VERINT SYSTEMS INC
Form 424B4
June 13, 2003

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Registration No. 333-105358

PROSPECTUS

5,000,000 Shares

Verint Systems Inc.

Common Stock

This is an offering of shares of common stock of Verint Systems Inc. Of the 5,000,000 shares being offered, Verint is selling 4,850,269 shares and the selling stockholders are selling 149,731 shares. We will not receive any of the proceeds from the sale of shares by the selling stockholders.

Our common stock is traded on the Nasdaq National Market under the symbol "VRNT". On June 12, 2003, the last reported sale price of our common stock on the Nasdaq National Market was $23.80 per share.

Investing in our common stock involves risks. "Risk Factors" begin on page 10.

	Per Share		Total	
Public Offering Price	$	23.000	$	115,000,000
Underwriting Discounts and Commissions	$	1.093	$	5,465,000
Proceeds to Verint Systems Inc. (before expenses)	$	21.907	$	106,254,843
Proceeds to Selling Stockholders (before expenses)	$	21.907	$	3,280,157

We have granted the underwriters a 30 day option to purchase up to 750,000 additional shares of our common stock to cover over-allotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Lehman Brothers, on behalf of the underwriters, expects to deliver the shares on or about June 18, 2003.

LEHMAN BROTHERS
JPMORGAN
U.S. BANCORP PIPER JAFFRAY
MORGAN KEEGAN & COMPANY, INC.

June 12, 2003

[Artwork]

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You should rely only on the information contained in this prospectus. We have not and the underwriters have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the common stock.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and may not contain all of the information that may be important to you. You should read this entire prospectus carefully, including the information set forth in "Risk Factors" before making an investment decision. In this prospectus, "Verint," "we," "us," and "our" refers to Verint Systems Inc. and its subsidiaries unless the context otherwise requires.

Verint Systems Inc.

We are a leading provider of analytic software-based solutions for communications interception, digital video security and surveillance, and enterprise business intelligence. Our software generates actionable intelligence through the collection, retention and analysis of voice, fax, video, email, Internet and data transmissions from multiple types of networks.

Heightened awareness surrounding homeland defense and security, both in the United States and globally, has increased the demand for solutions such as those provided by us. Recent legislative and regulatory actions have provided greater surveillance powers to law enforcement agencies, imposed strict requirements on communications service providers to facilitate interception of communications over public networks, and increased the security measures being implemented at airports and other public facilities.

We provide our solutions to two principal markets: the digital security and surveillance market and the enterprise business intelligence market.

Digital Security and Surveillance

The digital security and surveillance market consists primarily of communications interception by law enforcement agencies and digital video security utilized by government agencies and public and private organizations. Communications interception, historically referred to as wiretapping, is the monitoring and recording of voice and data transmissions to and from a specified target over communications networks to obtain intelligence and gather evidence. Video security is the monitoring and recording of surveillance camera transmissions to safeguard public and private facilities.

Our digital security and surveillance solutions include the STAR-GATE and RELIANT communications interception products and LORONIX digital video security products. STAR-GATE enables communications service providers to intercept communications over a variety of wireline, wireless and Internet protocol, or IP, networks for delivery to law enforcement and other government agencies, and is sold to communications service and equipment providers. RELIANT provides intelligent recording and analysis solutions for communications interception activities, and is sold to law enforcement and government agencies. LORONIX digital video security products provide intelligent recording and analysis of video for security and surveillance applications and are sold to government agencies and public and private organizations for use in airports, public buildings, correctional facilities and corporate sites.

Enterprise Business Intelligence

The enterprise business intelligence market consists primarily of solutions targeting enterprises that rely on contact centers for voice, email and Internet interactions with their customers. Additionally, an emerging segment of enterprise business intelligence utilizes digital video information to allow enterprises and institutions to enhance their operations, processes and performance. The pressure on companies to manage their businesses more effectively has fueled the demand for analytic technologies and enterprise business intelligence solutions that provide actionable intelligence to organizations in a quick, convenient and helpful manner. Actionable intelligence generated from enterprise business intelligence solutions helps enterprises to service and retain customers, improve business processes and optimize contact center agent performance.

Our enterprise business intelligence solutions include ULTRA contact center business intelligence products and LORONIX video business intelligence products. Our ULTRA products record and analyze customer interactions with contact centers, providing enterprises with intelligence about customers, processes and contact center agents in order to monitor and improve business performance. Our LORONIX video business intelligence products enable enterprises to monitor and improve their operations through the analysis of live and recorded digital video. We sell our enterprise business intelligence solutions to financial institutions, casinos, retailers, utilities, communications service providers, contact center service bureaus, manufacturers and other enterprises.

Our Strategy

Our strategy is to further enhance our position as a leading provider of digital security and surveillance and enterprise business intelligence solutions worldwide. Key elements of our strategy include:

- Enhancing our technological leadership and expanding the analytic capabilities of our software;
- Focusing on new market opportunities;
- Leveraging our existing technologies into new markets and applications;
- Pursuing strategic acquisitions to extend the analytic capabilities of our solutions, expand our presence in certain geographic areas or expand our customer base;
- Utilizing strategic alliances to enhance our products and increase our customer base; and
- Enhancing our relationships with systems integrators and software resellers.

We believe that we maintain a competitive advantage over industry participants in each of our markets as a result of our comprehensive product offerings, long-term customer relationships, established reputation in the industry, and extensive experience with and expertise in analytic solutions.

We maintain a global presence through our direct sales force. In addition, we have established marketing relationships with a variety of global value added resellers and a network of systems integrators, including ADT, Avaya, British Telecom, Nortel and Siemens. We also have technological alliances with leading software and hardware companies including Genesys, Identix and Siebel, which enable us to offer complementary solutions to their products.

Our headquarters are located in Melville, New York. In addition, we have facilities in several locations in the United States and facilities in Germany, the United Kingdom and Israel. We derived 51%, 34%, 11%, 3% and 1% of our revenues in fiscal 2002 from sales to end users in North America, Europe, Asia/Pacific, Israel and the rest of the world, respectively. In fiscal 2002 we incurred 47%, 35%, 11%, 6% and 2% of our operating expenses in the United States, Israel, the United Kingdom, Germany, and the other countries in which we operate, respectively.

Our products are used by over 1000 organizations in over 50 countries worldwide. Customers for our digital security and surveillance products include the U.S. Capitol, the U.S. Department of Defense, the U.S. Department of Justice, Washington Dulles International Airport, the Toronto Police Service, the Dutch National Police Agency, and other domestic and foreign law enforcement and intelligence agencies, as well as communications service and equipment providers, such as Cingular, Ericsson and Nortel. Customers for our enterprise business intelligence products include Con Edison, HSBC, JCPenney, Sprint, Target and Tiffany & Co. None of our customers, including systems integrators and value added resellers, individually accounted for more than 10% of our revenues in fiscal 2002.

We were incorporated in Delaware on February 23, 1994 as "Interactive Information Systems Corporation." On January 30, 1996, we changed our name to "Comverse Information Systems Corporation." Effective January 31, 1999, Comverse Infomedia Systems Corp. merged with and into Comverse Information Systems Corporation, and our name was changed to "Comverse Infosys, Inc." On February 1, 2002, we changed our name to "Verint Systems Inc." Our principal executive offices are located at 330 South Service Road, Melville, New York 11747 and our telephone number at that address is (631) 962-9600. Comverse Technology, Inc. owns approximately 78% of our common stock, and, after giving effect to the offering, will own approximately 65% of our common stock. Our website is www.verintsystems.com. The information contained on our website is not part of this prospectus.

Recent Developments

Earnings for Fiscal Quarter Ended April 30, 2003

On June 3, 2003, we announced that sales for the first quarter of the fiscal year ending January 31, 2004, referred to as fiscal 2003, were approximately $44.4 million, compared with sales of approximately $36.3 million for the first quarter of fiscal 2002, an increase of approximately 22%. Net income for the first quarter of fiscal 2003 was approximately $3.5 million, or $0.14 per diluted share, compared with net income of appproximately $1.7 million, or $0.08 per diluted share, for the first quarter of fiscal 2002.

At April 30, 2003, the end of the first quarter of fiscal 2003, we had cash and cash equivalents of approximately $94.8 million, working capital of approximately $71.6 million, total assets of approximately $173.7 million and stockholders' equity of approximately $101.1 million.

The following table summarizes financial data regarding our business for the first quarter of fiscal 2002 and the first quarter of fiscal 2003:

Condensed Consolidated Statements of Operations Data:

	Three Months Ended April 30,	
	2002	**2003**
	(In thousands, except per share data, unaudited)	
Sales	$ 36,317	$ 44,415
Cost of sales	18,564	20,912
Gross profit	17,753	23,503
Operating Expenses		
Research and development, net	3,892	5,335
Selling, general and administrative	11,786	14,669
Income from operations	2,075	3,499
Interest and other income, net	113	515
Income before income taxes	2,188	4,014
Income tax provision	481	502
Net income	$ 1,707	$ 3,512

	Three Months Ended April 30,	
Earnings per share:		
Basic	$ 0.09	$ 0.15
Diluted	$ 0.08	$ 0.14
Weighted average shares:		
Basic	18,897	23,708
Diluted	20,542	25,236

The following table summarizes financial data regarding our business at the end of fiscal 2002 and the first quarter of fiscal 2003:

Condensed Consolidated Balance Sheet Data:

	January 31, 2003	April 30, 2003 (Unaudited)
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 133,933	$ 94,833
Accounts receivable, net	27,279	32,380
Inventories	8,866	8,840
Prepaid expenses and other current assets	4,079	3,692
Total current assets	174,157	139,745
Property and equipment, net	12,965	13,603
Other assets	19,928	20,350
Total assets	$ 207,050	$ 173,698
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 43,622	$ 46,170
Advance payments from customers	19,013	19,586
Current maturities of long-term bank loans	42,199	207
Convertible note		2,200
Total current liabilities	104,834	68,163

	January 31, 2003	April 30, 2003 (Unaudited)
Long-term bank loans	1,678	1,691
Convertible note	2,200	
Other liabilities	2,172	2,721
Total liabilities	110,884	72,575
Stockholders' equity	96,166	101,123
Total liabilities and stockholders' equity	$ 207,050	$ 173,698

You should read the information above regarding the fiscal quarter ended April 30, 2003, together with our Quarterly Report on Form 10-Q for the quarterly period ended April 30, 2003, which is incorporated by reference into this prospectus. See "Incorporation of Certain Documents by Reference."

Acquisition of SmartSight Networks Inc.

On May 21, 2003, we acquired all of the issued and outstanding shares of SmartSight Networks Inc. for approximately $7.0 million in cash, subject to certain adjustments, and 149,731 shares of our common stock. SmartSight's solutions enable the transmission and management of video from remote locations over IP-based wireless and wireline networks. In connection with this transaction, we entered into a registration rights agreement with certain former shareholders of SmartSight, who are also the selling stockholders listed in this prospectus. Under the registration rights agreement, we agreed to register under the Securities Act of 1933 the shares of our common stock that we issued to the selling stockholders in connection with the SmartSight acquisition.

THE OFFERING

Common stock offered by us	4,850,269 shares
Common stock offered by selling stockholders	149,731 shares
Common stock to be outstanding after this offering	28,815,728 shares
Use of Proceeds	We intend to use the net proceeds to finance the growth of our business and for general corporate purposes. We may also use a portion of the proceeds for acquisitions or other investments. We will not receive any of the net proceeds from the sale of shares by the selling stockholders.
Nasdaq National Market symbol	"VRNT"

The common stock to be outstanding after this offering is based on the number of shares outstanding as of April 30, 2003, plus the 149,731 shares of common stock issued to the selling stockholders on May 21, 2003 in connection with the SmartSight acquisition. The number of shares of common stock outstanding as of April 30, 2003 excludes:

- 3,430,764 shares of common stock issuable upon exercise of stock options outstanding as of April 30, 2003 under our stock option plan, with a weighted average exercise price of $10.50 per share;

934,240 shares of common stock available for future issuance under our stock option plan;

940,712 shares of common stock available for future issuance under our employee stock purchase plan; and

136,985 shares of common stock issuable upon the conversion of an outstanding convertible note.

ABOUT THIS PROSPECTUS

Unless otherwise indicated, the information in this prospectus assumes no exercise of the underwriters' over-allotment option.

References in this prospectus to Comverse Technology refer to our controlling stockholder, Comverse Technology, Inc., and its subsidiaries excluding Verint Systems Inc.

References in this prospectus to fiscal 2000 refer to our fiscal year ended January 31, 2001. References in this prospectus to fiscal 2001 refer to our fiscal year ended January 31, 2002. References in this prospectus to fiscal 2002 refer to our fiscal year ended January 31, 2003.

LORONIX®, vCRM , Building the Customer Intelligent Enterprise , OpenStorage Portal and cctvware® are registered trademarks of ours. We have also applied for registration of our VERINT , RELIANT , Intelligent Recording , Powering Actionable Intelligence and Actionable Intelligence trademarks. Other trademarks and trade names appearing in this prospectus are the property of their respective holders.

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SUMMARY CONSOLIDATED FINANCIAL DATA

The following table summarizes financial data regarding our business. You should read this information together with the consolidated financial statements and the notes to those statements appearing elsewhere in this prospectus. Financial data for the year ended January 31, 1999 are unaudited. See "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year Ended January 31,				
	1999	2000	2001	2002	2003
	(in thousands, except per share data)				
Statement of Operations Data:					
Sales	$ 89,282	$ 120,612	$ 141,677	$ 131,235	$ 157,775
Income (loss) from operations	(10,626)	(9,548)	(7,565)(1)	(2,533)(2)	10,051
Net income (loss)	(11,659)	(10,544)	(8,559)(1)	(4,649)(2)	10,147
Net income (loss) per share basic	$ (0.63)	$ (0.57)	$ (0.46)(1)	$ (0.25)(2)	$ 0.46
Net income (loss) per share diluted	$ (0.63)	$ (0.57)	$ (0.46)(1)	$ (0.25)(2)	$ 0.43
Weighted Average Shares:					
Basic	18,618	18,619	18,704	18,767	22,165
Diluted	18,618	18,619	18,704	18,767	23,542

(1) Includes acquisition expenses of approximately $3.5 million and workforce reduction, restructuring and impairment charges of approximately $1.5 million.

(2) Includes workforce reduction, restructuring and impairment charges of approximately $2.8 million.

The following table summarizes our balance sheet as of January 31, 2003:

- on an actual basis; and
- on an as adjusted basis to give effect to the sale by us of 4,850,269 shares in this offering, after deducting the underwriting discounts and commissions and estimated offering expenses, and our anticipated application of the net proceeds of the offering.

The following table excludes our issuance of 149,731 shares to the selling stockholders on May 21, 2003 in connection with the SmartSight acquisition.

	As of January 31, 2003	
	Actual	As Adjusted
	(in thousands)	
Balance Sheet Data:		
Cash and cash equivalents[(1)]	$ 133,933	$ 239,640
Working capital	69,323	175,030
Total assets	207,050	312,757
Long-term bank loans, including current maturities[(1)]	43,877	43,877
Convertible note	2,200	2,200
Stockholders' equity	96,166	201,873

(1) On February 28, 2003, we repaid a $42 million bank loan that was guaranteed by Comverse Technology.

RISK FACTORS

Investing in our common stock involves a high degree of risk. Before purchasing our shares, you should carefully consider the risks described below in addition to the other information in this prospectus. Our business, results of operations and financial condition may be materially and adversely affected due to any of the following risks. The trading price of our shares could decline due to any of these risks, and you could lose all or part of your investment.

Risks Related to Our Business and Industry

If demand for or purchasing of solutions such as ours does not increase as anticipated, we may not be able to sustain or increase profitability.

Our primary business is providing analytic solutions for communications interception, digital video security and surveillance, and enterprise business intelligence. Recent legislative and regulatory actions have provided greater surveillance powers to law enforcement agencies, imposed strict requirements on communications service providers to facilitate interception of communications over public networks, and increased the security measures being implemented at public facilities such as airports. However, we cannot assure you that these legislative and regulatory actions will result in increased demand for or purchasing of solutions such as ours or, if it does, that such solutions will be purchased from us. If demand for or purchasing of solutions such as ours does not increase as anticipated, we may not be able to sustain or increase profitability on a quarterly or annual basis.

The recent global economic slowdown and the decline in information technology spending has adversely impacted our markets. Any further decline in information technology spending may result in a decrease in our revenues.

The market for our enterprise business intelligence products has been adversely affected by the global economic slowdown and the decline in information technology spending, which has caused many companies to reduce or, in extreme cases, eliminate altogether, information technology spending. If our customers do not increase their spending on information technology or if such spending declines, our revenues from sales of our enterprise business intelligence products may decrease. The information technology spending of our customers in the near term remains uncertain and we are uncertain whether we will be able to increase or maintain our revenues. Although we were profitable for fiscal 2002, we have incurred operating and net losses every other year since 1997. If sales do not increase as anticipated or if expenses increase at a greater pace than revenues, we may not be able to sustain or increase profitability on a quarterly or annual basis.

Our lengthy and variable sales cycle makes it difficult for us to predict our operating results.

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

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

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We are dependent on contracts with governments for a significant portion of our revenues.

We derive a significant amount of our revenues from various government contracts worldwide. We expect that government contracts will continue to be a significant source of our revenues for the foreseeable future. Our business generated from government contracts may be materially and 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, remain constant or shift to programs in areas where we do not provide products and services;
- we are prevented from entering into new government contracts or extending existing government contracts based on violations or suspected violations of laws or regulations, including those related to procurement;
- we are not granted security clearances that are required to sell our products to domestic or foreign governments or such security clearances are revoked; or

- there is a change in government procurement procedures.

Because our quarterly operating results may fluctuate significantly and may be below the expectations of analysts and investors, the market price for our stock may be volatile.

Our quarterly operating results are difficult to predict and may fluctuate significantly in the future, which in turn may result in volatility in our stock price. The following factors, among others, many of which are outside our control, can cause fluctuations in operating results and stock price volatility:

- the size, timing, terms and conditions of orders from and shipments to our customers;
- unanticipated delays or problems in releasing new products;
- the timing and success of our customers' deployment of our products and services; and
- the amount and timing of our investments in research and development activities.

The deferral or loss of one or more significant sales could materially and adversely affect our operating results in any fiscal quarter, particularly if there are significant sales and marketing expenses associated with the deferred or lost sales. We base our current and future expense levels on our internal operating plans and sales forecasts, and our operating costs are, to a large extent, fixed. As a result, we may not be able to sufficiently reduce our costs in any quarter to compensate for an unexpected near-term shortfall in revenues.

If the markets for our products do not develop, we will not be able to maintain our growth.

The markets for our digital security and surveillance and enterprise business intelligence products are still emerging. Our growth is dependent on, among other things, the size and pace at which the markets for our products develop. If the markets for our products decrease, remain constant or grow slower than we anticipate, we will not be able to maintain our growth. Continued growth in the

demand for our products is uncertain as, among other reasons, our existing customers and potential customers may:

- not achieve a return on their investment in our products;
- experience technical difficulty in utilizing our products; or
- use alternative solutions to achieve their security, intelligence or business objectives.

In addition, as our enterprise business intelligence products are sold primarily to contact centers, slower than anticipated growth or a contraction in the number of contact centers will have a material adverse effect on our ability to maintain our growth.

The industry in which we operate is characterized by rapid technological changes, and our continued success will depend upon our ability to react to such changes.

The markets for our products are characterized by rapidly changing technology and evolving industry standards. The introduction of products embodying new technology and the emergence of new industry standards can render our existing products obsolete and unmarketable and can exert price pressures on existing products. It is critical to our success for us to be able to anticipate changes in technology or in industry standards and to successfully develop and introduce new, enhanced and competitive products on a timely basis. We cannot assure you that we will successfully develop new products or introduce new applications for existing products, that new products and applications will achieve market acceptance or that the introduction of new products or technological developments by our competitors will not render our products obsolete. Our inability to develop products that are competitive in technology and price and meet customer needs could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to compete successfully or if our customers opt to develop internal substitutes for our products, our business, financial condition and results of operations could suffer.

The global market for analytical solutions for security and business applications is intensely competitive, both in the number and breadth of competing companies and products and the manner in which products are sold. For example, we often compete for customer contracts through a competitive bidding process that subjects us to risks associated with:

- the frequent need to bid on programs in advance of the completion of their design, which may result in unforeseen technological difficulties and cost overruns; and

- the substantial time and effort, including design, development and marketing activities, required to prepare bids and proposals for contracts that may not be awarded to us.

Our competitors may be able to develop more quickly or adapt faster to new or emerging technologies and changes in customer requirements, or devote greater resources to the development, promotion and sale of their products. 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 and other resources. New competitors or alliances among competitors could emerge and rapidly take significant market share. In addition, some of our customers may in the future decide to develop internally their own solutions instead of purchasing them from us. Increased competition could force us to lower our prices or take other actions to differentiate our products.

Our government contracts contain provisions that are unfavorable to us.

Many of our government contracts contain provisions that give the governments party to those contracts rights and remedies not typically found in private commercial contracts, including provisions enabling the governments to:

- terminate or cancel existing contracts for convenience;

- in the case of the U.S. 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

- change specific terms and conditions in our contracts, including changes that would reduce the value of our contracts.

In addition, many jurisdictions have laws and regulations that deem government contracts in those jurisdictions to include these types of provisions, even if the contract itself does not contain them. If a government terminates a contract with us for convenience, we may not recover our incurred or committed costs, any settlement expenses or profit on work completed prior to the termination. If a government terminates a contract for default, we may not recover those amounts, and, in addition, we may be liable for any costs incurred by a government in procuring undelivered items and services from another source.

If we fail to comply with complex procurement laws and regulations, we may be subject to civil and criminal penalties and administrative sanctions.

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. For example, in the United States we are subject to the Federal Acquisition Regulations, which comprehensively regulate the formation, administration and performance of federal government contracts, and to the Truth in Negotiations Act, which requires certification and disclosure of cost and pricing data in connection with contract negotiations. We are subject to similar regulations in foreign countries as well.

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

Our proxy agreement with the U.S. Department of Defense limits our control over one of our subsidiaries. If this agreement is terminated, we may be suspended from selling our communications interception products to the U.S. government.

Our subsidiary, Verint Technology Inc., or Verint Technology, which markets, sells and supports our communications interception solutions to various U.S. government agencies, is required by the National Industrial Security Program to maintain facility security clearances and to be insulated from foreign ownership, control or influence. To comply with the National Industrial Security Program requirements, we, Verint Technology, Comverse Technology and the Department of Defense have entered into a proxy agreement with respect to the ownership and operations of Verint Technology. Under the proxy

agreement, we, among other things, appointed three individuals who are U.S. citizens holding the requisite security clearances as holders of proxies to vote the Verint Technology stock. The proxy holders have the power to exercise all prerogatives of ownership of Verint Technology. These three individuals are responsible for the oversight of Verint Technology's security arrangements.

The proxy agreement may be terminated and Verint Technology's facility security clearance may be revoked in the event of a breach of the proxy agreement, or if it is determined by the Department of Defense that termination is in the national interest. If Verint Technology's facility security clearance is revoked, we may lose all or a substantial portion of our sales to U.S. government agencies and our business, financial condition and results of operations would be harmed.

Government regulation of communications monitoring could cause a decline in the use of our products, result in increased expenses for us or subject us and our customers to liability.

As the communications industry continues to evolve, governments may increasingly regulate products that monitor and record voice, video and data transmissions over public communications networks, such as our solutions. For example, products which we sell in the United States to law enforcement agencies and which interface with a variety of wireline, wireless and Internet protocol networks, must comply with the technical standards established by the Federal Communications Commission pursuant to the Communications Assistance for Law Enforcement Act and products that we sell in Europe must comply with the technical standards established by the European Telecommunications Standard Institute. The adoption of new laws governing the use of our products or changes made to existing laws could cause a decline in the use of our products and could result in increased expenses for us, particularly if we are required to modify or redesign our products to accommodate these new or changing laws.

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

We are required to obtain export licenses from the Israeli and German governments to export some of our products that we develop or manufacture in these countries. Products which accounted for approximately 22%, 21% and 22% of our revenues in fiscal 2000, fiscal 2001 and fiscal 2002, respectively, required an export license. We cannot assure you that we will be successful in obtaining or maintaining the licenses and other authorizations required to export our products from applicable governmental authorities. Our failure to receive or maintain any required export license or authorization would hinder our ability to sell our products and could materially and adversely affect our business, financial condition and results of operations.

If we are unable to maintain our relationships with value added 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 suffer.

Sales through value added resellers, systems integrators and other third parties accounted for approximately 40%, 38% and 51% of our revenues in fiscal 2000, fiscal 2001 and fiscal 2002, respectively. Our ability to achieve revenue growth depends to some extent on adding new partners to expand our sales channels, as well as leveraging our relationships with existing partners. If our relationships with these value added resellers, systems integrators and strategic and technology partners deteriorate or terminate, we may lose important sales and marketing opportunities.

Our failure to develop strategic alliances or expand or implement new joint ventures could limit our ability to grow.

As part of our growth strategy, we intend to pursue new strategic alliances. We consider and engage in strategic transactions from time to time and may be evaluating alliances or joint ventures at any time. We compete with other analytic solution providers for these opportunities. We cannot assure you that we will be able to effect these transactions on commercially reasonable terms or at all. If we enter into these transactions, we also cannot be sure that we will realize the benefits we anticipate.

Our products may contain undetected defects which could impair their market acceptance.

Our products involve sophisticated hardware and software technology that performs critical functions to highly demanding standards. We cannot assure you that current or future products will not develop operational problems, which could have a material adverse effect on us. We offer complex products that may contain undetected defects or errors, particularly when first introduced or as new versions are released. We may not discover such defects or errors until after a product has been released and used by the customer. Significant costs may be incurred to correct undetected defects or errors in our products and these defects or errors could result in future lost sales. In addition, defects or errors in our products may result in product liability claims, which could cause adverse publicity and impair their market acceptance.

Loss of third party software licensing would materially and adversely affect our business, financial condition and results of operations.

We incorporate in the vast majority of our products software that we license from third parties. If we lose or are unable to maintain any software licenses, we could incur additional costs or experience unexpected delays until equivalent software can be developed or licensed and integrated into our products.

Our intellectual property rights may not be adequate to protect our business.

While we occasionally file patent applications, we cannot assure you that patents will be issued on the basis of such applications or that, if such patents are issued, they will be sufficiently broad to protect our technology. In addition, we cannot assure you that any patents issued to us will not be challenged, invalidated or circumvented.

In order to safeguard our unpatented proprietary know-how, trade secrets and technology, we rely primarily upon trade secret protection and non-disclosure provisions in agreements with employees and others having access to confidential information. We cannot assure you that these measures will adequately protect us from improper disclosure or misappropriation of our proprietary information.

The occurrence or perception of security breaches within our company or by third parties using our products could harm our business, financial condition and operating results.

Our products are often used by customers to compile and analyze highly sensitive or confidential information and data. We may come into contact with such information or data when we perform support or maintenance functions for our customers. While we have internal policies, procedures and training for employees in connection with performing these functions, even the perception that any of our employees has improperly handled sensitive or confidential information and data of a customer could harm our reputation and could inhibit market acceptance of our products.

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

Our products may infringe on the intellectual property rights of others, which could lead to costly disputes or disruptions.

The information technology industry is characterized by frequent allegations of intellectual property infringement. In the past, third parties have asserted that certain of our products infringe their intellectual property 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 rather than dispute the merits of such allegation. If patent holders or other holders of intellectual property initiate legal proceedings against us, we may be forced into protracted and costly litigation. We may not be successful in defending such litigation and we may not be able to procure any required royalty or license agreements on terms acceptable to us, or at all.

If our products infringe on the intellectual property rights of others, we may be required to indemnify our customers for any damages they suffer.

We generally indemnify our customers with respect to infringement by our products of the proprietary rights of third parties. Third parties may assert infringement claims against our customers. 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 or may be required to obtain licenses for the products our customers use. If we cannot obtain all necessary licenses on commercially reasonable terms, our customers may be forced to stop using, or, in the case of value added resellers, selling, our products.

We rely on a limited number of suppliers and manufacturers for specific components and we may not be able to obtain substitute suppliers and manufacturers on terms that are as favorable if our supplies are interrupted.

Although we generally use standard parts and components in our products, we do use some non-standard parts and equipment. We rely on non-affiliated suppliers for the supply of certain standard and non-standard components and on manufacturers of assemblies that are incorporated in all of our products. We do not have long term supply or manufacturing agreements with all of these suppliers and manufacturers. If these suppliers or manufacturers experience financial, operational, manufacturing capacity or quality assurance difficulties, or if there is any other disruption in our relationships with these suppliers or manufacturers, we will be required to locate alternative sources of supply. Our inability to obtain sufficient quantities of these components, if and as required in the future, entails the following risks:

- delays in delivery or shortages in components could interrupt and delay manufacturing and result in cancellations of orders for our products;
- alternative suppliers could increase component prices significantly and with immediate effect;
- we may not be able to develop alternative sources for product components;
- we may be required to modify our products, which may cause delays in product shipments, increased manufacturing costs and increased product prices; and
- we may be required to hold more inventory than we otherwise might in order to avoid problems from shortages or discontinuance.

Acquisitions or investments that we have made or may decide to make in the future could turn out to be unsuccessful.

On February 1, 2002, we acquired the digital video recording business of Lanex, LLC and on May 21, 2003 we acquired SmartSight Networks Inc. If we are unable to successfully integrate Lanex or SmartSight with our business, we may be unable to realize the anticipated benefits of these acquisitions. We may experience technical difficulties that could delay the integration of Lanex's or SmartSight's products into our solutions, resulting in business disruptions.

We may in the future pursue acquisitions of businesses, products and technologies, or the establishment of joint venture arrangements. The negotiation of potential acquisitions or joint ventures as well as the integration of an acquired or jointly developed business, technology or product could result in a substantial diversion of management resources. Future acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities, amortization of certain identifiable intangible assets, research and development write-offs and other acquisition-related expenses. These investments may be made in immature businesses with unproven track records and technologies. Such investments have a high degree of risk, with the possibility that we may lose the total amount of our investments. We may not be able to identify suitable investment candidates, and, even if we do, we may not be able to make those investments on acceptable terms, or at all. In addition, we also may fail to successfully integrate acquired businesses with our operations or successfully realize the intended benefits of any acquisition. Due to rapidly changing market conditions, we may 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. We may also fail to retain the acquired or merged company's key employees and customers.

Our failure to hire and retain qualified personnel could limit our ability to grow.

We depend on the continued services of our executive officers and other key personnel. In addition, we may need to attract and retain a substantial number of new employees, particularly sales and marketing personnel and technical personnel, who understand and have experience with our products and services. If we are unable to attract and retain qualified employees, our ability to grow could be impaired. Competition for personnel for certain positions in our industry is intense, and in the past we have experienced difficulty in recruiting qualified personnel due to the market demand for their services. We have also experienced difficulty in locating qualified candidates within desired geographic locations and on occasion we have had to relocate personnel to fill positions in locations where we could not attract qualified experienced personnel.

Risks Relating to Our International Operations

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

We conduct significant sales and research and development operations in foreign countries, including Israel, Germany and the United Kingdom, and we intend to continue to expand our operations internationally. Our business may suffer if we are unable to successfully expand and maintain 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;
- customizing products for foreign countries;
- political and economic instability in foreign countries;
- potentially adverse tax consequences of operating in foreign countries;

- legal uncertainties regarding liability, export and import restrictions, tariffs and other trade barriers;
- compliance with local laws and regulations, including labor laws, employee benefits, currency restrictions and other requirements;
- hiring qualified foreign employees; and
- difficulty in accounts receivable collection and longer collection periods.

Our international operations subject us to currency exchange fluctuations.

To date, most of our sales have been denominated in U.S. dollars, while a significant portion of our expenses, primarily labor expenses in Israel, Germany and the United Kingdom, are incurred in the local currencies of these countries. 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 dollar cost of our operations in Israel, Germany or the United Kingdom and would therefore 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 decrease our revenues and materially and adversely affect our results of operations. In addition, our costs of operations have at times been negatively affected by changes in the cost of our operations in Israel, resulting from changes in the value of the New Israeli Shekel relative to the U.S. dollar.

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

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, and the continued state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. While Israel has signed peace accords with both Egypt and Jordan, since October 2000, there has been a significant increase in violence, primarily in the West Bank and Gaza Strip, and more recently Israel has experienced terrorist incidents within its borders. During this period, negotiations between Israel and representatives of the Palestinian Authority have been sporadic and have failed to result in peace. We could be materially and adversely affected by hostilities involving Israel, the interruption or curtailment of trade between Israel and its trading partners, or a significant downturn in the economic or financial condition of Israel. In addition, the sale of products manufactured in Israel may be materially and adversely affected in certain countries by restrictive laws, policies or practices directed toward Israel or companies having operations in Israel. The continuation or exacerbation of violence in Israel or the outbreak of violent conflicts involving Israel may impede our ability to sell our products and may otherwise materially and adversely affect us.

In addition, many of our Israeli employees are required to perform annual compulsory military reserve duty in Israel and are subject to being called to active duty at any time under emergency circumstances. The absence of these employees may have a material adverse effect on our operations.

The conditional grants we receive from the Government of Israel for research and development expenditures restrict our ability to manufacture products and transfer technologies outside of Israel and require us to satisfy specified conditions. If we fail to satisfy these conditions, we may be required to refund grants previously received together with interest and penalties, and may be subject to criminal charges.

We receive conditional grants from the Government of Israel through the Office of the Chief Scientist of the Ministry of Industry and Trade, or the OCS, for the financing of a portion of our

research and development expenditures in Israel. The terms of these conditional grants limit our ability to manufacture products, and prohibit us from transferring technologies, outside of Israel if such products or technologies were developed using these grants. Even if we receive approval to manufacture products developed using these conditional grants outside of Israel, we may be required to pay a significantly increased amount of royalties on an accelerated basis to the Government of Israel, depending on the manufacturing volume that is performed outside of Israel. This restriction may impair our ability to outsource manufacturing or engage in similar arrangements for those products or technologies. In addition, if we fail to comply with any of the conditions imposed by the OCS, we may be required to refund any grants previously received together with interest and penalties, and we may be subject to criminal charges. In recent years, the Government of Israel has accelerated the rate of repayment of OCS grants and may further accelerate them in the future. We currently pay royalties of between 3% and 5% (or 6% under certain circumstances) of associated product revenues (including service and other related revenues) to the Government of Israel for repayment of benefits received under this program. Such royalty payments by us are currently required to be made until the government has been reimbursed the amounts received by us, linked to the U.S. dollar, plus, for amounts received under projects approved by the OCS after January 1, 1999, interest on such amounts at a rate equal to the 12-month LIBOR rate in effect on January 1 of the year in which approval is obtained. Further, the Government of Israel has reduced the benefits available under these programs in recent years and these programs may be discontinued or curtailed in the future. The continued reduction in these benefits or the termination of our eligibility to receive these benefits may materially and adversely affect our business, financial condition and results of operations.

Tax benefits we receive in Israel may be reduced or eliminated in the future.

Our investment programs in manufacturing equipment and leasehold improvements at our facility in Israel has been granted approved enterprise status and we are therefore eligible for tax benefits under the Israeli Law for Encouragement of Capital Investments. The Government of Israel may reduce or eliminate the tax benefits available to approved enterprise programs such as the programs provided to us. We cannot assure you that these tax benefits will be continued in the future at their current levels or at all. If these tax benefits are reduced or eliminated, the amount of taxes that we pay in Israel will increase. In addition, if we fail to comply with any of the conditions and requirements of the investment programs, we may be required to reimburse the amounts of the tax benefits we received, together with interest and penalties.

The spread of severe acute respiratory syndrome may have a negative impact on our results of operations.

The recent outbreak of severe acute respiratory syndrome, or SARS, which has had particular impact in China, Hong Kong, and Singapore, could have a negative effect on our operations in those regions, including delaying or preventing our expansion in those regions. If the number of SARS cases continues to spread to other areas, our international and domestic sales and operations could be harmed. In addition, the recent outbreak of SARS has curtailed travel to and from certain countries. Continued or additional restrictions on travel to and from these and other regions on account of SARS could have a material adverse effect on our business, results of operations and financial condition.

Risks Related to Our Relationship with Comverse Technology

Comverse Technology controls our business and affairs and its interests may not be aligned with our interests and those of our other stockholders.

Comverse Technology beneficially owns a majority of our outstanding shares of common stock. Consequently, Comverse Technology effectively controls the outcome of all matters submitted for stockholder action, including the composition of our board of directors and the approval of significant

corporate transactions. Through its representation on our board of directors, Comverse Technology has a controlling influence on our management, direction and policies, including the ability to appoint and remove our officers. As a result, Comverse Technology may cause us to take actions which may not be aligned with our interests or those of our other stockholders. For example, Comverse Technology may prevent or delay any transaction involving a change in control or in which stockholders might receive a premium over the prevailing market price for their shares.

We obtain certain key services from Comverse Technology and its subsidiaries. If such services are terminated, we may be required to incur additional expenses to obtain similar services from other sources.

We receive insurance, legal and certain administrative services from Comverse Technology under a corporate services agreement. Our enterprise resource planning software is maintained and supported by Comverse Technology under an enterprise resource planning software sharing agreement. We also obtain personnel and facility services from Comverse Technology under a satellite services agreement. If these agreements are terminated, we may be required to obtain similar services from other entities or, alternatively, we may be required to hire qualified personnel and incur other expenses to obtain these services. We may not be able to hire such personnel or to obtain comparable services at prices and on terms as favorable as we currently have under these agreements.

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

We have entered into a business opportunities agreement with Comverse Technology that addresses potential conflicts of interest between Comverse Technology and us. This agreement allocates between Comverse Technology and us opportunities to pursue transactions or matters that, absent such allocation, could constitute corporate opportunities of both companies. As a result, we may lose valuable business opportunities. In general, we are precluded from pursuing opportunities offered to officers or employees of Comverse Technology who may also be our directors, officers or employees unless Comverse Technology fails to pursue these opportunities. See "Certain Relationships and Related Party Transactions Relationship with Comverse Technology and its Subsidiaries."

Our directors that also hold positions with Comverse Technology may have conflicts of interest with respect to matters involving both companies.

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

We are potentially liable for taxes not our own for the period in which we were included in Comverse Technology's consolidated group for tax purposes.

Prior to our initial public offering in May 2002, we were included in the Comverse Technology consolidated group for federal income tax purposes and did not file our own federal income tax return. Following our initial public offering, we ceased to be included in the Comverse Technology consolidated group for federal income tax purposes. To the extent Comverse Technology or other members of the group fail to make any federal income tax payments required of them by law in respect of years for which Comverse Technology filed a consolidated federal income tax return which included us, we would be liable for the shortfall. Similar principles apply for state income tax purposes in many states. In addition, by virtue of its controlling ownership and its tax sharing agreement with us, Comverse Technology effectively controls all of our tax decisions for periods ending prior to the completion of

our initial public offering. For periods during which we were included in the Comverse Technology consolidated group for federal income tax purposes, Comverse Technology has sole authority to respond to and conduct all federal income tax proceedings and audits relating to us, to file all federal income tax returns on our behalf and to determine the amount of our liability to, or entitlement to payment from, Comverse Technology under our tax sharing agreement. Despite this agreement, federal law provides that each member of a consolidated group is liable for the group's entire tax obligation and we could, under certain circumstances, be liable for taxes of other members of the Comverse Technology consolidated group.

For a discussion of our relationship with Comverse Technology, see "Related Party Transactions Relationship with Comverse Technology and its Subsidiaries."

Risks Related to This Offering

Our stock price may be highly volatile and could drop unexpectedly.

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

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

Future sales of our common stock may hurt our market price.

A substantial number of shares of our common stock will be available for resale within a short period of time after the offering. If our stockholders sell substantial amounts of our common stock in the public market following the offering, the market price of our common stock could fall. These sales also might make it more difficult for us to sell equity securities in the future at times and prices that we deem appropriate.

We, all of our officers and directors, Comverse Technology and the selling stockholders have agreed not to offer, sell or otherwise dispose of any shares of capital stock or any securities which may be converted into or exchanged for any shares of our capital stock for a period of 90 days from the date of this prospectus. However, the underwriters may waive this restriction and allow us or them to sell shares at any time. Shares of common stock subject to these lock-up agreements will become eligible for sale in the public market upon expiration of these lock-up agreements, subject to limitations imposed by Rule 144 under the Securities Act of 1933.

We have entered into a registration rights agreement with Comverse Technology. For a discussion of the registration rights agreement, see "Certain Relationships and Related Party Transactions

Relationship with Comverse Technology and its Subsidiaries." If Comverse Technology exercises its registration rights under this agreement to sell substantial amounts of our common stock in the public market, the market price of our common stock could fall.

Our management may spend or invest a substantial portion of the net proceeds of this offering in ways with which you might not agree.

We have broad discretion to determine the allocation of our net proceeds from this offering. You will not have an opportunity to evaluate the economic, financial or other information upon which we base our decisions on how to use these proceeds and, subject to certain exceptions, our management will be able to use and allocate the net proceeds without first obtaining stockholder approval.

Geopolitical, economic and military conditions, including terrorist attacks and other acts of war, may materially and adversely affect the markets on which our common stock trades, the markets in which we operate, our operations and our profitability.

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

Provisions of our certificate of incorporation and Delaware law may make it more difficult for you to receive a change in control premium.

Our board of directors' ability to designate and issue up to 2,500,000 shares of preferred stock and issue up to 86,922,239 additional shares of common stock could materially and adversely affect the voting power of the holders of common stock, and could have the effect of making it more difficult for a person to acquire, or could discourage a person from seeking to acquire, control of our company. If this occurred you could lose the opportunity to receive a premium on the sale of your shares in a change of control transaction.

In addition, the Delaware General Corporation Law contains provisions that would have the effect of restricting, delaying and/or preventing altogether certain business combinations with an interested stockholder. Interested stockholders include, among others, any person who, together with affiliates and associates, becomes the owner, or within three years became the owner, of 15% or more of a corporation's voting stock. These provisions could also limit your ability to receive a premium in a change of control transaction.

FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this prospectus, including in the sections entitled "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," that are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities and the effects of competition and regulation. Forward-looking statements include all statements that are not historical facts. You can identify these statements by the use of forward-looking terminology, such as the words "believes," "expects," "anticipates," "intends," "plans," "estimates," "may" or "might" or other similar expressions.

Forward-looking statements involve significant risks, uncertainties and assumptions. Although we believe that the expectations reflected in the forward-looking statements are reasonable, actual results may differ materially from those expressed in these forward-looking statements. You should not put undue reliance on any forward-looking statements. We do not have any intention or obligation to update forward-looking statements after we distribute this prospectus, even if new information becomes available or other events occur in the future. You should understand that many important factors, in addition to those discussed in the section entitled "Risk Factors" and elsewhere in this prospectus, could cause our results to differ materially from those expressed or suggested in forward-looking statements.

USE OF PROCEEDS

We expect to receive net proceeds of approximately $105.7 million from this offering after deducting the underwriting discount and estimated offering expenses. If the underwriters' over-allotment option is exercised in full, our estimated net proceeds will be approximately $122.1 million. We will not receive any of the net proceeds from the sale of shares by the selling stockholders.

We intend to use the net proceeds to finance the growth of our business and for general corporate purposes. We may also use a portion of the proceeds for acquisitions or other investments. However, we have no present understanding or agreement relating to any specific acquisition or investment.

We have not yet determined the amount of net proceeds to be used specifically for each of the foregoing purposes. Accordingly, our management will have significant flexibility in applying the net proceeds of the offering. Pending their use as described above, we may invest the net proceeds of this offering in interest-bearing investment-grade instruments or bank deposits.

DIVIDEND POLICY

We do not expect to pay any cash dividends for the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and for the expansion of our business.

Any future determination to pay cash dividends will be at the discretion of our board of directors and will depend upon our financial condition, operating results, capital requirements and such other factors as our board of directors deems relevant.

MARKET PRICE FOR OUR COMMON STOCK

Our common stock has traded on the Nasdaq National Market System under the symbol "VRNT" since May 16, 2002. The following table sets forth the per share range of the high and low closing sales prices of our common stock as reported on Nasdaq for the periods indicated:

Fiscal Year	Fiscal Quarter	Low	High
2002	May 16, 2002 - July 31, 2002	$ 6.13	$ 14.49
	August 1, 2002 - October 31, 2002	$ 6.60	$ 11.38
	November 1, 2002 - January 31, 2003	$ 10.60	$ 23.20
2003	February 1, 2003 - April 30, 2003	$ 14.39	$ 20.95
	May 1, 2003 - June 12, 2003	$ 18.75	$ 26.31

On June 12, 2003, the last reported sale price for our common stock on the Nasdaq National Market was $23.80 per share.

CAPITALIZATION

The following table sets forth, as of January 31, 2003, our capitalization:

on an actual basis; and

on an as adjusted basis to give effect to the sale of the 4,850,269 shares offered by us in this offering, after deducting the underwriting discounts and commissions and estimated offering expenses and our anticipated application of the net proceeds of the offering.

Please read this table together with the sections of this prospectus entitled "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included in this prospectus.

	As of January 31, 2003	
	Actual	As Adjusted
	(in thousands)	
Cash and cash equivalents[(1)]	$ 133,933	$ 239,640
Long-term bank loans, including current maturities[(1)]	$ 43,877	$ 43,877
Convertible note	$ 2,200	$ 2,200
Stockholders' equity:		
Preferred stock, $0.001, 2,500,000 shares authorized; no shares issued and outstanding	$	$
Common stock, $0.001, 120,000,000 shares authorized; 23,665,717 shares issued and outstanding on an actual basis; and 28,515,986 shares on an as adjusted basis	24	29
Additional paid-in capital	130,748	236,450
Accumulated deficit	(34,855)	(34,855)
Cumulative translation adjustment	249	249
Total stockholders' equity	96,166	201,873
Total capitalization	$ 142,243	$ 247,950

(1) On February 28, 2003, we repaid a $42 million bank loan that was guaranteed by Comverse Technology.

The table excludes:

2,853,671 shares of common stock issuable upon exercise of stock options outstanding as of January 31, 2003 under our stock option plan, with a weighted average exercise price of $8.75 per share;

1,598,990 shares of common stock available for future issuance under our stock option plan;

1,000,000 shares of common stock available for future issuance under our employee stock purchase plan;

136,985 shares of common stock issuable upon the conversion of an outstanding convertible note; and

149,731 shares issued to the selling stockholders on May 21, 2003 in connection with the SmartSight acquisition.

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SELECTED CONSOLIDATED FINANCIAL DATA

We derived the selected consolidated financial data presented below from our consolidated financial statements and related notes included in this prospectus. You should read the selected consolidated financial data together with our consolidated financial statements and related notes and the section of this prospectus entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Statement of operations data for the years ended January 31, 2001, 2002 and 2003, and the balance sheet data at January 31, 2002 and 2003 have been derived from our audited consolidated financial statements which are included elsewhere in this prospectus. Statement of operations data for the year ended January 31, 2000 and balance sheet data at January 31, 2000 and 2001 have been derived from our audited financial statements not included herein. Statement of operations data for the year ended January 31, 1999, and the balance sheet data at January 31, 1999, have been derived from our unaudited consolidated financial statements not included herein.

	Year Ended January 31,				
	1999	2000	2001	2002	2003
	(in thousands, except per share data)				
Statement of Operations Data:					
Sales	$ 89,282	$ 120,612	$ 141,677	$ 131,235	$ 157,775
Cost of sales	51,572	63,939	81,793	69,907	78,053
Gross profit[1]	37,710	56,673	59,884	61,328	79,722
Research and development, net	16,412	21,307	14,249	15,184	17,357
Selling, general and administrative	31,924	44,914	48,162	45,923	52,314
Acquisition expenses			3,510		
Workforce reduction, restructuring and impairment charges			1,528	2,754	
Income (loss) from operations	(10,626)	(9,548)	(7,565)	(2,533)	10,051
Interest and other income (expense), net	(753)	(641)	(497)	(564)	2,266
Income (loss) before income taxes	(11,379)	(10,189)	(8,062)	(3,097)	12,317
Income tax provision	280	355	497	1,552	2,170
Net income (loss)	$ (11,659)	$ (10,544)	$ (8,559)	$ (4,649)	$ 10,147
Net income (loss) per share basic	$ (0.63)	$ (0.57)	$ (0.46)	$ (0.25)	$ 0.46
Net income (loss) per share diluted	$ (0.63)	$ (0.57)	$ (0.46)	$ (0.25)	$ 0.43
Weighted average shares:					
Basic	18,618	18,619	18,704	18,767	22,165
Diluted	18,618	18,619	18,704	18,767	23,542

(1) Gross profit for all periods is calculated as sales minus cost of sales, which includes royalties and license fees, an expense which historically had been included as a separate line item in the statement of operations.

Royalties and license fees included in cost of sales were as follows:

Royalties and license fees	$ 1,548	$ 2,041	$ 2,731	$ 2,851	$ 3,217

	As of January 31,				
	1999	2000	2001	2002	2003
Balance Sheet Data:					
Cash and cash equivalents[(1)]	$ 32,456	$ 35,933	$ 43,330	$ 49,860	$ 133,933
Working capital	22,189	10,804	3,512	41,160	69,323
Total assets	88,942	103,410	117,554	116,726	207,050
Long-term bank loans, including current maturities[(1)]	1,161	1,323	2,806	43,623	43,877
Stockholders' equity	40,075	30,896	22,525	18,735	96,166

(1) On February 28, 2003, we repaid a $42 million bank loan that was guaranteed by Comverse Technology.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

We are a leading provider of analytic software-based solutions for communications interception, digital video security and surveillance, and enterprise business intelligence. Our software generates actionable intelligence through the collection, retention and analysis of voice, fax, video, email, Internet and data transmissions from multiple types of networks.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

We generally recognize revenue at the time of shipment for sales of systems that do not require significant customization and when collection of the resulting receivable is deemed probable. Our systems generally consist of a bundled hardware and software solution that is shipped together. Customers may also purchase separate maintenance contracts, which generally consist of bug-fixing, telephone access to our technical personnel and replacement of hardware components, but in certain circumstances may also include the right to receive unspecified product updates, upgrades and enhancements. We recognize revenue from these maintenance contracts ratably over the contract period. We recognize revenue from certain long-term contracts under the percentage-of-completion method on the basis of physical completion or using actual costs incurred relative to total expected costs under the contract. Revisions in estimates of costs and profits are reflected in the accounting period in which the facts that require such revision become known. At the time a loss on a contract is known, the entire amount of the estimated loss is accrued. Amounts received from customers in excess of revenues earned are recorded as advance payments from customers. Accounts receivable are generally diversified due to the number of commercial and government entities comprising our customer base and their dispersion across many geographical regions. At the end of each accounting period, we record a reserve for estimated bad debts included in accounts receivable based upon our current and historical collection history.

Our cost of sales includes costs of materials, subcontractor costs, royalties and license fees, salary and related benefits for the operations and service departments, depreciation and amortization of equipment used in the operations and service departments, amortization of capitalized software costs, travel costs, and an overhead allocation. Research and development costs include salary and related benefits, travel, depreciation and amortization of research and development equipment, an overhead allocation, and other costs associated with research and development activities, and is stated net of amounts reimbursed by the Israeli government. Selling, general and administrative costs include salary and related benefits, travel, depreciation and amortization, sales commissions, marketing and promotional materials, recruiting expenses, professional fees, facility costs, and other costs associated with our sales, marketing, finance and administrative departments.

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

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

In July 2000, our parent, Comverse Technology, acquired all of the outstanding stock of Loronix, Inc., or Loronix, a company that develops software-based digital video recording and management systems and Syborg Informationsysteme bescrakt haftende OHG, or Syborg, a company that develops software-based digital voice and Internet recording systems. These business combinations were accounted for as poolings of interests. In February 2001, we issued 6,759,277 shares of our common stock to Comverse Technology in exchange for Comverse Technology's ownership interest in Loronix and Syborg. These shares are reflected in our consolidated financial statements as if they were outstanding as of the earliest period presented, which is consistent with the pooling of interests method of accounting.

For a discussion of our relationship and transactions with Comverse Technology and its subsidiaries, see "Certain Relationships and Related Party Transactions Relationship with Comverse Technology and its Subsidiaries," and note 13 to our consolidated financial statements.

Results of Operations

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

	Year Ended January 31,		
	2001	**2002**	**2003**
Sales	100.0%	100.0%	100.0%
Cost of sales	57.7	53.3	49.5
Gross profit(1)	42.3	46.7	50.5
Research and development, net	10.1	11.6	11.0
Selling, general and administrative	34.0	35.0	33.2
Acquisition expenses	2.5		
Workforce reduction, restructuring and impairment charges	1.1	2.1	
Income (loss) from operations	(5.3)	(1.9)	6.4
Interest and other income (expense), net	(0.4)	(0.4)	1.4
Income (loss) before income taxes	(5.7)	(2.4)	7.8

	Year Ended January 31,		
Income tax provision	0.4	1.2	1.4
Net income (loss)	(6.0)%	(3.5)%	6.4%

(1) Gross profit for all periods is calculated as sales minus cost of sales, which includes royalties and license fees, an expense which historically had been included as a separate line item in the statement of operations.

Year Ended January 31, 2003 Compared to Year Ended January 31, 2002

Sales. Sales for the year ended January 31, 2003, or fiscal 2002, increased by approximately $26.5 million, or 20%, compared to the year ended January 31, 2002, or fiscal 2001. This increase reflected an increase in both sales of products of $20.4 million and service revenue of $6.1 million. This increase was principally due to an increase in sales volume in the United States of approximately

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$22.7 million as a result of increased sales of our digital security and surveillance solutions. We sell our products in multiple configurations and the price of any particular product varies depending on the configuration of the product sold. Due to the variety of customized configurations for each product that we sell, we are unable to quantify the effects of a change in the price of any particular product and/or a change in the number of products sold on our revenues. Sales to international customers represented 51% of sales for fiscal 2002 as compared to 58% of sales for fiscal 2001.

Cost of Sales. Cost of sales for fiscal 2002 increased by approximately $8.1 million, or 12%, compared to fiscal 2001. This increase was attributable to an increase in materials and overhead costs of $6.1 million, an increase in personnel related costs of $1.3 million and an increase in other production and service costs of $0.7 million. Gross margin increased to 50.5% in fiscal 2002 from 46.7% in fiscal 2001.

Research and Development Expenses, net. Research and development expenses, net, for fiscal 2002 increased by approximately $2.2 million, or 14%, compared to fiscal 2001. The net increase was attributable to an increase in work done by subcontractors amounting to $1.0 million, a decrease in government reimbursement of $0.6 million, an increase in travel related expenses of $0.5 million and an increase of $0.1 million in other expenses.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for fiscal 2002 increased by approximately $6.4 million, or 14%, compared to fiscal 2001. This increase was attributable to an increase in compensation and benefits for existing personnel and an increase in headcount to support the increased level of sales in fiscal 2002 totaling $3.4 million, an increase in agent commissions of $1.2 million, an increase in travel expenses of $1.2 million and an increase in other expenses of $0.6 million. Selling, general and administrative expenses as a percentage of sales decreased to 33.2% for fiscal 2002 from 35.0% for fiscal 2001.

Interest and Other Income (Expense), net. Net interest and other income (expense) for fiscal 2002 increased by approximately $2.8 million as compared to fiscal 2001. The increase was attributable to an increase in currency exchange gains of $3.2 million resulting mainly from fluctuations in the exchange rate of the US dollar against European and Israeli currencies, an increase in interest income of $0.2 million due to the increase in interest bearing cash balances following our initial public offering and a decrease in interest expense of $0.4 million due to a decrease in interest rates. These changes were partially offset by a decrease in our share in the profit of an affiliate of $0.4 million and a write down of an investment of $0.6 million.

Income Tax Provision. During fiscal 2002, the income tax provision increased by approximately $0.6 million compared to fiscal 2001. This increase was attributable to an increase in pre-tax income after giving effect to available net operating loss carry-forwards. The effective tax rate for fiscal 2002 was 18%, reflecting the use of net operating loss carry-forwards in certain tax jurisdictions and preferential tax rates in Israel.

Net Income (Loss). Net income increased by approximately $14.8 million for fiscal 2002 compared to fiscal 2001. Net income (loss) as a percentage of sales improved to 6.4% for fiscal 2002 compared to a loss of 3.5% in fiscal 2001. This increase was attributable to the factors described above.

Year Ended January 31, 2002 Compared to Year Ended January 31, 2001

Sales. Sales for fiscal 2001 decreased by approximately $10.4 million, or 7%, compared to the year ended January 31, 2001, or fiscal 2000. This decrease was attributable to a decrease in sales of products of approximately $14.5 million offset by an increase in service revenues which increased by approximately $4.0 million. Such decrease was principally due to a decrease in sales volume as a result of a general slowdown in information technology spending. To a lesser extent, we were able to

negotiate lower material prices from our vendors and passed these cost savings on to our customers. We sell our products in multiple configurations and the price of any particular product varies depending on the configuration of the product sold. Due to the variety of customized configurations for each product that we sell, we are unable to quantify the effects of a change in the price of any particular product and/or a change in the number of products sold on our revenues. Sales to international customers represented 58% of sales for fiscal 2001 as compared to 51% for fiscal 2000.

Cost of Sales. Cost of sales for fiscal 2001 decreased by approximately $11.9 million, or 15%, as compared to fiscal 2000. This decrease was attributable to a decrease in material costs of $8.5 million due to the decrease in product sales. This decrease was offset by an increase in subcontractor costs of $1.2 million and an increase in other expenses of $1.3 million. Additionally, during fiscal 2000, we incurred costs of $3.7 million relating to the write-off and abandonment of inventories that were considered obsolete and duplicative and $2.2 million relating to the write-off of certain capitalized software that became obsolete due to the existence of duplicative technology as a result of the Loronix and Syborg mergers. Gross margin increased to approximately 46.7% in fiscal 2001 from approximately 42.3% in fiscal 2000.

Research and Development Expenses, net. Research and development expenses, net, for fiscal 2001 increased by approximately $0.9 million, or 7%, compared to fiscal 2000. This net increase was attributable to a decrease in government reimbursements of $1.7 million offset by a decrease in research and development expenses of $0.8 million.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for fiscal 2001 decreased by approximately $2.2 million, or 5%, compared to fiscal 2000. This decrease was attributable to lower agent commissions of $1.1 million and bad debt expense of $2.7 million offset by increases in other expenses of $1.6 million. Selling, general and administrative expenses as a percentage of sales increased to 35% for fiscal 2001 from 34% for fiscal 2000.

Acquisition Expenses. In connection with the acquisitions of Loronix and Syborg in fiscal 2000, we charged $3.5 million of acquisition related expenses to operations. These expenses are primarily related to professional fees to lawyers, investment bankers and accountants, as well as other direct costs in connection with the acquisitions, such as printing costs and filing fees.

Workforce Reduction, Restructuring and Impairment Charges. In connection with the acquisitions of Loronix and Syborg in fiscal 2000, we charged $1.5 million of restructuring and impairment related charges to operations for the write-off of certain demonstration, laboratory and production equipment that was abandoned as a result of the acquisitions.

During fiscal 2001, we recorded a charge to operations of $2.8 million for workforce reduction costs and for costs to consolidate our offices in the United Kingdom. These charges were necessary as a result of the difficult economic and capital spending environment and were designed to improve our cost structure by reducing our workforce in the United States, Israel, and Germany by approximately 65, 45, and 35 employees, respectively. The workforce reduction and consolidation of our United Kingdom offices provided cost savings of approximately $4.0 million in fiscal 2001.

Interest and Other Income (Expense), net. Net interest and other expense for fiscal 2001 increased by approximately $0.1 million as compared to fiscal 2000. This increase was attributable to decreased interest income of $0.6 million and increased net foreign currency losses of $0.2 million, offset by decreased interest expense of $0.7 million. The decrease in interest income and expense is due to the decrease in interest rates that occurred during fiscal 2001.

Income Tax Provision. During fiscal 2001, the income tax provision increased by approximately $1.1 million compared to fiscal 2000. This increase was attributable to an increase in pre-tax income in certain foreign tax jurisdictions after giving effect to available net operating loss carryforwards.

Net Loss. Net loss decreased by approximately $3.9 million, or 46%, for fiscal 2001 compared to fiscal 2000, and as a percentage of sales it decreased to approximately 3.5% for fiscal 2001 from approximately 6.0% for fiscal 2000. This decrease was attributable to the factors described above.

Geographic Information

Summarized financial information for our reportable geographic segments is presented in the following table. Sales in each geographic segment represent sales originating from that segment.

	United States	Israel	United Kingdom	Other	Reconciling Items	Consolidated Totals
			(in thousands)			
Year Ended January 31, 2001						
Sales	$ 77,777	$ 53,246	$ 20,503	$ 9,662	$ (19,511)	$ 141,677
Costs and expenses	(84,679)	(54,045)	(20,994)	(9,115)	19,591	(149,242)
Operating income (loss)	$ (6,902)	$ (799)	$ (491)	$ 547	$ 80	$ (7,565)
Year Ended January 31, 2002						
Sales	$ 65,731	$ 62,712	$ 18,848	$ 6,023	$ (22,079)	$ 131,235
Costs and expenses	(70,290)	(58,813)	(19,349)	(7,882)	22,566	(133,768)
Operating income (loss)	$ (4,559)	$ 3,899	$ (501)	$ (1,859)	$ 487	$ (2,533)
Year Ended January 31, 2003						
Sales	$ 85,817	$ 62,622	$ 22,897	$ 11,616	$ (25,177)	$ 157,775
Costs and expenses	(80,847)	(57,477)	(21,624)	(12,881)	25,105	(147,724)
Operating income (loss)	$ 4,970	$ 5,145	$ 1,273	$ (1,265)	$ (72)	$ 10,051

Year Ended January 31, 2003 Compared to Year Ended January 31, 2002

Sales for fiscal 2002 increased in all geographic segments, except Israel, as compared to fiscal 2001 due to an overall increase in sales volume of products and services. Sales originating from the United States and the United Kingdom increased by $20.1 million, or 31%, and by $4.0 million, or 21%, respectively, in fiscal 2002 as compared with fiscal 2001. Costs and expenses in the United States and the United Kingdom increased by $10.6 million, or 15%, and by $2.3 million, or 12%, respectively. The higher increase in sales accompanied by a lower increase in cost and expenses created an operating profit for fiscal 2002, as compared with an operating loss in fiscal 2001, in those geographic segments.

Year Ended January 31, 2002 Compared to Year Ended January 31, 2001

Sales for fiscal 2001 decreased in all geographic segments, except Israel, as compared to fiscal 2000 due to decreased product sales volumes. Sales originating from Israel increased by approximately $9.5 million due to an increase in product sales to international markets excluding the United States and the United Kingdom. Operating costs and expenses in Israel increased by $4.8 million due to the increase in cost of sales and other expenses supporting the increased sales. Operating costs and expenses in the United States decreased approximately $14.4 million due to the one-time acquisition, workforce reduction, restructuring and impairment charges and inventory write-off and abandonment of approximately $6.0 million incurred during fiscal 2000 and due to a decrease in operating expenses which resulted from the decrease in sales. Operating costs and expenses in the United Kingdom decreased by $1.6 million due to the decrease in sales.

Selected Quarterly Results of Operations

The following tables set forth consolidated statement of operations data for each of the eight consecutive fiscal quarters ended January 31, 2003. This information has been derived from our unaudited consolidated financial statements. The unaudited consolidated financial statements have been prepared substantially on the same basis as the audited consolidated financial statements appearing elsewhere in this prospectus and include all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of such information. You should read this information in conjunction with our consolidated financial statements and the related notes that appear elsewhere in this prospectus. The operating results for any quarter are not necessarily indicative of the operating results of any future period.

	Three Months Ended							
	Apr. 30, 2001	**July 31, 2001**	**Oct. 31, 2001**	**Jan. 31, 2002**	**Apr. 30, 2002**	**July 31, 2002**	**Oct. 31, 2002**	**Jan. 31, 2003**
	(in thousands)							
Sales	$ 34,558	$ 32,017	$ 31,039	$ 33,621	$ 36,317	$ 38,470	$ 40,671	$ 42,317
Cost of sales	18,559	17,032	16,790	17,526	18,564	19,388	19,749	20,352
Gross profit[1]	15,999	14,985	14,249	16,095	17,753	19,082	20,922	21,965
Research and development, net	4,007	3,786	3,617	3,774	3,892	4,238	4,464	4,763
Selling, general and administrative	12,032	11,135	11,543	11,213	11,786	12,612	13,741	14,175
Workforce reduction, restructuring and impairment charges		1,164		1,590				
Income (loss) from operations	(40)	(1,100)	(911)	(482)	2,075	2,232	2,717	3,027
Interest and other income (expense), net	(292)	(188)	128	(212)	113	560	637	956
Income (loss) before income taxes	(332)	(1,288)	(783)	(694)	2,188	2,792	3,354	3,983
Income tax provision	560	454	240	298	481	570	595	524
Net income (loss)	$ (892)	$ (1,742)	$ (1,023)	$ (992)	$ 1,707	$ 2,222	$ 2,759	$ 3,459

(1) Gross profit for all periods is calculated as sales minus cost of sales, which includes royalties and license fees, an expense which historically had been included as a separate line item in the statement of operations.

Royalties and license fees included in cost of sales were as follows:

Royalties and license fees	$ 719	$ 697	$ 670	$ 765	$ 765	$ 806	$ 793	$ 853