intelligence

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

Broad portfolio. Our broad Communications Intelligence portfolio includes solutions for communications interception, service provider compliance, mobile location tracking, fusion and data management, Web intelligence, and tactical communications intelligence. Our portfolio is designed to handle massive amounts of unstructured and structured information from different sources (including fixed and mobile networks, IP networks, and the Internet), quickly make sense of complex scenarios, and generate evidence and intelligence.

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

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

Table of Contents

Our Strategy

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

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

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

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

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

The Enterprise Workforce Optimization Solutions Segment

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

Table of Contents

The Workforce Optimization Market and Trends

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

In order to make better decisions to achieve these goals, we believe that organizations increasingly seek to leverage valuable data collected from customer interactions and associated operational activities. However, customer service solutions have traditionally been deployed in the contact center as stand-alone applications, which prevented information from being shared and analyzed across multiple/related applications. These solutions also lacked functionality for analyzing unstructured information, such as the content of phone calls and email. As a result, organizations historically based their customer service-related business decisions on a fraction of the information available to them.

We believe that customer-centric organizations today seek unified, innovative workforce optimization solutions delivered by a single vendor to better manage customer service operations across the enterprise. We believe that the key business and technology trends driving demand for workforce optimization solutions include:

Integration of Workforce Optimization Applications

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

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

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

Table of Contents

Greater Insight through Customer Interaction Analytics

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

Adoption of Workforce Optimization Across the Enterprise

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

Migration to VoIP Technologies

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

Our Enterprise Workforce Optimization Solutions Portfolio

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

Table of Contents

The following table summarizes our portfolio of Workforce Optimization solutions.

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

Table of Contents

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

The Video Intelligence Solutions Segment

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

The Networked IP Video Market and Trends

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

Table of Contents

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

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

Our Video Intelligence Solutions Portfolio

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

| Solution | Description |
|------------------------------|--|
| IP Video Management Software | Simplifies management of large volumes of video and geographically dispersed video surveillance operations, with a suite of applications that includes automated system health monitoring, policy-based video distribution, networked video viewing, and investigation management. Designed for use with industry-standard servers and storage solutions and for interoperability with other enterprise systems. |
| Edge Devices | Captures, digitizes, and transmits video across enterprise networks, providing many of the benefits of IP video while using existing analog CCTV investments. Includes IP cameras, bandwidth-efficient video encoders to convert analog images to IP video for transmission over IP networks, and wireless devices that perform both video encoding and wireless IP transmission, facilitating video surveillance in areas too difficult or expensive to wire. |
| Video Analytics | Analyzes video content to automatically detect anomalies and activities of interest, such as perimeter intrusion, unattended objects, camera tampering, and vehicles moving in the wrong direction. Also includes industry-specific analytics applications focused on the behavior of people in retail and other environments. |

Table of Contents

| Solution | Description |
|---|---|
| Network Video Recorders | Performs networked video recording utilizing secure, embedded operating systems and market-specific data integrations for applications that require local storage, as well as remote networking. |
| Physical Security Information Management System | Captures and integrates information from various standalone security and public safety systems, such as access control, video, intrusion, fire and public safety, first responder, and other mobile device systems, to enable efficient information correlation and analysis and rapid, rules-based alerts and actions. |

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

The Communications Intelligence Solutions Segment

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

Table of Contents

The Communications Intelligence Solutions Market and Trends

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

Increasing Complexity of Communications Networks and Growing Network Traffic

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

Growing Demand for Advanced Intelligence and Investigative Solutions

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

Legal and Regulatory Compliance Requirements

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

Our Communications Intelligence Solutions Portfolio

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

| Solution | Description |
|--|---|
| Communications Interception | Enables the interception, monitoring, and analysis of information collected from a wide range of communications networks, including fixed and mobile networks, IP networks, and the Internet. Includes lawful interception solutions designed to intercept specific target communications pursuant to legal warrants and mass interception solutions for investigating and proactively addressing criminal and terrorist threats. |
| Communications Service Provider Compliance | Enables communication service providers to collect and deliver to government agencies specific call-related and call-content information in compliance with CALEA, ETSI, and other compliance regulations and standards. Includes a scalable warrant and subpoena management system for efficient, cost-effective administration of legal warrants across multiple networks and sites. |

Table of Contents

| Solution | Description |
|--------------------------------------|---|
| Mobile Location Tracking | Tracks the location of mobile network devices for intelligence and evidence gathering, with analytics and workflow designed to support investigative activities. Provides real-time tracking of multiple targets, real-time alerts, and investigative capabilities, such as geospatial fencing and events correlation. |
| Fusion and Investigation Management | Fuses data gathered from multiple database sources, with link analysis, adaptable investigative workflow, and analytics to improve investigation efficiency and productivity. Supports a wide range of complex investigations, including financial crimes, that require expertise across various domains, involve multiple government agencies, and require significant resources and time. |
| Web Intelligence | Increases the productivity and efficiency of investigations in which the Internet is the prime source of information. Features advanced data collection, text analysis, data enrichment, advanced analytics, and a clearly defined investigative workflow on a scalable platform. |
| Tactical Communications Intelligence | Provides portable communications interception and location tracking capabilities for local use or integration with centralized monitoring systems, to support tactical field operations. |

We also offer integrated video monitoring which enables the scalable collection, storage, and analysis of video captured by surveillance systems and its integration with other sources of information, such as intercepted communications or location tracking data.

Customer Services

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

Implementation, Training, and Consulting

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

Table of Contents

Maintenance Support

We offer a range of customer maintenance support programs to our customers and resellers, including phone, Web, and email access to technical personnel up to 24 hours a day, 7 days a week. Our support programs are designed to ensure long-term, successful use of our solutions. We believe that customer support is critical to retaining and expanding our customer base. Our Workforce Optimization solutions are sold with a warranty of generally one year for hardware and 90 days for software. Our Video Intelligence solutions and Communications Intelligence solutions are sold with warranties that typically range from 90 days to 3 years and, in some cases, longer. In addition, customers are typically provided the option to purchase maintenance plans that provide a range of services, such as telephone support, advanced replacement, upgrades when and if available, and on-site repair or replacement. Currently, the majority of our maintenance revenue is related to our Workforce Optimization solutions.

Direct and Indirect Sales

We sell our solutions through our direct sales teams and indirect channels, including distributors, systems integrators, value-added resellers (VARs), and OEM partners. Approximately 40% of our revenue is generated by sales made through partners, distributors, resellers, and system integrators.

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

Customers

Our solutions are used by more than 10,000 organizations in over 150 countries. In the year ended January 31, 2011, we derived approximately 57%, 18%, and 25% of our revenue from the sale of our Workforce Optimization solutions, Video Intelligence solutions, and Communications Intelligence solutions, respectively. In the year ended January 31, 2010, we derived approximately 53%, 21%, and 26% of our revenue from the sale of our Workforce Optimization solutions, Video Intelligence solutions, and Communications Intelligence solutions, respectively. In the year ended January 31, 2009, we derived approximately 53%, 19%, and 28% of our revenue from the sale of our Workforce Optimization solutions, Video Intelligence solutions, and Communications Intelligence solutions, respectively. In the year ended January 31, 2011, we derived approximately 53%, 26%, and 21% of our revenue from sales to end users in the Americas, Europe, the Middle East, and Africa (EMEA), and the Asia-Pacific region (APAC), respectively. In the year ended January 31, 2010, we derived approximately 55%, 25%, and 20% of our revenue from sales to end users in the Americas, EMEA, and APAC, respectively. In the year ended January 31, 2009, we derived approximately 52%, 32%, and 16% of our revenue from sales to end users in the Americas, EMEA, and APAC, respectively.

Table of Contents

None of our customers, including system integrators, VARs, various local, regional, and national governments worldwide, and OEM partners, individually accounted for more than 10% of our revenue in the years ended January 31, 2011, 2010, and 2009. For the year ended January 31, 2011, approximately one quarter of our business was generated from contracts with various governments around the world, including federal, state, and local government agencies. We are party to contracts with customers in each of our segments the loss of which could have a material adverse effect on the segment. Some of the customer engagements on which we work require us to have the necessary security credentials or to participate in the project through an approved legal entity. In addition, because of the unique nature of the terms and conditions associated with government contracts generally, our government contracts may be subject to renegotiation or termination at the election of the government customer. For a more detailed discussion of the risks associated with our government customers, see **Risk Factors Risks Related to Our Business Regulatory and Government Contracting**. We are dependent on contracts with governments around the world for a significant portion of our revenue. These contracts also expose us to additional business risks and compliance obligations and **Risk Factors Risks Related to Our Business Regulatory and Government Contracting**. U.S. and foreign governments could refuse to buy our Communications Intelligence solutions or could deactivate our security clearances in their countries thereby restricting or eliminating our ability to sell these solutions in those countries under Item 1A. See also Note 18, **Segment, Geographic, and Significant Customer Information** to our consolidated financial statements included in Item 15 of this report for additional information and financial data about each of our operating segments and geographic regions.

Research and Development

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

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

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

Table of Contents

To support these efforts, we make significant investments in research and development every year. In the years ended January 31, 2011, 2010, and 2009, we spent approximately \$96.5 million, \$83.8 million, and \$88.3 million, respectively, on research and development, net. We allocate our research and development resources in response to market research and customer demand for additional features and solutions. Our development strategy involves rolling out initial releases of our products and adding features over time. We incorporate product feedback received from our customers into our product development process. While the majority of our products are developed internally, in some cases, we also acquire or license technologies, products, and applications from third parties based on timing and cost considerations.

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

Manufacturing and Suppliers

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

Table of Contents

Employees

As of January 31, 2011, we employed approximately 2,800 people, including part-time employees and certain contractors. Approximately 45%, 34%, 13%, and 8% of our employees and contractors are located in the Americas, Israel, EMEA (excluding Israel), and APAC, respectively.

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

Intellectual Property Rights

General

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

Patents

As of January 31, 2011, we had more than 500 patents and patent applications worldwide. We have accumulated a significant amount of proprietary know-how and expertise in developing analytics solutions for enterprise workforce optimization and security intelligence products. We regularly review new areas of technology related to our businesses to determine whether they are patentable.

Licenses

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

Table of Contents

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

Trademarks and Service Marks

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

Competition

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

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

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

Table of Contents

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

Export Regulations

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

Our Extended Filing Delay and Related Matters

As previously disclosed, from March 2006 through March 2010, we did not make periodic filings with the SEC. Our extended filing delay initially arose as a result of an internal investigation by our majority stockholder, Comverse, of its stock option grant practices, during which we also conducted an examination of our own stock option grant practices. Thereafter, we and Comverse initiated internal investigations of certain non-option related accounting matters, we undertook a separate and distinct review of our accounting treatment for revenue recognition, and our investigation and revenue recognition review and consequent internal controls testing led our management to identify material weaknesses in our internal control over financial reporting. As a result of our filing delay and this investigation and review, our common stock was delisted from NASDAQ and we became subject to an SEC staff investigation into certain accounting matters and an SEC administrative proceedings pursuant to Section 12(j) of the Exchange Act to suspend or revoke the registration of our common stock because of our filing delay. By June 2010, we had concluded our internal investigations and reviews, we filed with the SEC annual reports for all prior years and quarterly reports for certain quarters for which we had not previously filed reports, resumed making timely periodic filings with the SEC, settled an injunctive action by the SEC against us related to its investigation, and relisted on NASDAQ, and the SEC had dismissed the Section 12(j) administrative proceedings against us; and, in connection with our evaluation of the effectiveness of our internal control over financial reporting as of January 31, 2011, we concluded that we had remediated all previously identified material weaknesses in our internal control over financial reporting. For more information regarding the foregoing, see our annual and quarterly reports filed with the SEC; for additional information on recent remediation efforts regarding our material weaknesses in internal control over financial reporting, see Controls and Procedures under Item 9A.

Table of Contents

Recent Developments

In March 2011, we acquired a company that will be integrated into our Video Intelligence operating segment. The impact of this acquisition will not be material to our consolidated balance sheet and results of operations.

Item 1A. Risk Factors

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

Risks Related to Our Business

Competition, Markets, and Operations

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

Our business is subject to risks arising from adverse changes in domestic and global economic conditions. Slowdowns, recessions, political unrest, or natural disasters around the world may cause companies and governments to delay, reduce, or even cancel planned spending. In particular, declines in information technology spending have affected the market for our products, especially in industries that are or have experienced significant cost-cutting. Customers or partners who are facing business challenges or liquidity issues are also more likely to delay purchase decisions or cancel orders, as well as to delay or default on payments. If customers or partners significantly reduce their spending with us or significantly delay or fail to make payments to us, our business, results of operations, and financial condition would be materially adversely affected. Moreover, as a result of recent economic conditions, like many companies, we engaged in significant cost-saving measures from late 2008 through the beginning of 2010. We cannot assure you that these measures will not negatively impact our ability to execute on our objectives and grow in the future, particularly if we are not able to invest in our business as a result of a protracted economic downturn.

Table of Contents

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

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

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

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

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

anticipate and respond to changes in technology and industry standards in our offerings;

successfully develop and introduce new, enhanced, and competitive products, services, and technologies that meet our customers' changing needs; and

deliver these new and enhanced offerings on a timely basis while adhering to our high quality standards.

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

Table of Contents

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

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

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

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

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

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

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

- changes in budgets and purchasing priorities;

- reductions in need to upgrade existing systems;

Table of Contents

deferrals in anticipation of enhanced or new products;

introduction of new products by our competitors; or

lower prices offered by our competitors.

In addition, we have historically derived a significant portion of our revenue from contracts for large system installations with major customers and we continue to emphasize sales to larger customers in our product development and marketing strategies. Contracts for large installations typically involve a lengthy and complex bidding and selection process, and our ability to obtain particular contracts is inherently difficult to predict. The timing and scope of these opportunities are difficult to forecast, and the pricing and margins may vary substantially from transaction to transaction. As a result, our future operating results may be volatile and vary significantly from period to period. While we have no single customer that is material to our total revenue, we do have many significant customers in each of our segments, notably in our Video Intelligence segment and our Communications Intelligence segment, and periodically receive multi-million dollar orders. The deferral or loss of one or more significant orders or customers or a delay in an expected implementation of such an order could materially adversely affect our segment operating results, particularly on a quarterly basis. In recent years, an increasing percentage of our revenue has come from software sales as compared to hardware sales. As with other software-focused companies, this has meant that more of our quarterly business has come in the last few weeks of each quarter. In addition, customers have increasingly been placing orders close to, or even on, the requested delivery date. The trend of shorter periods between order date and delivery date, along with this trend of business moving to the end of the quarter, has further complicated the process of accurately predicting revenue or making sales forecasts on a quarterly basis. In addition, our business is subject to seasonal factors which may cause our results to fluctuate quarter to quarter.

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

As a result of the foregoing factors, our revenues are difficult to forecast and may result in significant fluctuations in our operating results, particularly on a quarterly basis. Additionally, we base our current and future expense levels on our internal operating plans and sales forecasts, and our operating costs are, to a large extent, fixed. As a result, an unexpected shortfall in revenue, whether as a result of inaccurate forecasts or otherwise, may have a significant adverse impact on our profitability if we are not able to sufficiently reduce our operating costs in a particular period to compensate.

Table of Contents

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

Approximately 40 percent of our revenue is generated by sales made through partners, distributors, resellers, and systems integrators. If our relationship in any of these sales channels deteriorates or terminates, we may lose important sales and marketing opportunities. In pursuing new partnerships and strategic alliances, we must often compete for the opportunity with similar solution providers. In order to effectively compete for such opportunities, we must introduce products tailored not only to meet specific partner needs, but also to evolving customer and prospective customer needs, and include innovative features and functionality easy for partners to sell and install. Even if we are able to win such opportunities on terms we find acceptable, there is no assurance that we will be able to realize the benefits we anticipate. Our competitors often seek to establish exclusive relationships with these sales channels or, at a minimum, to become a preferred partner for these sales channels. Some of our sales channel partners also partner with our competitors and may even offer our products and those of our competitors as alternatives when presenting bids to end customers. Our ability to achieve revenue growth depends to a significant extent on maintaining and adding to these sales channels and if we are unable to do so our revenue could be materially adversely affected.

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

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

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

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

Table of Contents

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

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

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

We depend on the continued services of our executive officers and other key personnel. In addition, in order to continue to grow effectively, we need to attract (and retain) new employees, including managers, finance personnel, sales and marketing personnel, and technical personnel, who understand and have experience with our products, services, and industry. The market for such personnel is competitive in most, if not all, of the geographies in which we operate, and on occasion we have had to relocate personnel to fill positions in locations where we could not attract qualified experienced personnel. If we are unable to attract and retain qualified employees, on reasonable economic and other terms or at all, our ability to grow could be impaired, our ability to timely report our financial results could be adversely affected, and our operations and financial results could be materially adversely affected.

Table of Contents

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

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

foreign currency fluctuations;

political, security, and economic instability in foreign countries;

changes in and compliance with local laws and regulations, including export control laws, tax laws, labor laws, employee benefits, customs requirements, currency restrictions, and other requirements;

differences in tax regimes and potentially adverse tax consequences of operating in foreign countries;

customizing products for foreign countries;

preference for or policies and procedures that protect local suppliers;

legal uncertainties regarding liability and intellectual property rights;

hiring and retaining qualified foreign employees; and

difficulty in accounts receivable collection and longer collection periods.

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

We receive grants from the OCS for the financing of a portion of our research and development expenditures in Israel. The availability in any given year of these OCS grants depends on OCS approval of the projects and related budgets that we submit to the OCS each year. The Israeli law under which these OCS grants are made limits our ability to manufacture products, or transfer technologies, developed using these grants outside of Israel. This may limit our ability to engage in certain outsourcing or business combination transactions involving these products or require us to pay significant royalties or fees to the OCS in order to obtain any OCS consent that may be required in connection with such transactions.

Table of Contents

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

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

Regulatory and Government Contracting

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

For the year ended January 31, 2011, approximately one quarter of our business was generated from contracts with various governments around the world, including federal, state, and local government agencies. We expect that government contracts will continue to be a significant source of our revenue for the foreseeable future. Our business generated from government contracts may be materially adversely affected if:

our reputation or relationship with government agencies is impaired;

we are suspended or otherwise prohibited from contracting with a domestic or foreign government or any significant law enforcement agency;

levels of government expenditures and authorizations for law enforcement and security related programs decrease or shift to programs in areas where we do not provide products and services;

we are prevented from entering into new government contracts or extending existing government contracts based on violations or suspected violations of laws or regulations, including those related to procurement;

Table of Contents

we are not granted security clearances that are required to sell our products to domestic or foreign governments or such security clearances are deactivated;

there is a change in government procurement procedures; or

there is a change in political climate that adversely affects our existing or prospective relationships.

As a result of the consent judgment we entered into with the Securities and Exchange Commission (SEC) in March 2010 relating to our reserves accounting practices, we and our subsidiaries are required, for three years from the date of the settlement, to disclose that this civil judgment was rendered against us in any proposals to perform new government work for U.S. federal agencies. In addition, we and our subsidiaries were required to amend our representations in existing grants and contracts with U.S. federal agencies to reflect the civil judgment. While this certification does not bar us from receiving government grants or contracts from U.S. federal agencies, each government procurement official has the discretion to determine whether it considers us and our subsidiaries

responsible companies for purposes of each transaction. The government procurement officials may also seek advice from government agency debarring officials to determine if we and our subsidiaries should be considered for suspension or debarment from receiving government contracts or grants from U.S. federal agencies.

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

terminate or cancel existing contracts for convenience;

in the case of the U.S. federal government, suspend us from doing business with a foreign government or prevent us from selling our products in certain countries;

audit and object to our contract-related costs and expenses, including allocated indirect costs; and

unilaterally change contract terms and conditions, including warranty provisions, schedule, quantities, and scope of work, in advance of our agreement on corresponding pricing adjustments.

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

Table of Contents

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

The regulatory environment relating to our solutions is still evolving and, in the security market in particular, has been driven to a significant extent by legislative and regulatory actions, such as CALEA, in the United States, and standards established by ETSI, in Europe, as well as initiatives to strengthen security for critical infrastructure, such as airports. These actions and initiatives are evolving and are at all times subject to change based on factors beyond our control, such as political climate, budgets, and current events. While we attempt to anticipate these actions and initiatives through our product offerings and refinements thereto, we cannot assure you that we will be successful in these efforts, that our competitors will not do so more successfully than us, or that changes in these actions or initiatives or the underlying factors which affect them will not occur which will reduce or eliminate this demand. If any of the foregoing should occur, or if our markets do not grow as anticipated for any other reason, our results may suffer. In addition, changes to these actions or initiatives, including changes to technical requirements, may require us to modify or redesign our products in order to maintain compliance, which may subject us to significant additional expense. Conversely, as the telecommunications industry continues to evolve, state, federal, and foreign governments (including supranational government organizations such as the European Union) and industry associations may increasingly regulate the monitoring of telecommunications and telephone or internet monitoring and recording products such as ours. We believe that increases in regulation could come in a number of forms, including import and export controls and increased regulations regarding information security, privacy, or protection of personal information such as social security numbers, credit card information, and employment records. The adoption of these types of regulations or changes to existing regulations could cause a decline in the use of our solutions or could result in increased expense for us if we must modify our solutions to comply with these regulations or for compliance costs generally. Moreover, these types of regulations could subject our customers or us to liability. Whether or not these kinds of regulations are adopted, if we do not adequately address the privacy and security concerns of consumers, companies may be hesitant to use our solutions. If any of these events occur, our business could be materially adversely affected.

Table of Contents

We may not be able to receive or retain the necessary licenses or authorizations required for us to import or export some of our products.

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

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

Some of our subsidiaries maintain security clearances in the United States and other countries in connection with the development, marketing, sale, and support of our Communications Intelligence solutions. These clearances are reviewed from time to time by the applicable government agencies in these countries and, following these reviews, our security clearances are either maintained or deactivated. Our security clearances can be deactivated for many reasons, including that the clearing agencies in some countries may object to the fact that we do business in certain other countries or the fact that our local subsidiary is affiliated with or controlled by an entity based in another country. In the event that our security clearances are deactivated in any particular country, we would lose the ability to sell our Communications Intelligence solutions in that country for projects that require security clearances.

Additionally, any inability to obtain or maintain security clearances in a particular country may affect our ability to sell our Communications Intelligence solutions in that country generally, even for non-secure projects. We have in the past, and may in the future, have our security clearances deactivated. Any inability to obtain or maintain clearances can materially adversely affect our results of operations.

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

Table of Contents

Intellectual Property and Data Security

Our intellectual property may not be adequately protected.

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

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

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

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

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

Table of Contents

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

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

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

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

Table of Contents

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

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

Risks Related to Our Internal Controls, Capital Structure, and Finances

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

Our system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles (GAAP). As previously disclosed, our management has in the past concluded that our internal control over financial reporting was not effective at prior fiscal year ends as a result of material weaknesses. See Controls and Procedures under Item 9A in each of our Annual Reports on Form 10-K for the fiscal years ended January 31, 2008, 2009, 2010 and in this report. Because of its inherent limitations, internal control over financial reporting may not prevent or detect every misstatement. An evaluation of effectiveness is subject to the risk that the controls may become inadequate because of changes in conditions, because the degree of compliance with policies or procedures decreases over time, or because of unanticipated circumstances or other factors. As a result, although our management has concluded that our internal controls are effective as of January 31, 2011, we cannot assure you that our internal controls will prevent or detect every misstatement, that material weaknesses or other deficiencies will not reoccur or be identified in the future, that this or future financial reports will not contain material misstatements or omissions, that future restatements will not be required, or that we will be able to timely comply with our reporting obligations in the future.

Table of Contents

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

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

Our previous extended filing delay and the circumstances which gave rise to it have resulted in litigation and continue to create the risk of litigation or other proceedings against us, which could be expensive and could damage our business.

Generally, companies that have undertaken internal investigations or restatements face greater risk of litigation or other actions. Although we have not been named as a defendant in any shareholder class actions or derivative lawsuits relating to our internal investigation, restatement, or extended filing delay, there can be no assurance that such actions or lawsuits will not be initiated against us or our current or former officers, directors, or other personnel in the future. Comverse and some of its personnel were previously named as defendants in several class and derivative actions relating to Comverse's internal investigations, regarding, among other things, stock-based compensation and other accounting issues. In addition, we have in the past and may in the future become subject to litigation or threatened litigation from current or former personnel as a result of our suspension of option exercises during our previous extended filing delay, the expiration of equity awards during such period, or other employment-related matters relating to our internal investigation, restatement, or extended filing delay. This litigation or any future litigation, as well as any government proceedings that could in the future arise as a result of our previous extended filing delay and the circumstances which gave rise to it, may be time consuming and expensive, and may distract management from the conduct of our business. Any such litigation could have a material adverse effect on our business, financial condition, and results of operations, and may expose us to costly indemnification obligations to current or former officers, directors, or other personnel, regardless of the outcome of such matter, which may not be covered by insurance.

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

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

Table of Contents

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

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

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

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

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

Comverse controls a majority of our outstanding common stock after giving effect to conversion of our preferred stock. As a result, we are a controlled company within the meaning of NASDAQ Listing Rule 5615(c). As a controlled company, we qualify for and our board of directors, the composition of which is controlled by Comverse, may and intends to rely upon, exemptions from several corporate governance requirements, including requirements that:

- a majority of the board of directors consist of independent directors;

- compensation of officers be determined or recommended to the board of directors by a majority of its independent directors or by a compensation committee comprised solely of independent directors; and

- director nominees be selected or recommended to the board of directors by a majority of its independent directors or by a nominating committee that is composed entirely of independent directors.

Table of Contents

Additionally, Comverse has the right to have its nominees represented on our compensation committee and our corporate governance and nominating committee. Accordingly, our stockholders are not and will not be afforded the same protections generally as stockholders of other NASDAQ-listed companies for so long as Comverse controls the composition of our board and our board determines to rely upon such exemptions. See Comverse can control our business and affairs, including our board of directors below for more information on the risks we face in connection with Comverse's beneficial ownership of a majority of our common stock as noted above.

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

Because Comverse beneficially owns a majority of our common stock assuming conversion of our preferred stock, Comverse effectively controls the outcome of all matters submitted for stockholder action, including the approval of significant corporate transactions, such as certain equity issuances or mergers and acquisitions. The terms of our preferred stock, all of which is held by Comverse, entitle Comverse to further control over significant corporate transactions. As of January 31, 2011, the preferred stock was convertible into approximately 10.4 million shares of our common stock, giving Comverse beneficial ownership of 56.2% of our common stock assuming conversion of such preferred stock.

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

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

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

We have been adversely affected as a result of being a consolidated, controlled subsidiary of Comverse and may continue to be adversely affected in the future. We were forced to wait until the conclusion of the Comverse special committee investigation to record certain stock-based compensation expenses related to our employees, which was the initial reason for our previous extended filing delay. The subsequent expansion of the Comverse special committee investigation into other accounting issues further prolonged our previous extended filing delay. In addition, because of our previous inclusion in Comverse's consolidated tax group and our related tax sharing agreement with Comverse, as further discussed below, we were also forced to wait for Comverse to substantially complete its analysis of certain tax information, including information related to the net operating loss carryforwards (NOLs) allocated to us as of our May 2002 IPO, in order to complete the restatement of our historical financial statements and preparation of certain more recent period financial statements, and associated audits. In addition to our own internal investigation and revenue recognition review, these investigations and reviews required significant time, expense, and management distraction, contributed to the previous protracted delay in the completion of our SEC filings, and caused significant concerns on the part of customers, partners, investors, and employees.

Table of Contents

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

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

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

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

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

Table of Contents

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

Risks associated with significant leverage.

At January 31, 2011, we had outstanding indebtedness of approximately \$583.2 million under our credit agreement, meaning that we are significantly leveraged. Our leverage position may, among other things:

limit our ability to obtain additional debt financing in the future for working capital, capital expenditures, acquisitions, or other general corporate purposes;

require us to dedicate a substantial portion of our cash flow from operations to debt service, reducing the availability of our cash flow for other purposes;

require us to repatriate cash for debt service from our foreign subsidiaries resulting in dividend tax costs or require us to adopt other disadvantageous tax structures to accommodate debt service payments; or

increase our vulnerability to economic downturns, limit our ability to capitalize on significant business opportunities, and restrict our flexibility to react to changes in market or industry conditions.

In addition, because our indebtedness bears interest at a variable rate, we are exposed to risk from fluctuations in interest rates. There can be no assurance that ratings agencies will not downgrade our credit rating, which could impede our ability to refinance existing debt or secure new debt or otherwise increase our future cost of borrowing and could create additional concerns on the part of customers, partners, investors, and employees about our financial condition and results of operations.

We consider other financing and refinancing options from time to time. In the event we pursue alternative or replacement financing, there can be no assurance that we will be able to obtain any such financing or if obtained that the terms of such financing will be on desirable terms.

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

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

Table of Contents

Our ability to comply with the leverage ratio covenant is highly dependent upon our ability to continue to grow earnings from quarter to quarter, which requires us to increase revenue while limiting increases in expenses or, if we are unable to increase or maintain revenue, to reduce expenses. Our ability to satisfy our debt obligations and our leverage ratio covenant will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business, and other factors, many of which are beyond our control. Alternatively, we may seek to maintain compliance with the leverage ratio covenant by reducing our outstanding debt, including by raising additional funds through securities offerings, asset sales, or other transactions. There can be no assurance that we will be able to grow our earnings, reduce our expenses, and/or reduce our outstanding debt to the extent necessary to maintain compliance with this covenant. In addition, any expense reductions undertaken to maintain compliance may impair our ability to compete by, among other things, limiting research and development, expansion plans, or hiring of key personnel. The complexity of our revenue accounting and the continued shift of our business to the end of the quarter (discussed in greater detail above) has also increased the difficulty in accurately forecasting quarterly revenue and therefore in predicting whether we will be in compliance with the leverage ratio requirements at the end of each quarter.

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

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

Limitations resulting from the restrictive covenants in the credit agreement.

Our credit agreement also includes a number of restrictive covenants which limit our ability to, among other things:
incur additional indebtedness or liens or issue preferred stock;

pay dividends or make other distributions or repurchase or redeem our stock or subordinated indebtedness;

engage in transactions with affiliates;

engage in sale-leaseback transactions;

Table of Contents

sell certain assets;

change our lines of business;

make investments, loans, or advances; and

engage in consolidations, mergers, liquidations, or dissolutions.

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

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

In connection with our 2007 acquisition of Witness, we issued 293,000 shares of convertible preferred stock to Comverse at an aggregate purchase price of \$293.0 million. The issuance of shares of common stock upon conversion of the preferred stock would result in substantial dilution to the other common stockholders. As of January 31, 2011, the preferred stock was convertible into approximately 10.4 million shares of our common stock. In addition, the terms of the preferred stock include liquidation, dividend, and other rights that are senior to and more favorable than the rights of the holders of our common stock.

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

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

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

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

Table of Contents

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

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

Because we have historically acquired a significant number of companies, goodwill and other intangible assets have represented a substantial portion of our assets. Goodwill and other intangible assets totaled approximately \$895.7 million, or approximately 65% of our total assets, as of January 31, 2011. We test our goodwill for impairment at least annually, or more frequently if an event occurs indicating the potential for impairment, and we assess on an as-needed basis whether there have been impairments in our other intangible assets. We make assumptions and estimates in this assessment which are complex and often subjective. These assumptions and estimates can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy or our internal forecasts. We did not record any non-cash impairment charges for the years ended January 31, 2011 and 2010, but we did record non-cash impairment charges for the years ended January 31, 2009 and 2008, totaling \$26.0 million and \$23.4 million, respectively. These non-cash impairment charges related to acquisitions made in our Video Intelligence segment and in our Workforce Optimization performance management consulting business. To the extent that the factors described above change, we could be required to record additional non-cash impairment charges in the future. Any significant impairment charges would negatively affect our financial condition and results of operations.

Our international operations subject us to currency exchange risk.

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

Table of Contents

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

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

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

All of the risk factors discussed in this section could affect our stock price. The timing of announcements in the public market regarding new products, product enhancements or technological advances by our competitors or us, and any announcements by us or our competitors of acquisitions, major transactions, or management changes could also affect our stock price. Our stock price is subject to speculation in the press and the analyst community, including with respect to Comverse's strategic plans, announcements relating to Comverse's strategic plans, changes in recommendations or earnings estimates by financial analysts, changes in investors' or analysts' valuation measures for our stock, our credit ratings and market trends unrelated to our performance. Stock sales by Comverse or our directors, officers, or other significant holders may also affect our stock price. A significant drop in our stock price could also expose us to the risk of securities class actions lawsuits, which could result in substantial costs and divert management's attention and resources, which could adversely affect our business.

Item 1B. Unresolved Staff Comments

None.

Table of Contents

Item 2. Properties

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

Leased Properties

We lease a total of approximately 269,800 square feet of office space in the United States. Our corporate headquarters are located in a leased facility in Melville, New York, and consist of approximately 45,800 square feet under a lease that expires in May 2013. The facility is used primarily by our administrative, sales, marketing, customer support, and services groups. We lease approximately 96,500 square feet at a facility in Roswell, Georgia under a lease that expires in November 2012. The Roswell, Georgia facility is used primarily by the administrative, marketing, product development, support, and sales groups for our Workforce Optimization operations.

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

Outside of the United States, we occupy approximately 176,000 square feet at a facility in Herzliya, Israel under a lease that expires in October 2015. The Herzliya, Israel facility is used primarily for manufacturing, storage, development, sales, marketing, and support related to our Communications Intelligence operations. We also occupy approximately 34,500 square feet at a leased facility in Laval, Quebec, which is used primarily for our manufacturing, product development, support, and sales for our Video Intelligence operations. The lease in Laval, Quebec expires in June 2012. We occupy approximately 20,000 square feet at a facility in Weybridge, the United Kingdom under a lease which expires in February 2021. The Weybridge facility is used primarily for administrative, marketing, product development, support, and sales groups for our Workforce Optimization and Video Intelligence operations.

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

In addition to the leases noted above, we also lease office space throughout the world for our local sales, support, and services needs. For additional information regarding our lease obligations, see Note 17, Commitments and Contingencies to our consolidated financial statements included elsewhere in this report.

Table of Contents

Owned Properties

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

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

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

Item 3. Legal Proceedings

On March 26, 2009, a motion to approve a class action lawsuit (the Labor Motion), and the class action lawsuit itself (the Labor Class Action) (Labor Case No. 4186/09), were filed against our subsidiary, Verint Systems Limited (VSL), by a former employee of VSL, Orit Deutsch, in the Tel Aviv Labor Court. Ms. Deutsch purports to represent a class of our employees and ex-employees who were granted options to buy shares of Verint and to whom allegedly damages were caused as a result of the blocking of the ability to exercise Verint options by our employees or ex-employees. The Labor Motion and the Labor Class Action both claim that we are responsible for the alleged damages due to our status as employer and that the blocking of Verint options from being exercised constitutes a default of the employment agreements between the members of the class and VSL. The Labor Class Action seeks compensatory damages for the entire class in an unspecified amount. On July 9, 2009, we filed a motion for summary dismissal and alternatively for the stay of the Labor Motion. A preliminary session was held on July 12, 2009. Ms. Deutsch filed her response to our response on November 10, 2009. On February 8, 2010, the Tel Aviv Labor Court dismissed the case for lack of material jurisdiction and ruled that it will be transferred to the District Court in Tel Aviv. The case has been scheduled for a preliminary hearing in the District Court in Tel Aviv on October 11, 2011.

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

Item 4. Removed and Reserved

Table of Contents

PART II

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

Market Information

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

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

**Year Ended
January 31,**

Period

Low