

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE
ACT OF 1934

For the quarterly period ended October 31, 2005

or

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

Commission File Number: 000-49790

Verint Systems Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

330 South Service Road, Melville, NY
(Address of principal executive offices)

11747
(Zip Code)

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

Not Applicable
Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares of Common Stock, par value \$0.001 per share, outstanding as of December 8, 2005 was 32,186,637.

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FORWARD-LOOKING STATEMENTS

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

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

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

Forward-looking statements made by the Company are intended to apply only at the time they are made, unless explicitly stated to the contrary. Moreover, whether or not stated in connection with a forward-looking statement, the Company makes no commitment to revise or update any forward-looking statements in order to reflect events or circumstances after the date any such statement is made. If the Company were in any particular instance to update or correct a forward-looking statement, investors and others should not conclude that the Company would make additional updates or corrections thereafter.

PART I

ITEM 1. FINANCIAL STATEMENTS.

VERINT SYSTEMS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

	JANUARY 31, 2005*	OCTOBER 31, 2005 (Unaudited)
ASSETS		
- - - - -		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 45,100	\$ 58,035
Bank time deposits	-	2,320
Short-term investments	195,314	206,210
Accounts receivable, net	39,072	48,896
Inventories	17,267	20,886
Prepaid expenses and other current assets	9,880	10,427
	-----	-----
TOTAL CURRENT ASSETS	306,633	346,774
PROPERTY AND EQUIPMENT, net	17,540	19,833
INTANGIBLE ASSETS, net	12,026	10,315
GOODWILL	49,625	59,262
OTHER ASSETS	13,154	14,957
	-----	-----
TOTAL ASSETS	\$ 398,978	\$ 451,141
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
- - - - -		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 68,399	\$ 91,507
Advance payments from customers	41,853	39,787
	-----	-----
TOTAL CURRENT LIABILITIES	110,252	131,294
LONG-TERM LIABILITIES	5,351	4,705
	-----	-----
TOTAL LIABILITIES	115,603	135,999
	-----	-----
STOCKHOLDERS' EQUITY:		
Common stock, \$0.001 par value - authorized, 120,000,000 shares; issued and outstanding 31,577,587 and 32,181,356 shares	32	32
Additional paid-in capital	282,364	293,024
Unearned stock compensation	(3,395)	(2,656)
Retained earnings	2,155	23,133
Accumulated other comprehensive income	2,219	1,609
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	283,375	315,142
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 398,978	\$ 451,141
	=====	=====

*The Condensed Consolidated Balance Sheet as of January 31, 2005 has been summarized from the Company's audited Consolidated Balance Sheet as of that date.

The accompanying notes are an integral part of these financial statements.

VERINT SYSTEMS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	NINE MONTHS ENDED		THREE MONTHS ENDED	
	OCTOBER 31,		OCTOBER 31,	
	2004	2005	2004	2005
	----	----	----	----
Sales	\$ 180,794	\$ 224,986	\$ 63,989	\$ 78,238
Cost of sales	82,098	99,860	29,235	34,360
	-----	-----	-----	-----
Gross profit	98,696	125,126	34,754	43,878
Operating expenses:				
Research and development, net	23,089	29,035	8,409	10,039
Selling, general and administrative	59,704	74,217	21,290	26,272
In-process research and development	3,154	-	-	-
Write-down of capitalized software	1,481	-	-	-
	-----	-----	-----	-----
Income from operations	11,268	21,874	5,055	7,567
Interest and other income, net	2,379	5,361	932	1,982
	-----	-----	-----	-----
Income before income tax provision	13,647	27,235	5,987	9,549
Income tax provision	1,282	6,257	807	2,241
	-----	-----	-----	-----
Net income	\$ 12,365	\$ 20,978	\$ 5,180	\$ 7,308
	=====	=====	=====	=====
Earnings per share:				
Basic	\$ 0.40	\$ 0.66	\$ 0.17	\$ 0.23
	=====	=====	=====	=====
Diluted	\$ 0.38	\$ 0.63	\$ 0.16	\$ 0.22
	=====	=====	=====	=====

The accompanying notes are an integral part of these financial statements.

VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(IN THOUSANDS)

	NINE MONTHS ENDED OCTOBER 31,	
	2004	2005
	----	----
Cash flows from operating activities:		
Net income	\$ 12,365	\$ 20,978
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,258	11,845
In process research and development	3,154	-
Other, net	2,531	2,007
Cash flows from investing activities:		
Acquisitions, net of cash acquired	(45,389)	(11,533)
Purchases of property and equipment	(5,135)	(8,073)
Proceeds from sale of property and equipment	-	322
Capitalization of software development costs	(3,163)	(2,988)
Increase in short-term investments and bank time deposits, net	(12,000)	(13,269)
Other	-	(386)
Net cash used in investing activities	(65,687)	(35,927)
Cash flows from financing activities:		
Borrowing/(Repayment) of bank loans	489	(574)
Proceeds from issuance of common stock in connection with exercise of stock options and employee stock purchase plan	11,034	9,023
Net cash provided by financing activities	11,523	8,449
Net increase (decrease) in cash and cash equivalents	(14,921)	12,935
Cash and cash equivalents, beginning of period	77,516	45,100
Cash and cash equivalents, end of period	\$ 62,595	\$ 58,035
	=====	=====

The accompanying notes are an integral part of these financial statements.

VERINT SYSTEMS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

Verint Systems Inc. ("Verint" and, together with its subsidiaries, the "Company") is engaged in providing analytic software-based solutions for communications interception, networked video security and surveillance, and business intelligence. The Company is a majority-owned subsidiary of Comverse Technology, Inc. ("Comverse Technology").

In presenting the accompanying unaudited condensed consolidated financial statements, management makes estimates and assumptions that affect the amounts reported and related disclosures. Estimates, by their nature, are based on judgments and available information. Accordingly, actual results could differ from those estimates. In management's opinion, the condensed consolidated financial statements contain all normal recurring adjustments necessary for a fair presentation of interim results reported in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. Certain reclassifications have been made to prior period amounts to conform to the current period presentation. These financial statements should be read in conjunction with Verint's 2004 Annual Report on Form 10-K filed on April 18, 2005.

2. STOCK-BASED EMPLOYEE COMPENSATION

The Company applies the intrinsic-value based method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Stock-based employee compensation cost is recognized only when employee stock options are granted with exercise prices below the fair market value at the date of grant, and is recognized ratably over the associated service period, which is generally the option vesting period. The Company recognized stock-based employee compensation cost in the condensed consolidated statements of income of approximately \$11,000 and \$33,000, during each of the three month and nine month periods ended October 31, 2004, respectively, and \$0 and \$22,000, during each of the three month and nine month periods ended October 31, 2005, respectively, relating to certain employee stock options granted with exercise prices below the fair market value at the date of grant. As of October 31, 2005, 11,730 employee stock options were outstanding with exercise prices below the fair market value at the date of the grant. All other employee stock options have been granted at exercise prices equal to fair market value on the date of grant, and accordingly, no compensation expense has been recognized by the Company related to these options in the accompanying condensed consolidated statement of income.

The Company estimated the fair value of employee stock options utilizing the Black-Scholes option valuation model, using appropriate assumptions, as required by U.S. GAAP. The Black-Scholes model was developed for use in estimating the fair value of traded options and does not consider the non-traded nature of employee stock options, vesting and trading restrictions, lack of transferability or the ability of employees to forfeit the options prior to expiry. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's employee stock options.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation for all periods:

	NINE MONTHS ENDED OCTOBER 31,		THREE MONTHS ENDED OCTOBER 31,	
	2004	2005	2004	2005
	----- (In thousands, except per share data)		----- (In thousands, except per share data)	
Net income, as reported	\$ 12,365	\$ 20,978	\$ 5,180	\$ 7,308
Less: Stock-based employee compensation cost determined under the fair value method, net of related tax effects	5,613	7,038	1,855	2,417
Pro forma net income	\$ 6,752 =====	\$ 13,940 =====	\$ 3,325 =====	\$ 4,891 =====
Earnings per share:				
Basic - as reported	\$ 0.40 =====	\$ 0.66 =====	\$ 0.17 =====	\$ 0.23 =====
Basic - pro forma	\$ 0.22 =====	\$ 0.44 =====	\$ 0.11 =====	\$ 0.15 =====
Diluted - as reported	\$ 0.38 =====	\$ 0.63 =====	\$ 0.16 =====	\$ 0.22 =====
Diluted - pro forma	\$ 0.21 =====	\$ 0.42 =====	\$ 0.10 =====	\$ 0.15 =====

3. SHORT-TERM INVESTMENTS

The Company classifies all short-term investments as available for sale, accounted for at fair value, with the resulting unrealized gains or losses included in accumulated other comprehensive income.

In connection with the preparation of its Annual Report on Form 10-K for the year ended January 31, 2005, the Company concluded that it was appropriate to classify investments in Auction Rate Securities ("ARS") as short-term investments. ARS generally have long-term stated maturities; however, these investments have characteristics similar to short-term investments because at pre-determined intervals, generally every 7 to 90 days, there is a new auction process at which these securities are reset to current interest rates. Previously, such investments had been classified as cash and cash equivalents due to their liquidity and pricing reset feature. As of October 31, 2005, the Company held approximately \$183,925,000 of investments in ARS that are classified as short-term investments. Accordingly, the Company has revised the classification to report these securities as short-term investments in its Condensed Consolidated Balance Sheet for all periods prior to January 31, 2005, and has reclassified approximately \$145,053,000 of investments in ARS as of October 31, 2004, that were previously included in cash and cash equivalents as short-term investments.

The Company has also revised the presentation of the Condensed Consolidated Statements of Cash Flows for the nine months ended October 31, 2004 to reflect the changes in ARS as investing activities rather than as a component of cash and cash equivalents, which is consistent with the presentation for the year ended January 31, 2005. In the previously reported Condensed Consolidated Statements of Cash Flows for the nine months ended October 31, 2004, net cash provided by investing activities related to these short-term investments of approximately \$21,853,000 were included in cash and cash equivalents.

This change in classification does not affect previously reported cash flows from operations or from financing activities in the Consolidated Statements of Cash Flows or previously reported Consolidated Statements of Income for any period.

4. INVENTORIES

The composition of inventories at January 31, 2005 and October 31, 2005 is as follows:

	JANUARY 31, 2005	OCTOBER 31, 2005
	-----	-----
	(In thousands)	
Raw materials	\$ 6,067	\$ 9,236
Work in process	4,179	4,791
Finished goods	7,021	6,859
	-----	-----
	\$ 17,267	\$ 20,886
	=====	=====

5. RESEARCH AND DEVELOPMENT EXPENSES

A significant portion of the Company's research and development operations are located in Israel, where the Company derives substantial benefits from participation in programs sponsored by the Government of Israel for the support of research and development activities conducted in that country. The Company's research and development activities include projects partially funded by the Office of the Chief Scientist of the Ministry of Industry and Trade of the State of Israel (the "OCS") under which the OCS reimburses a portion of the Company's research and development expenditures under approved project budgets. The Company is currently involved in several ongoing research and development projects supported by the OCS. The Company accrues royalties to the OCS for the sale of products incorporating technology developed in these projects up to the amount of such funding, plus interest in certain circumstances. The terms of the applicable funding agreements limit the Company's ability to manufacture products, or transfer technologies, outside of Israel if such products or technologies were developed under these funding agreements. Reimbursement from the OCS amounted to approximately \$775,000 and \$2,379,000 in the three month and nine month periods ended October 31, 2004, respectively, and approximately \$1,285,000 and \$3,020,000 in the three month and nine month periods ended October 31, 2005, respectively. As of October 31, 2005, the Company has received approximately \$59.7 million in cumulative grants and has recorded approximately \$30.6 million in cumulative royalties to the OCS. The Company recorded other reimbursements of research and development expenses amounting to approximately \$146,000 and \$788,000 for the three month and nine month periods ended October 31, 2004 respectively, and \$280,000 and \$810,000 for the three month and nine month periods ended October 31, 2005, respectively.

6. EARNINGS PER SHARE

The computation of basic earnings per share is based on the weighted average number of outstanding common shares. Diluted earnings per share further assumes the issuance of common shares for all potentially dilutive issuances of stock. The calculation for earnings per share for the three month and nine month periods ended October 31, 2004 and 2005, respectively, was as follows:

	THREE MONTHS ENDED					
	OCTOBER 31, 2004			OCTOBER 31, 2005		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(In thousands, except per share data)					
BASIC EPS						
Net Income	\$ 5,180	31,036	\$ 0.17	\$ 7,308	31,866	\$ 0.23
EFFECT OF DILUTIVE SECURITIES						
Stock Options		1,657			1,329	
Restricted shares		73			138	
DILUTED EPS	\$ 5,180	32,766	\$ 0.16	\$ 7,308	33,333	\$ 0.22

	NINE MONTHS ENDED					
	OCTOBER 31, 2004			OCTOBER 31, 2005		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(In thousands, except per share data)					
BASIC EPS						
Net Income	\$ 12,365	30,725	\$ 0.40	\$ 20,978	31,658	\$ 0.66
EFFECT OF DILUTIVE SECURITIES						
Stock Options		1,683			1,345	
Restricted shares		73			138	
DILUTED EPS	\$ 12,365	32,481	\$ 0.38	\$ 20,978	33,141	\$ 0.63

7. COMPREHENSIVE INCOME

Total comprehensive income was approximately \$7,372,000 and \$7,580,000 for the three months ended October 31, 2004 and 2005, respectively, and approximately \$14,229,000 and \$20,368,000 for the nine month periods ended October 31, 2004 and 2005, respectively. The elements of comprehensive income include net income, unrealized gains and losses on available for sale securities and foreign currency hedges, and foreign currency translation adjustments.

8. RELATED PARTY TRANSACTIONS AND BALANCES

CORPORATE SERVICES AGREEMENT - The Company recorded expenses of approximately \$156,000 for both three month periods ended October 31, 2004 and 2005, and approximately \$469,000 for both nine month periods ended October 31, 2004 and 2005, for the services provided by the Company's parent, Comverse Technology, under the Corporate Services Agreement between the Company and Comverse Technology.

ENTERPRISE RESOURCE PLANNING SOFTWARE SHARING AGREEMENT - The Company recorded approximately \$36,000 and \$46,000 for the three months ended October 31, 2004 and 2005, respectively, and approximately \$130,000 and \$119,000 for the nine months ended October 31, 2004 and 2005, respectively, for support services rendered by Comverse Ltd., a subsidiary of Comverse Technology, under the Enterprise Resource Planning Software Sharing Agreement between the Company and Comverse Ltd.

SATELLITE SERVICES AGREEMENT - The Company recorded expenses of approximately \$866,000 and \$801,000 for the three months ended October 31, 2004 and 2005, respectively, and approximately \$2,341,000 and \$2,359,000 for the nine months ended October 31, 2004 and 2005, respectively, for services rendered by Comverse, Inc., a subsidiary of Comverse Technology, and its subsidiaries, under the Satellite Services Agreement between the Company and Comverse, Inc.

TRANSACTIONS WITH AN AFFILIATE - The Company sold products and services to Verint Systems (Singapore) PTE LTD, an affiliated systems integrator in which the Company holds a 50% equity interest, amounting to approximately \$667,000 and \$1,817,000, during the three months ended October 31, 2004 and 2005, respectively, and approximately \$1,419,000 and \$5,954,000, during the nine months ended October 31, 2004 and 2005, respectively. In addition, the Company was charged with installation, support, marketing and office service fees by that affiliate amounting to approximately \$167,000 and \$615,000 for the three months ended October 31, 2004 and 2005, respectively, and approximately \$501,000 and \$998,000 for the nine months ended October 31, 2004 and 2005, respectively.

TRANSACTIONS WITH OTHER SUBSIDIARIES OF COMVERSE TECHNOLOGY - The Company charges subsidiaries of Comverse Technology for services relating to the use of the Company's facilities and employees. Charges to these subsidiaries were approximately \$18,000 and \$26,000 for the three month periods ended October 31, 2004 and 2005, respectively, and approximately \$60,000 and \$63,000 for the nine month periods ended October 31, 2004 and 2005, respectively.

From time to time the Company sells products and services to other subsidiaries of Comverse Technology in the ordinary course of business. During the three and nine month periods ended October 31, 2004 the Company recorded no sales to subsidiaries of Comverse Technology. Sales to these subsidiaries were approximately \$0 and \$67,000 for the three and nine month periods ended October 31, 2005, respectively.

RELATED PARTY BALANCES - Related party balances included in the condensed consolidated balance sheets are as follows (in thousands):

	JANUARY 31, 2005 ----	OCTOBER 31, 2005 ----
Included in accounts receivable	\$ -	\$ 1,624
Included in advance payments from customers	\$ 767	\$ -
Included in accounts payable and accrued expenses	\$ 1,387	\$ 1,212

9. CONVERTIBLE NOTE

On February 1, 2002, the Company acquired the business of Lanex LLC ("Lanex"). The Lanex business provides digital video recording solutions for security and surveillance applications. The purchase price consisted of \$9,510,000 in cash and a \$2,200,000 convertible note issued by the Company. The note was non-interest bearing and matured on February 1, 2004. Upon maturity, on February 1, 2004, the note was converted into 136,985 shares of the Company's common stock at a conversion price of \$16.06 per share.

10. ACQUISITIONS

On September 1, 2005, the Company, through a newly-formed subsidiary, acquired certain of the assets and liabilities of The Opus Group, LLC ("Opus"), a privately-held provider of performance analytics solutions for contact centers and back office operations. The acquisition extends the Company's ability to help its customers generate actionable intelligence and enhance the effectiveness of their contact center and back office operations. The purchase price consisted of \$12 million in cash at closing and additional earn-out payments over two years based on certain profitability targets. The Company incurred transaction costs, consisting primarily of professional fees, amounting to approximately \$156,000, in connection with this acquisition.

The acquisition was accounted for using the purchase method. The purchase price was allocated to the assets and liabilities of Opus based on the estimated fair value of those assets and liabilities as of September 1, 2005. Identifiable intangible assets consist of sales backlog, trade name, customer relationships and non-competition agreements and have an estimated useful life of up to five years. The results of operations of Opus have been included in the Company's results of operations since September 1, 2005.

The following is a summary of the allocation of the purchase price of the Opus acquisition:

	(IN THOUSANDS)
Purchase price	\$ 12,000
Acquisition costs	156

Total purchase price	\$ 12,156
	=====
Fair value of assets acquired	\$ 1,764
Fair value of liabilities assumed	(1,257)
Sales backlog	965
Customer relationships	435
Trade name	740
Non-competition agreements	65
Goodwill	9,444

Total purchase price	\$ 12,156
	=====

The value allocated to goodwill in Opus will be deducted for income tax purposes.

On September 2, 2004, the Company, through a subsidiary, acquired all of the outstanding stock of RP Sicherheitssysteme GmbH ("RP Security"), a company in the business of developing and selling mobile digital video security solutions for transportation applications. RP Security, headquartered in Flensburg, Germany, was founded in 1999 and has approximately 50 employees. The purchase price consisted of approximately \$9,028,000 in cash and 90,144 shares of the Company's common stock. Shares issued as part of the purchase price were accounted for with value of approximately \$2,977,000, or \$33.03 per share. In addition, the shareholders of RP Security are entitled to receive earn-out payments over the three year period following the closing based on the Company's worldwide sales, profitability and backlog of mobile video products in the transportation market during that period. For the period ending January 31, 2005, the shareholders of RP earned approximately \$455,000. In connection with this acquisition, the Company incurred transaction costs, consisting primarily of professional fees, amounting to approximately \$520,000.

The acquisition was accounted for using the purchase method. The purchase price was allocated to the assets and liabilities of RP Security based on the estimated fair value of those assets and liabilities as of September 2, 2004. Identifiable intangible assets consist of sales backlog, acquired technology, trade name, customer relationships and non-competition agreements and have an estimated useful life of up to five years. The results of operations of RP Security have been included in the Company's results of operations since September 2, 2004.

The following is a summary of the allocation of the purchase price of the RP Security acquisition:

	(IN THOUSANDS)
Purchase price paid in cash	\$ 9,028
Shares issued	2,977
Earn-out payable	455
Acquisition costs	520

Total purchase price	\$ 12,980
	=====
Fair value of assets acquired	\$ 3,339
Fair value of liabilities assumed	(2,536)
Sales backlog	1,673
Acquired technology	194
Customer relationships	494
Non-competition agreements	150
Trade name	47
Goodwill	9,619

Total purchase price	\$ 12,980
	=====

The value allocated to goodwill in RP Security is not deductible for income tax purposes.

As a result of the acquisition of RP Security, the Company wrote down certain inventory and accounts receivable balances that became impaired due to the existence of duplicative technology and, accordingly, were written-down to their net realizable value at the date of acquisition. Such write-down amounted to \$899,000 and is included in cost of sales and selling, general and administrative expenses.

On March 31, 2004, the Company acquired certain assets and assumed certain liabilities of the government surveillance business of ECTel Ltd. ("ECTel"), which provided the Company with additional communications interception capabilities for the mass collection and analysis of voice and data communications. The purchase price was approximately \$35 million in cash. The Company incurred transaction costs, consisting primarily of professional fees, amounting to approximately \$1,107,000, in connection with this acquisition.

The acquisition was accounted for using the purchase method. The purchase price was allocated to the assets and liabilities of ECTel based on the estimated fair value of those assets and liabilities as of March 31, 2004. The results of operations of ECTel have been included in the Company's results of operations since March 31, 2004. Identifiable intangible assets consist of sales backlog, acquired technology, customer relationships, and non-competition agreements and have estimated useful lives of up to ten years. Purchased in-process research and development represents the value assigned to research and development projects of the acquired business that were commenced but not completed at the date of acquisition, for which technological feasibility had not been established and which have no alternative future use in research and development activities or otherwise. In accordance with Statement of Financial Accounting Standards No. 2, "Accounting for Research and Development Costs," as interpreted by FASB Interpretation No. 4, amounts assigned to purchased in-process research and development meeting the above criteria must be charged to expense at the acquisition date. At the acquisition date, it was estimated that the purchased in-process research and development was approximately 40% complete and it was expected that the remaining 60% would be completed during the ensuing year. The fair value of the purchased in-process research and development was determined with the assistance of an independent appraisal specialist using the income approach, which reflects the projected free cash flows that will be generated by the purchased in-process research and development projects and discounting the projected net cash flows back to their present value using a discount rate of 21%.

As a result of the acquisition of the government surveillance business of ECTel, the Company had certain capitalized software development costs that became impaired due to the existence of duplicative technology and, accordingly, were written-down to their net realizable value at the date of acquisition. Such impairment charge amounted to \$1,481,000.

The following is a summary of the allocation of the purchase price of the ECTel acquisition:

	(IN THOUSANDS)
Purchase price	\$ 35,000
Acquisition costs	1,107

Total purchase price	\$ 36,107
	=====
Fair value of assets acquired	\$ 1,417
Fair value of liabilities assumed	(3,282)
In-process research and development	3,154
Sales backlog	854
Acquired technology	5,307
Customer relationships	1,382
Non-competition agreements	2,221
Goodwill	25,054

Total purchase price	\$ 36,107
	=====

The value allocated to goodwill in ECTel will be deducted for income tax purposes.

The summary unaudited pro forma condensed consolidated results of operations for the three months ended October 31, 2004, assuming the acquisitions of RP Security and Opus had occurred at the beginning of the period, would have reflected consolidated revenues of approximately \$66,277,000, net income of approximately \$4,809,000, basic earnings per share of \$0.15 and diluted earnings per share of \$0.15. The summary unaudited pro forma condensed consolidated results of operations for the nine months ended October 31, 2004, assuming the acquisitions of RP Security, ECTel and Opus had occurred at the beginning of the period, would have reflected consolidated revenues of approximately \$189,752,000, net income of approximately \$8,850,000, basic earnings per share of \$0.29 and diluted earnings per share of \$0.27.

The summary unaudited pro forma condensed consolidated results of operations for the three months ended October 31, 2005, assuming the acquisition of Opus had occurred at the beginning of the period, would have reflected consolidated revenues of approximately \$78,921,000, net income of approximately \$7,000,000, basic earnings per share of \$0.22 and diluted earnings per share of \$0.21. The summary unaudited pro forma condensed consolidated results of operations for the nine months ended October 31, 2005, assuming the acquisition of Opus had occurred at the beginning of the period, would have reflected consolidated revenues of approximately \$233,288,000, net income of approximately \$21,880,000, basic earnings per share of \$0.69 and diluted earnings per share of \$0.66.

These pro forma results are not necessarily indicative of what would have occurred if the acquisitions had been in effect for the period presented. In addition, the pro forma results are not necessarily indicative of the results that will occur in the future and do not reflect any potential synergies that might arise from the combined operations.

11. INTANGIBLE ASSETS

The composition of intangible assets at January 31, 2005 and October 31, 2005 is as follows:

	USEFUL LIFE	JANUARY 31, 2005	OCTOBER 31, 2005
	-----	----	----
(In thousands)			
Sales backlog	Up to 3 years	\$ 3,249	\$ 4,088
Acquired technology	3 to 5 years	6,902	6,917
Customer relationships	5 years	2,239	2,647
Non-competition agreements	1.5 to 10 years	3,540	3,632
Trade names	1 to 3 years	255	995
		-----	-----
		16,185	18,279
Less accumulated amortization		4,159	7,964
		-----	-----
		\$ 12,026	\$ 10,315
		=====	=====

Amortization of intangible assets was approximately \$817,000 and \$1,518,000 for the three months ended October 31, 2004 and 2005, respectively, and approximately \$1,858,000 and \$3,791,000 for the nine months ended October 31, 2004 and 2005, respectively.

Estimated amortization expense for each of the five succeeding fiscal years is as follows:

YEAR ENDING JANUARY 31,	(In thousands)
2006	\$ 5,430
2007	\$ 3,191
2008	\$ 2,043
2009	\$ 1,817
2010	\$ 820

12. GOODWILL

Changes in goodwill for the year ended January 31, 2005 ("fiscal 2004"), and for the nine months ended October 31, 2005, are as follows:

	(In thousands)
BALANCE AT JANUARY 31, 2004	\$ 14,364
Acquisition of ECTel	25,054
Acquisition of RP Security	9,164
Foreign exchange translation and other	1,043

BALANCE AT JANUARY 31, 2005	49,625
Earn-out for RP security purchase	455
Acquisition of Opus	9,444
Foreign exchange translation and other	(262)

BALANCE AT OCTOBER 31, 2005	\$ 59,262
	=====

13. BUSINESS SEGMENT INFORMATION

The Company operates in one business segment - providing actionable intelligence solutions. The Company's solutions collect, retain, and analyze voice, fax, video, email, Internet and data transmissions from voice, video and IP networks for the purpose of generating actionable intelligence for decision makers to take more effective action. The Company manages its business on a geographic basis. Summarized financial information for the Company's 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	CANADA	GERMANY	OTHER	RECONCILING ITEMS	CONSOLIDATED TOTALS
THREE MONTHS ENDED OCTOBER 31, 2004:								
(IN THOUSANDS)								
Sales	\$ 35,481	\$ 22,144	\$ 7,807	\$ 4,107	\$ 2,926	\$ 264	\$ (8,740)	\$ 63,989
Costs and expenses	(29,098)	(22,063)	(8,422)	(4,365)	(3,879)	(498)	9,391	(58,934)
Operating income (loss)	<u>\$ 6,383</u>	<u>\$ 81</u>	<u>\$ (615)</u>	<u>\$ (258)</u>	<u>\$ (953)</u>	<u>\$ (234)</u>	<u>\$ 651</u>	<u>\$ 5,055</u>

THREE MONTHS ENDED OCTOBER 31, 2005:								
Sales	\$ 31,811	\$ 33,255	\$ 8,439	\$ 7,332	\$ 6,676	\$ 1,248	\$ (10,523)	\$ 78,238
Costs and expenses	(30,873)	(28,301)	(8,905)	(6,258)	(6,129)	(1,198)	10,993	(70,671)
Operating income (loss)	<u>\$ 938</u>	<u>\$ 4,954</u>	<u>\$ (466)</u>	<u>\$ 1,074</u>	<u>\$ 547</u>	<u>\$ 50</u>	<u>\$ 470</u>	<u>\$ 7,567</u>

	UNITED STATES	ISRAEL	UNITED KINGDOM	CANADA	GERMANY	OTHER	RECONCILING ITEMS	CONSOLIDATED TOTALS
NINE MONTHS ENDED OCTOBER 31, 2004:								
(IN THOUSANDS)								
Sales	\$ 90,975	\$ 68,008	\$ 22,878	\$ 14,361	\$ 7,904	\$ 1,184	\$ (24,516)	\$ 180,794
Costs and expenses	(79,139)	(68,500)	(23,648)	(11,557)	(9,283)	(1,843)	24,444	(169,526)
Operating income (loss)	<u>\$ 11,836</u>	<u>\$ (492)</u>	<u>\$ (770)</u>	<u>\$ 2,804</u>	<u>\$ (1,379)</u>	<u>\$ (659)</u>	<u>\$ (72)</u>	<u>\$ 11,268</u>

NINE MONTHS ENDED OCTOBER 31, 2005:								
Sales	\$ 95,297	\$ 95,554	\$ 24,481	\$ 22,071	\$ 21,158	\$ 3,245	\$ (36,820)	\$ 224,986
Costs and expenses	(88,717)	(83,067)	(24,751)	(19,243)	(20,049)	(3,485)	36,200	(203,112)
Operating income (loss)	<u>\$ 6,580</u>	<u>\$ 12,487</u>	<u>\$ (270)</u>	<u>\$ 2,828</u>	<u>\$ 1,109</u>	<u>\$ (240)</u>	<u>\$ (620)</u>	<u>\$ 21,874</u>

Total assets by country of domicile consist of:

	JANUARY 31, 2005	OCTOBER 31, 2005
(IN THOUSANDS)		
United States	\$ 264,975	\$ 281,534
Israel	117,017	151,944
United Kingdom	12,684	13,949
Canada	19,828	25,482
Germany	27,598	26,810
Other	2,540	1,692
Reconciling items	(45,664)	(50,270)
	<u>\$ 398,978</u>	<u>\$ 451,141</u>

Reconciling items consist of the following:
Sales - elimination of inter-company revenues.
Operating income - elimination of inter-company operating income.
Total assets - elimination of inter-company receivables.

14. EMPLOYEE RESTRICTED STOCK

In December 2003 and 2004, the Company granted 72,700 and 65,000 shares of restricted stock, respectively, to certain key employees of the Company. Unearned stock compensation of approximately \$1,672,000 and \$2,282,000 was recorded for 2003 and 2004, respectively, based on the fair market value of the Company's common stock at the date of grant, or \$23.00 and \$35.11 per share. Unearned stock compensation is shown as a separate component of stockholders' equity and is being amortized to expense over the four-year vesting period of the restricted stock. Amortization of unearned stock compensation was approximately \$105,000 and \$249,000 for the three months ended October 31, 2004 and 2005, respectively, and approximately \$314,000 and \$739,000 for the nine months ended October 31, 2004 and 2005, respectively, and was included in selling, general and administrative expenses in the condensed consolidated statements of income. The restricted stock has all the rights and privileges of the Company's common stock, subject to certain restrictions and forfeiture provisions. At October 31, 2005, all 137,700 shares were subject to restriction.

15. RECENT ACCOUNTING PRONOUNCEMENTS

In April 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," requiring retrospective application as the required method for reporting a change in accounting principle, unless impracticable or a pronouncement includes specific transition provisions. This statement also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. This statement carries forward the guidance in APB Opinion No. 20, "Accounting Changes," for the reporting of the correction of an error and a change in accounting estimate. This statement is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 is not expected to have a material effect on the Company's condensed consolidated financial statements.

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

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

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

In March 2004, the Emerging Issues Task Force ("EITF") of the FASB reached a consensus on EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments", which provides additional guidance for assessing impairment losses on investments. Additionally, EITF 03-1 includes new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB delayed the accounting provisions of EITF 03-1; however the disclosure requirements were effective for annual periods ending after June 15, 2004. The Company will evaluate the impact of EITF 03-1 once final guidance is issued, however the adoption of EITF 03-1 in its current form is not expected to have a material effect on the Company's condensed consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

CRITICAL ACCOUNTING POLICIES

Our discussion of results of operations and financial condition relies on our consolidated financial statements that are prepared based on certain critical accounting policies that require management to make judgments and estimates that are subject to varying degrees of uncertainty. We believe that investors need to be aware of these policies and how they impact our financial statements as a whole, as well as our related discussion and analysis presented herein. While we believe that these accounting policies are based on sound measurement criteria, actual future events can and often do result in outcomes that can be materially different from these estimates or forecasts. The accounting policies and related risks described in our Annual Report on Form 10-K for the year ended January 31, 2005 are those that depend most heavily on these judgments and estimates. As of October 31, 2005, there have been no material changes to any of the critical accounting policies contained therein.

RESULTS OF OPERATIONS

SUMMARY OF RESULTS

Consolidated results of operations in dollars and as a percentage of sales for each of the three month and nine month periods ended October 31, 2004 and 2005 were as follows:

	THREE MONTHS ENDED OCTOBER 31, ----- 2004		THREE MONTHS ENDED OCTOBER 31, ----- 2005	
		% OF SALES		% OF SALES
	-----	-----	-----	-----
Sales	\$ 63,989	100.0%	\$ 78,238	100.0%
Cost of Sales	29,235	45.7%	34,360	43.9%
	-----	-----	-----	-----
Gross profit	34,754	54.3%	43,878	56.1%
Operating expenses:				
Research and development, net	8,409	13.1%	10,039	12.8%
Selling, general and administrative	21,290	33.3%	26,272	33.6%
	-----	-----	-----	-----
Income from operations	5,055	7.9%	7,567	9.7%
Interest and other income, net	932	1.5%	1,982	2.5%
	-----	-----	-----	-----
Income before income tax provision	5,987	9.4%	9,549	12.2%
Income tax provision	807	1.3%	2,241	2.9%
	-----	-----	-----	-----
Net income	\$ 5,180	8.1%	\$ 7,308	9.3%
	=====	=====	=====	=====

	NINE MONTHS ENDED OCTOBER 31, ----- 2004		NINE MONTHS ENDED OCTOBER 31, ----- 2005	
		% OF SALES		% OF SALES
	-----	-----	-----	-----
Sales	\$ 180,794	100.0%	\$ 224,986	100.0%
Cost of Sales	82,098	45.4%	99,860	44.4%
	-----	-----	-----	-----
Gross profit	98,696	54.6%	125,126	55.6%
Operating expenses:				
Research and development, net	23,089	12.8%	29,035	12.9%
Selling, general and administrative	59,704	33.0%	74,217	33.0%
In-process research and development	3,154	1.7%	-	-
Write-down of capitalized software	1,481	0.8%	-	-
	-----	-----	-----	-----
Income from operations	11,268	6.2%	21,874	9.7%
Interest and other income, net	2,379	1.3%	5,361	2.4%
	-----	-----	-----	-----
Income before income tax provision	13,647	7.5%	27,235	12.1%
Income tax provision	1,282	0.7%	6,257	2.8%
	-----	-----	-----	-----
Net income	\$ 12,365	6.8%	\$ 20,978	9.3%
	=====	=====	=====	=====

NINE MONTH AND THREE MONTH PERIODS ENDED OCTOBER 31, 2005
 COMPARED TO NINE MONTH AND THREE MONTH PERIODS ENDED OCTOBER 31, 2004

SALES. Sales for the nine month and three month periods ended October 31, 2005 increased by approximately \$44.2 million, or 24.4%, and \$14.2 million, or 22.3%, respectively, as compared to the nine month and three month periods ended October 31, 2004. This increase reflected an increase in both sales of products of approximately \$31.1 million and \$7.9 million and service revenue of approximately \$13.1 million and \$6.3 million, in the nine month and three month periods ended October 31, 2005 as compared to the nine month and three month periods ended October 31, 2004, respectively, and was attributable to higher sales volume of both the Company's security and business intelligence solutions. For the nine month and three month periods ended October 31, 2005, the Company generated approximately 47% and 48%, respectively, of its sales from the Americas region, 35% for both periods from the Europe, Middle East and Africa region ("EMEA"), and 18% and 17%, respectively, from the Asia Pacific region ("APAC").

The Company sells its products in multiple configurations and the price of any particular product varies depending on the configuration of the product sold. Due to the variety of customized configurations for each product that the Company sells, it is unable to quantify the effects of a change in the price of any particular product and/or a change in the number of products sold on its revenues. Sales to international customers as a percentage of total sales represented approximately 58% and 59%, respectively, for the nine month and three month periods ended October 31, 2005, as compared to approximately 51% and 48%, respectively, for the nine month and three month periods ended October 31, 2004.

COST OF SALES. Cost of sales consists primarily of material and overhead costs, operation and service personnel costs, amortization of capitalized software and purchased intangible assets, and royalties. Cost of sales for the nine month and three month periods ended October 31, 2005 increased by approximately \$17.8 million, or 21.6%, and \$5.1 million, or 17.5%, respectively, as compared to the nine month and three month periods ended October 31, 2004. This increase was attributable to an increase in material and overhead costs of approximately \$9.7 million and \$1.4 million, respectively, due to higher sales volumes, an increase in personnel related costs of approximately \$1.7 million and \$0.8 million, respectively, primarily as a result of an increase in the number of service department personnel and increased personnel compensation, an increase in subcontracting expenses of approximately \$2.8 million and \$0.8 million, respectively, an increase in depreciation and amortization expenses of approximately \$1.8 million and \$0.6 million, and an increase in other expenses of approximately \$1.8 million and \$1.5 million, respectively, mainly due to increased travel and royalties expenses. Gross margins increased to 55.6% and 56.1%, respectively, in the nine month and three month periods ended October 31, 2005, from 54.6% and 54.3%, respectively, in the nine month and three month periods ended October 31, 2004.

RESEARCH AND DEVELOPMENT EXPENSES, NET. Research and development ("R&D") expenses consist primarily of personnel and subcontracting expenses and allocated overhead, net of certain software development costs that are capitalized as well as reimbursement under government and other programs. Software development costs are capitalized upon the establishment of technological feasibility and until related products are available for general release to customers. Research and development expenses, net, for the nine month and three month periods ended October 31, 2005 increased by approximately \$5.9 million and \$1.6 million, respectively, or 25.8% and 19.4%, respectively, as compared to the nine month and three month periods ended October 31, 2004. The increase was attributable to an increase in personnel related costs amounting to approximately \$3.9 million and \$1.0 million, respectively, and an increase of approximately \$2.0 million and \$0.6 million, respectively, in other expenses. Capitalization of software development costs amounted to approximately \$3.2 million and \$1.1 million for the nine month and three month periods ended October 31, 2004 respectively, and approximately \$3.0 million and \$0.9 million for the nine month and three month periods ended October 31, 2005, respectively. Reimbursement of research and development expenses amounted to approximately \$3.2 million and \$0.9 million for the nine month and three month periods ended October 31, 2004 respectively, and \$3.8 million and \$1.6 million for the nine month and three month periods ended October 31, 2005, respectively. Research and development expenses, net, as a percentage of sales, was 12.9% and 12.8% for the nine month and three month periods ended October 31, 2005, respectively, compared to 12.8% and 13.1%, respectively, for the nine month and three month periods ended October 31, 2004.

Historically, the Company has received more reimbursement for R&D expenses partially funded by the Office of the Chief Scientist of the Ministry of Industry and Trade of the State of Israel (the "OCS") in a given fiscal year than it has had to pay to the OCS in royalties during that fiscal year. More recently, however, the Company has been paying, and continues to expect to pay, more in royalties to the OCS than it receives in reimbursement from the OCS for R&D expenses in a given fiscal year. In fiscal year 2004 and in the nine months ended October 31, 2005, the Company recorded a net expense of \$1.6 million and \$1.1 million, respectively, representing the difference between OCS royalties accrued and reimbursement received from OCS. As of October 31, 2005, the Company has received approximately \$59.7 million in cumulative grants and has recorded approximately \$30.6 million of cumulative royalties to the OCS. The Company continues to evaluate whether to participate in a program offered by the OCS to pay a lump sum royalty amount for past amounts received from the OCS and has started preliminary discussions with the OCS in that regard. The Company believes it could reach agreement with the OCS regarding participating in such program as early as the first calendar quarter of 2006. Assuming the Company elects to participate in this program it may be required to pay as much as the difference between the cumulative grants received and the cumulative royalties paid plus interest and other charges. This would significantly reduce or eliminate the Company's net income for a given fiscal year and might cause the Company to report a loss for the fiscal year in which the program is entered into which would have a material adverse effect on the Company's operating results.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses consist primarily of personnel costs and related expenses, sales and marketing expenses, including travel and agent commission, and other administrative expenses. Selling, general and administrative expenses for the nine month and three month periods ended October 31, 2005 increased by approximately \$14.5 million, or 24.3% and \$5.0 million, or 23.4%, respectively, as compared to the nine month and three month periods ended October 31, 2004. This increase was attributable to an increase in compensation and benefits for existing personnel and increase in headcount to support the increased level of sales amounting to approximately \$8.5 million and \$3.0 million, respectively, an increase in agent commissions of approximately \$2.1 million and \$1.7 million, respectively, an increase in rent and utility expenses of approximately \$1.5 million and \$0.8 million, respectively, and an increase (decrease) in other expenses of approximately \$2.4 million and (\$0.5 million), respectively. Selling, general and administrative expenses as a percentage of sales increased to 33.0% and 33.6%, for the nine month and three month periods ended October 31, 2005, from 33.0% and 33.3% for the nine month and three month periods ended October 31, 2004.

IN-PROCESS RESEARCH AND DEVELOPMENT. In the nine month period ended October 31, 2004, purchased in-process research and development of approximately \$3.2 million, resulting from the purchase of ECTel's government surveillance business, was charged to expense at the date of acquisition (see also Note 10 of the Notes to the Condensed Consolidated Financial Statements).

WRITE-DOWN OF CAPITALIZED SOFTWARE. As a result of the acquisition of ECTel's government surveillance business, the Company had certain capitalized software development costs that became impaired due to the existence of duplicative technology and, accordingly, were written-down to their net realizable value at the date of acquisition. Such impairment charge amounted to approximately \$1.5 million, and was recorded in the three months ended April 30, 2004.

INTEREST AND OTHER INCOME, NET. Net interest and other income for the nine month and three month periods ended October 31, 2005 increased by approximately \$3.0 million and \$1.0 million, respectively, as compared to the nine month and three month periods ended October 31, 2004. This increase was attributable to increased interest income of approximately \$3.6 million and \$1.2 million, respectively, due to an increase in interest rates and an increase in interest bearing short-term investments, partially offset by a decrease in income from the Company's minority interest in its Singapore affiliate of \$0.3 million and \$0.1 million, an increase in foreign currency losses and other items of approximately \$0.3 million and \$0.1 million.

INCOME TAX PROVISION. Income tax provision of approximately \$6.3 million and \$2.2 million, respectively, was recorded for the nine month and three month periods ended October 31, 2005 as compared to approximately \$1.3 million and \$0.8 million recorded in the nine month and three month periods ended October 31, 2004, respectively. The overall effective tax rate increased to 23.0% and 23.5%, for the nine month and three month periods ended October 31, 2005, respectively, as compared to an effective tax rate of 9.4% and 13.5% for the nine month and three month periods ended October 31, 2004, respectively. The increase in tax provision for the nine month and three month periods ended October 31, 2005 was mainly attributable to the significant reduction of the Company's net operating loss carry forwards in the United States by the end of fiscal 2004, which caused the Company to record income tax provision for the profits of its U.S. operations. The Company expects its effective tax rate for the fiscal year ended January 31, 2006 ("fiscal 2005") to increase significantly as compared to fiscal 2004. The Company's effective tax rate for fiscal 2005 is expected to remain relatively low as compared to the U.S. federal tax rate. This reflects the use of net operating loss carry-forwards in certain tax

jurisdictions as well as the tax benefits associated with qualified activities of the Company's Israeli subsidiary, which is entitled to favorable income tax rates under a program of the Israeli Government for "Approved Enterprise" investments in that country. To the extent that the Company continues to be profitable in certain tax jurisdictions, it will continue to use net operating loss carry forwards in these jurisdictions. When the Company ceases to have net operating loss carry forwards available to it in a tax jurisdiction, the Company's effective tax rate would increase in that jurisdiction.

NET INCOME. Net income for the nine month and three month periods ended October 31, 2005 increased by approximately \$8.6 million, or 70%, and \$2.1 million, or 41%, as compared to the nine month and three month periods ended October 31, 2004, respectively. As a percentage of sales, net income was approximately 9.3% in both the nine month and three month periods ended October 31, 2005, as compared to approximately 6.8% and 8.1% in the nine month and three month periods ended October 31, 2004, respectively. The change resulted primarily from the factors described above.

LIQUIDITY AND CAPITAL RESOURCES

As of October 31, 2005, the Company had cash and cash equivalents of approximately \$58.0 million, bank time deposits of approximately \$2.3 million, short-term investments of \$206.2 million and working capital of approximately \$215.5 million. As of January 31, 2005, the Company had cash and cash equivalents of approximately \$45.1 million, short-term investments of \$195.3 million and working capital of approximately \$196.4 million.

Operating activities for the nine month period ended October 31, 2004 and 2005, after adjustment for non-cash items, provided cash of approximately \$27.3 million and \$34.8 million, respectively. Other changes in operating assets and liabilities provided cash of approximately \$11.9 million and \$5.6 million for the nine months ended October 31, 2004 and 2005, respectively. This resulted in cash provided by operating activities of approximately \$39.2 million and \$40.4 million for the nine months ended October 31, 2004 and 2005, respectively.

Investing activities for the nine months ended October 31, 2004 and 2005 used cash of approximately \$65.7 million and \$35.9 million, respectively. For the nine months ended October 31, 2004, these amounts include cash paid for the acquisition of ECTel's government surveillance business of approximately \$36.1 million, cash paid for the acquisition of RP Security of approximately \$9.3 million, purchase of property and equipment of approximately \$5.1 million, capitalization of software development costs of approximately \$3.2 million and net purchases of short-term securities of approximately \$12.0 million. For the nine months ended October 31, 2005, these amounts include cash paid for the acquisition of Opus (net of cash acquired of approximately \$0.6 million) of approximately \$11.5 million, net purchases of short-term securities and bank time deposits of approximately \$13.3 million, purchase of property and equipment of approximately \$8.1 million, capitalization of software development costs of approximately \$3.0 million, and other investments of approximately \$0.4 million, net of proceeds from sale of property and equipment of approximately \$0.3 million.

Financing activities for the nine month periods ended October 31, 2004 and 2005 provided cash of approximately \$11.5 million and \$8.4 million, respectively. For the nine month periods ended October 31, 2004 and 2005, proceeds from the issuances of common stock provided cash of approximately \$11.0 million and \$9.0 million, respectively. Net borrowings (repayments) of bank loans and other debt provided (used) cash of approximately \$0.5 million and (\$0.6) million in the nine month periods ended October 31, 2004 and 2005, respectively.

On September 1, 2005, the Company, through a newly-formed subsidiary, acquired certain of the assets and liabilities of The Opus Group, LLC, a privately-held provider of performance analytics solutions for contact centers and back office operations. The acquisition extends the Company's ability to help its customers generate actionable intelligence and enhance the effectiveness of their contact center and back office operations. The purchase price consisted of \$12 million in cash at closing and additional earn-out payments over two years based on certain profitability targets.

On September 2, 2004, the Company, through a subsidiary, acquired all of the outstanding stock of RP Security, a company in the business of developing and selling mobile digital video security solutions for transportation applications. The Company paid approximately \$9,028,000 in cash and 90,144 shares of the Company's common stock for RP Security. In addition, the shareholders of RP are entitled to receive earn-out payments over the three year period following the closing based on the Company's worldwide sales, profitability and backlog of mobile video products in the transportation market during that period. For the period ending January 31, 2005, the shareholders of RP earned approximately \$455,000.

On August 20, 2004, the Company entered into a lease agreement for the lease of approximately 145,000 square feet of office and storage space for manufacturing, development, support and sales facilities in Herzlia, Israel for a term of ten years. Occupancy of the new building and rent payments commenced in October 2005. Annual rent payments are expected to be approximately \$2.5 million. The new lease agreement replaced the lease agreement for the Company's prior building in Israel.

On March 31, 2004, the Company acquired certain assets and assumed certain liabilities of the government surveillance business of ECTel. The purchase price consisted of \$35 million in cash. In connection with this acquisition, the Company incurred transaction costs, consisting primarily of professional fees, amounting to approximately \$1.1 million (see also Note 10 of the Notes to the Condensed Consolidated Financial Statements).

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

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

RECENT DEVELOPMENTS

On September 7, 2005, the Company entered into a definitive agreement with MultiVision Intelligent Surveillance Limited ("MultiVision") to acquire substantially all of its networked video security business. Under the agreement, the Company would pay approximately \$48 million, subject to certain adjustments. The consideration will consist of cash, provided that, the definitive agreement allows the Company, at its sole option, to substitute shares of Company common stock for up to 70% of the adjusted purchase price paid at closing. On November 1, 2005, the Company provided irrevocable notice to MultiVision that it would not issue shares of its common stock as part of the purchase price. The Company will therefore pay the full purchase price in cash. The acquisition is expected to close in January 2006, subject to a number of conditions, including approval by MultiVision's shareholders.

CERTAIN TRENDS AND UNCERTAINTIES

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

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

The Company faces aggressive competition from numerous and varied competitors in all areas of its business. Because of this aggressive competition and the fact that many of the Company's customers and potential customers make decisions to purchase largely based on price, the Company may have to lower the prices of many of its products and services or increase efficiencies and capacity. This can affect the Company because:

- o the Company may not be able to maintain or improve revenue and gross margin with its current cost structure, and therefore its profitability could be materially and adversely affected.
- o in the face of increased pricing pressure and an effort to maintain or improve revenue and gross margin, the Company may have to reduce costs. For example, the Company invests a significant amount in research and development, which the Company views as necessary for its long-term competitiveness. If, to decrease its cost structure, the Company reduces its investment in research and development, the Company may adversely impact its long-term competitiveness in an effort to maintain or improve its revenue and income in the short-term.

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

Because of the intensely competitive markets in which the Company operates, the Company's competitors may simply execute better than the Company and, resultantly, reduce the Company's market share. Some of the Company's competitors have, in relation to it, longer operating histories, larger customer bases, longer standing relationships with customers, greater name recognition and significantly greater financial, technical, marketing, customer service, public relations, distribution and other resources. Further, there has been significant consolidation among the Company's competitors, improving the competitive position of several of its competitors. If the Company's competitors are able to achieve a competitive position superior to that of the Company, the Company's market share and, therefore, results of operations, may be materially and adversely affected.

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

The global market for analytic solutions for security and business applications is competitive not only in the number and breadth of competing companies and products, but also in the manner in which products are sold. For example, the Company often competes for customer contracts through a competitive bidding process that subjects it to risks associated with: (i) the frequent need to bid on programs in advance of the completion of their design, which may result in unforeseen technological difficulties and cost overruns; and (ii) the substantial time and effort, including design, development and marketing activities, required to prepare bids and proposals for contracts that may not be awarded to the Company. Even where the Company is not involved in a competitive bidding process, due to the intense competition in the Company's markets and increasing customer demand for shorter delivery periods, the Company must in some cases begin implementation of a project before the corresponding order has been finalized, increasing the risk that the Company will have to write off expenses associated with orders that do not come to fruition.

Approximately half of the Company's revenues are generated by sales made through strategic and technology partners, distributors, value added resellers and systems integrators. In addition, many of these sales channels also partner with the Company's competitors and may even offer the products of both the Company and its competitors when presenting bids to customers. Further, competitors often seek to establish exclusive relationships with these sales channels or, at a minimum, to become a preferred partner for these channels. The Company's ability to achieve revenue growth depends to a significant extent on maintaining and adding to these sales channels. If the Company's relationships with these sales channels deteriorate or terminate, the Company may lose important sales and marketing opportunities.

The Company derives a significant amount of its revenues from various government contracts worldwide. The Company expects that government contracts will continue to be a significant source of its revenues for the foreseeable future. The Company's business generated from government contracts may be materially and adversely affected if: (i) its reputation or relationship with government agencies is impaired; (ii) it is suspended or otherwise prohibited from contracting with a domestic or foreign government or any significant law

enforcement agency; (iii) levels of government expenditures and authorizations for law enforcement and security related programs decrease, remain constant or shift to programs in areas where the Company does not provide products and services; (iv) it is prevented from entering into new government contracts or extending existing government contracts based on violations or suspected violations of laws or regulations, including those related to procurement; (v) it is not granted security clearances that are required to sell its products to domestic or foreign governments or such security clearances are revoked; (vi) there is a change in government procurement procedures; or (vii) there is a change in political climate that adversely affects the Company's existing or prospective relationships.

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

To the extent that the Company continues to be profitable in certain tax jurisdictions, it will continue to use available net operating loss carry forwards in these jurisdictions. When the Company ceases to have net operating loss carry forwards available to it in a tax jurisdiction, the Company's effective tax rate would increase in that jurisdiction. The Company's effective tax rate is expected to increase substantially for fiscal 2005 as compared to fiscal 2004, which could materially and adversely affect the Company's results of operations.

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

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

The Company has historically derived a significant portion of its sales from contracts for large system installations with major customers. The Company continues to emphasize sales to larger customers in its product development and marketing strategies. Contracts for large installations typically involve a lengthy and complex bidding and selection process, and the ability of the Company to obtain particular contracts is inherently difficult to predict. The timing and scope of these opportunities are difficult to forecast, and the pricing and margins may vary substantially from transaction to transaction. The Company's future operating results may accordingly exhibit a high degree of volatility and may also be more volatile than the Company has experienced in prior periods. The degree of dependence by the Company on large system orders, and the investment required to enable the Company to perform such orders, without assurance of continuing order flow from the same customers, increases the risk associated with the Company's business. In particular, in pursuit of major customers, the Company often engages in research and development activities specifically for these potential customers. If these potential customers ultimately decide not to purchase the Company's products, the Company may obtain little or no benefit from these research and development activities, as they may not be applicable to other customers. As a result, these costs may not be recovered by the Company and may materially and adversely affect the Company's financial results.

The Company's recent growth has strained its managerial and operational resources. The Company's continued growth may further strain its resources, which could hurt its business and results of operations. There can be no assurance that the Company's managers will be able to manage growth effectively. To manage future growth, the Company's management must continue to improve the Company's operational, IT and financial systems, procedures and controls and expand, train, retain and manage its employee base. If the Company's systems, procedures and controls are inadequate to support its operations, the Company's expansion could slow or come to a halt, and it could lose its opportunity to gain significant market share. Any inability to manage growth effectively could materially harm the Company's business, results of operations and financial condition.

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

- o anticipate changes in technology or in industry standards;
- o successfully develop and introduce new, enhanced and competitive products; and
- o introduce these new and enhanced products on a timely basis with high quality.

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

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

The market for the Company's business intelligence solutions has been adversely affected in the past by significant declines in information technology spending and continues to be affected by fluctuations in information technology spending. Continued fluctuations in information technology spending may cause companies to reduce or, in extreme cases, eliminate, information technology spending. The rate of information technology spending by the Company's customers in the near term remains unclear and the Company is uncertain whether it will be able to increase or maintain its revenues. If sales do not increase as anticipated or if expenses increase at a greater pace than revenues, the Company may not be able to sustain or increase profitability on a quarterly or annual basis.

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

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

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

On September 7, 2005, the Company entered into a definitive agreement with MultiVision to acquire substantially all of its networked video security business. The acquisition is subject to a number of conditions, including approval by MultiVision's shareholders. The Company anticipates that the acquisition will close in January 2006, however, there is no assurance that the transaction will be consummated by such time or at all. Failure to consummate the acquisition for any reason or significant delay in closing may cause the value of the Company's common stock to decline. In addition, if the transaction does not close, significant management time and effort will have been expended, and costs related to the transaction, such as legal and accounting fees, will still have to be paid, with no corresponding benefit to the Company.

On September 1, 2005, the Company, through a newly-formed subsidiary, acquired certain of the assets and liabilities of The Opus Group, LLC, representing the Company's first acquisition of a services-based business and its first acquisition in the contact center market.

There is no assurance that the Company will be able to:

- o successfully integrate this business into the Company's business, including operations, facilities and related matters
- o retain and integrate employees joining the Company with the acquired business, including maintaining employee morale
- o continue to successfully operate its own business while management time and attention is diverted to integrating this business
- o improve upon the financial results of this business, or even perform as well, or ensure that this business will not materially and adversely affect the Company's financial results
- o ensure that the customers of this business or the Company's own customers will be confident in the Company's ability to adequately deliver products and services.

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

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

The Company's subsidiary, Verint Technology Inc. ("Verint Technology"), which markets, sells and supports its communications interception solutions to, among others, various U.S. government agencies, is required by the National Industrial Security Program to maintain facility security clearances and to be insulated from foreign ownership, control or influence. To comply with the National Industrial Security Program requirements, in January 1999, the Company, Verint Technology, Comverse Technology and the Department of Defense entered into a proxy agreement with respect to the ownership and operations of Verint Technology, which agreement was superseded in May 2001 to comply with the Department of Defense's most recent requirements. Under the proxy agreement, the Company, among other things, appointed three individuals, who are U.S. citizens, holding the requisite security clearances as holders of proxies to vote the Verint Technology stock. The proxy holders have the power to exercise all prerogatives of ownership of Verint Technology. These three individuals are responsible for the oversight of Verint Technology's security arrangements. The proxy agreement may be terminated and Verint Technology's facility security clearance may be revoked in the event of a breach of the proxy agreement, or if it is determined by the Department of Defense that termination is in the national interest. If Verint Technology's facility security clearance is revoked, the Company may lose all or a substantial portion of its sales to U.S. government agencies and its business, financial condition and results of operations would be harmed. In addition, concerns about the security of the Company or its products can materially and adversely affect Verint Technology's sales to U.S. government agencies.

In addition to the clearances of Verint Technology, some of the Company's other subsidiaries maintain clearances in certain other countries in connection with the development, marketing and sale of its communications interception solutions. These clearances are reviewed from time to time by the applicable government agencies in these countries, and following review, these clearances are either maintained or deactivated. These clearances can be deactivated for many reasons, including that the clearing agencies in certain countries may object to the fact that the Company does business in certain other countries or the fact that the Company itself is a foreign corporation subject to foreign influence. If the Company's clearances are deactivated in any particular country, the Company may lose the ability to directly sell its communications interception solutions in that country for projects that require security clearances. Further, in order to continue to do classified business in that country, the Company may have to sell through local systems integrators or distributors with clearances. Additionally, any inability to obtain or maintain clearances in a particular country may affect the Company's ability to sell its communications interception solutions generally. Recently, a federal agency in a particular country deactivated the federal-level security clearances of the

Company's subsidiary in that country, in part, because the subsidiary is controlled by a company and personnel not from that country. Any inability to obtain or maintain clearances can materially and adversely affect the Company's financial performance.

Whether or not the Company is able to maintain security clearances, law enforcement and intelligence agencies in certain countries may decline to purchase communications interception solutions not developed or manufactured in that country. As a result, because the Company's communications interception solutions are developed and manufactured either in Israel or Germany, there may be certain countries where some or all of the law enforcement and intelligence agencies are unwilling to purchase the Company's communications interception solutions. If the Company is unable to sell its communication interception solutions in certain countries for this reason, its business and results of operations could be materially and adversely affected.

The Company is required to obtain export licenses from the U.S., Israeli, German and other governments to export some of the products that it develops or manufactures in these countries, and to comply with applicable export control laws generally. The Company cannot be assured that it will be successful in obtaining or maintaining the licenses and other authorizations required to export its products from applicable governmental authorities. In addition, export laws and regulations are revised from time to time and can be extremely complex in their application; if the Company is found not to have complied with

applicable export control laws, the Company may be penalized by, among other things, having its ability to receive export licenses curtailed or eliminated possibly for an extended period of time. The Company's failure to receive or maintain any required export license or authorization or its penalization for failure to comply with applicable export control laws would hinder its ability to sell its products and could materially and adversely affect its business, financial condition and results of operations.

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

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

In August 2005, the European Parliament Directive 2002/96/EC (dated 27 January 2003) on Waste Electrical and Electronic Equipment Directive (the "WEEE Directive") became effective in the European Union. The WEEE Directive requires producers of certain electrical and electronic equipment to be financially responsible for the future disposal costs of this equipment sold within the European Union. In July 2006, the European Parliament Directive 2002/95/EC (dated 27 January 2003) on Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (the "RoHS Directive") will become effective in the European Union. The RoHS Directive restricts the use of certain hazardous substances, including mercury, lead, cadmium, hexavalent chromium, and certain flame retardants, in the construction of component parts of certain electrical and electronic equipment sold within the European Union. The Company is currently assessing the applicability of these Directives, and has begun implementing the WEEE Directive and making preparations and arrangements to comply with the RoHS Directive, in each case, to the extent applicable to the hardware portion of its solutions. As part of this process, the Company will need to ensure that it has a supply of compliant components from its suppliers. Ensuring compliance with these directives and coordinating compliance activities with suppliers will result in additional costs to the Company and may result in disruptions to operations. The Company cannot currently estimate the extent of such additional costs or potential disruptions. However, to the extent that any such costs or disruptions are substantial, the Company's financial results could be materially and adversely affected.

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

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

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

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

While the Company occasionally files patent applications, it cannot be assured that patents will be issued on the basis of such applications or that, if such patents are issued, they will be sufficiently broad to protect its technology. In addition, the Company cannot be assured that any patents issued to it will not be challenged, invalidated or circumvented.

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

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

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

Although the Company generally uses standard parts and components in its products, it does use some non-standard parts and equipment. The Company relies on non-affiliated suppliers for the supply of certain standard and non-standard components and on manufacturers of assemblies that are incorporated in all of its products. The Company does not have long term supply or manufacturing agreements with all of these suppliers and manufacturers. If these suppliers or manufacturers (a) experience financial, operational, manufacturing capacity or quality assurance difficulties, or cease production and sale of such products at the end of their life cycle; or (b) if there is any other disruption in its relationships with these suppliers or manufacturers, the Company will be required to locate alternative sources of supply. The Company's inability to obtain sufficient quantities of these components, if and as required in the future, entails the following risks: (i) delays in delivery or shortages in components could interrupt and delay manufacturing and result in cancellations of orders for its products; (ii) alternative suppliers could increase component prices significantly and with immediate effect; (iii) the Company may not be able to develop alternative sources for product components; (iv) the Company may be required to modify its products, which may cause delays in product shipments, increased manufacturing costs and increased product prices; and (v) the Company may be required to hold more inventory than it otherwise might in order to avoid problems from shortages or discontinuance, which may result in write-offs if the Company is unable to use all such products in the future.

As part of the Company's growth strategy, it intends to pursue new strategic alliances. The Company considers and engages in strategic transactions from time to time and may be evaluating alliances or joint ventures at any time. The Company competes with other similar solutions providers for these opportunities. The Company cannot be assured that it will be able to effect these transactions on commercially reasonable terms or at all. If the Company enters into these transactions, there is also no assurance that it will realize the benefits it anticipates.

The Company has in the past and may in the future pursue acquisitions of businesses, products and technologies, or the establishment of joint venture arrangements. The negotiation of potential acquisitions or joint ventures as well as the integration of an acquired or jointly developed business, technology or product could result in a substantial diversion of management resources. Future acquisitions could result in potentially dilutive issuances of equity

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

Currently, the Company accounts for employee stock options in accordance with Accounting Principles Board ("APB") Opinion No. 25 and related Interpretations, which provide that any compensation expense relative to employee stock options be measured based on intrinsic value of the stock options. As a result, when options are priced at or above fair market value of the underlying stock on the date of the grant, as is currently the Company's practice, the Company incurs no compensation expense.

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

The Company receives conditional grants from the Government of Israel through the Office of the Chief Scientist of the Ministry of Industry and Trade, or the OCS, for the financing of a portion of its research and development expenditures in Israel. Until recently, the terms of these conditional grants limited the Company's ability to manufacture products outside of Israel if such products or technologies were developed using these grants. On March 30, 2005, the Israeli parliament approved an amendment to Israeli Law for the Encouragement of Industrial Research and Development, which permits the transfer of such technology outside of Israel under certain conditions. If the Company seeks and receives approval to manufacture products developed using these conditional grants outside of Israel, it may be required to pay a significantly increased amount of royalties, which may be up to 300% of the grant amount, plus interest, on an accelerated basis depending on the manufacturing volume that is performed outside of Israel. If the Company seeks and receives approval to transfer technology developed using these conditional grants outside of Israel, it may be required, prior to such transfer, to pay a redemption price to be determined under regulations that have not yet been promulgated. These restrictions may impair the Company's ability to outsource manufacturing or engage in similar

arrangements for those products or technologies. In addition, if the Company fails to comply with any of the conditions imposed by the OCS, it may be required to refund any grants previously received together with interest and penalties, and it may be subject to criminal charges. Further, from time to time the Government of Israel may audit the sales of products incorporating technology partially funded through OCS programs which, while not increasing the aggregate amount of royalties that may be due from the Company, may cause the Company to have to pay royalties on additional products, effectively accelerating the pace at which it pays royalties to the Government of Israel in repayment of the benefits received under such programs.

In recent years, the Government of Israel has accelerated the rate of repayment of OCS grants and may further accelerate them in the future. The Company currently pays royalties of between 3% and 5% (or 6% under certain circumstances) of associated product revenues (including service and other related revenues) to the Government of Israel based upon the sale of products incorporating technology developed under OCS grants. Such royalty payments by the Company are currently required to be made until the government has been reimbursed up to the amounts received by the Company, 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 1st 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 Company expects that OCS grants as a percentage of its consolidated research and development expenses will decrease in future periods due to an expected increase in the portion of research and development activities that will not be reimbursed by the OCS and an expected increase in research and development activities outside of Israel. The continued reduction in these benefits or the termination of the Company's eligibility to receive these benefits may materially and adversely affect the Company's business, financial condition and results of operations.

Historically, the Company has received more reimbursement for R&D expenses partially funded by the OCS in a given year than it has had to pay to the OCS in royalties during that fiscal year. More recently, however, the Company has been paying, and continues to expect to pay, more in royalties to the OCS than it receives in reimbursement from the OCS for R&D expenses in a given fiscal year. For example, in the nine months ended October 31, 2005, the Company recorded a net expense of \$1.1 million representing the difference between royalties recorded for the OCS and reimbursement received from the OCS.

As of October 31, 2005, the Company has received approximately \$59.7 million in cumulative grants and has recorded approximately \$30.6 million in cumulative royalties to the OCS. The Company continues to evaluate whether to participate in a program offered by the OCS to pay a lump sum royalty amount for past amounts received from the OCS and has started preliminary discussions with the OCS in that regard. The Company believes it could reach agreement with the OCS regarding participating in such program as early as the first calendar quarter of 2006. Assuming the Company elects to participate in this program it may be required to pay as much as the difference between the cumulative grants received and the cumulative royalties paid plus interest and other charges. This would significantly reduce or eliminate the Company's net income for a given fiscal year and might cause the Company to report a loss for the fiscal year in which the program is entered into which would have a material adverse effect on the Company's operating results.

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

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

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, which in the past and may in the future, lead to security and economic problems for Israel. Current and future conflicts and political, economic and/or military conditions in Israel and the Middle East region can directly affect the Company's operations in Israel. From October 2000 until recently, terrorist violence in Israel increased significantly, primarily in the West Bank and Gaza Strip, and Israel has experienced terrorist incidents within its borders. There can be no assurance that the recent relative calm will continue nor can the Company anticipate what the impact will be on Israel or the region following the recent Israeli withdrawals from the Gaza Strip and portions of the West Bank. The Company could be materially adversely affected by hostilities involving Israel, the interruption or curtailment of trade between Israel and its trading partners, or a significant downturn in the economic or financial condition of Israel. In addition, the sale of products manufactured in Israel may be materially adversely affected in certain countries by restrictive laws, policies or practices directed toward Israel or companies having operations in Israel. The continuation or exacerbation of violence in Israel or the outbreak of violent conflicts involving Israel may impede the Company's ability to sell its products or otherwise adversely affect the Company. In addition, many of the Company's Israeli employees in Israel are required to perform annual compulsory military service in Israel and are subject to being called to active duty at any time under emergency circumstances. The absence of these employees may have an adverse effect upon the Company's operations.

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

The Company's business is subject to evolving corporate governance and public disclosure regulations that have increased both the costs and the risk of noncompliance, either of which could have an adverse effect on the Company's stock price. Because the Company's Common Stock is publicly traded on the NASDAQ National Market, the Company is subject to rules and regulations promulgated by a number of governmental and self-regulated organizations, including the Securities and Exchange Commission, NASDAQ and the Public Company Accounting Oversight Board, which monitors the accounting practices of public companies. Many of these regulations have only recently been enacted, and continue to evolve, making compliance more difficult and uncertain. In addition, the Company's efforts to comply with these new regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In particular, Section 404 of the Sarbanes-Oxley Act of 2002 and related regulations require the Company to include a management assessment of its internal controls over financial reporting and auditor attestation of that assessment in its annual report, which the Company included for in its annual report for fiscal 2004. While the Company was able to assert, in the management certifications filed with its Annual Report on Form 10-K, that the Company's internal control over financial reporting is effective as of January 31, 2005 and that no material weaknesses were identified, the Company must continue to monitor and assess the internal control over financial reporting.

The Company cannot provide any assurances that material weaknesses will not be discovered in the future. If the Company is unable to assert that the internal control over financial reporting is effective for any given reporting period (or if the Company's auditors are unable to attest that the management's report is fairly stated or are unable to express an opinion on the effectiveness of the internal controls), the Company could lose investor confidence in the accuracy and completeness of the Company's financial reports, which would have an adverse effect on the Company's stock price. The effort regarding Section 404 has required, and continues to require, the commitment of significant financial and managerial resources.

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

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

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

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

Prior to the Company's initial public offering in May 2002, the Company was included in the Comverse Technology consolidated group for federal income tax purposes and did not file its own federal income tax return. Following the Company's initial public offering, it ceased to be included in the Comverse Technology consolidated group for federal income tax purposes. To the extent Comverse Technology or other members of the group fail to make any federal income tax payments required of them by law in respect of years for which Comverse Technology filed a consolidated federal income tax return which included the Company, the Company would be liable for the shortfall. Similar principles apply for state income tax purposes in many states. In addition, by virtue of its controlling ownership and its tax sharing agreement with the Company, Comverse Technology effectively controls all of the Company's tax decisions for periods ending prior to the completion of its initial public offering. For periods during which the Company was included in the Comverse Technology consolidated group for federal income tax purposes, Comverse Technology has sole authority to respond to and conduct all federal income tax proceedings and audits relating to the Company, to file all federal income tax returns on its behalf and to determine the amount of its liability to, or entitlement to payment from, Comverse Technology under its tax sharing agreement. Despite this agreement, federal law provides that each member of a consolidated group is liable for the group's entire tax obligation and the Company could, under certain circumstances, be liable for taxes of other members of the Comverse Technology consolidated group.

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

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

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

The ability of the Company's board of directors to designate and issue up to 2,500,000 shares of preferred stock and to issue additional shares of Common Stock could adversely affect the voting power of the holders of Common Stock, and could have the effect of making it more difficult for a person to acquire, or could discourage a person from seeking to acquire, control of the Company. If this occurs, investors could lose the opportunity to receive a premium on the sale of their shares in a change of control transaction.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company is exposed to market risk from changes in foreign currency exchange rates that could impact its results of operations and financial condition. The Company considers the foreign currency exchange rate risk, in particular that of the U.S. dollar versus the British pound, the euro and the Israeli shekel, to be its primary market risk exposure. To date, the Company has not used any material foreign currency exchange contracts or other derivative instruments to reduce its exposure to foreign currency exchange risks. In the future, the Company may use foreign currency exchange contracts and other derivative instruments to reduce its exposure to this risk.

The Company is also exposed to market risk from changes in interest rates. Various financial instruments held by the Company are sensitive to changes in interest rates. Interest rate changes could result in an increase or decrease in interest income as well as in gains or losses in the market value of the Company's debt security investments due to differences between the market interest rates and rates at the date of purchase of these investments.

The Company places its cash investments with high credit-quality financial institutions and currently invests primarily in money market funds placed with major banks and financial institutions, bank time deposits, Auction-Rate Securities ("ARS"), corporate debt securities and United States government, corporation and agency obligations and/or mutual funds investing in the like. The Company has investment guidelines relative to diversification and maturities designed to maintain safety and liquidity. As of October 31, 2005, the Company had cash and cash equivalents, which generally have a maturity of three months or less, totaling approximately \$58 million, bank time deposits totaling approximately \$2.3 million and short-term investments totaling approximately \$206.2 million, which primarily consist of Auction Rate Securities. Auction Rate Securities have maturities ranging up to thirty years; however, these investments have characteristics similar to short-term investments because at pre-determined intervals, generally every 7 to 90 days, there is a new auction process at which these securities are reset to current interest rates.

If, during the year ended January 31, 2006, average short-term interest rates increase or decrease by 50 basis points relative to average rates realized during the year ended January 31, 2005, the Company's projected interest income from cash and cash equivalents and short-term investments would increase or decrease by approximately \$1.3 million, assuming a similar level of investments in the year ended January 31, 2006.

Due to the short-term nature of the Company's cash and cash equivalents, the carrying values approximate market values and are not generally subject to price risk due to fluctuations in interest rates. The Company's short-term investments are subject to price risk due to fluctuations in interest rates. Neither a 10% increase nor decrease in prices would have a material effect on the Company's financial position, results of operations or cash flows. All short-term investments are considered to be available-for-sale, accounted for at fair value, with resulting unrealized gains or losses reported as a separate component of shareholders' equity. If these available-for-sale securities experience declines in fair value that are considered other-than-temporary, an additional loss would be reflected in net income (loss) in the period when the subsequent impairment becomes apparent. See Note 3 of the notes to the Condensed Consolidated Financial Statements and Note 4 of the notes to the consolidated financial statement in the Company's Annual Report on Form 10-K for more information regarding the Company's short-term investments.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures

The Company's management evaluated, with the participation of the Company's principal executive and principal financial officers, the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of October 31, 2005. Based on their evaluation, the Company's principal executive and principal financial officers concluded that the Company's disclosure controls and procedures were effective as of October 31, 2005.

(b) Changes in Internal Control Over Financial Reporting

During the Company's fiscal quarter ended October 31, 2005, the Company continued to add several members to its finance organization worldwide, in particular at its principal executive offices in Melville, New York as part of an effort to consolidate and improve certain financial reporting functions. In addition, the Company continued an upgrade of certain of its information systems used to accumulate financial data for financial reporting. The additional personnel and the upgrade are part of an ongoing effort by the Company to continue to improve its internal control over financial reporting. Although these improvements are ongoing, the Company used its new personnel and system to generate some of the financial information used in its financial statements for this fiscal quarter. Improvements such as these present several risks, including straining existing resources and errors in data migrated from the Company's existing information systems to its new information systems. The Company believes that, notwithstanding the risks of these improvements, as of October 31, 2005, its internal control over financial reporting has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. However, because these improvements are ongoing and the Company has not yet completed its testing of the internal process improvements made to date, there is no assurance that errors resulting from these improvements will not be found at a later date.

PART II

OTHER INFORMATION

ITEM 6. EXHIBITS.

(a) Exhibit Index.

- 10.1 Stock Purchase Agreement, dated as of September 7, 2005, by and among Verint Systems Inc., MultiVision Holdings Limited, and MultiVision Intelligent Surveillance Limited
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VERINT SYSTEMS INC.

Dated: December 12, 2005 By: /s/ Dan Bodner

Dan Bodner
President and Chief Executive Officer
Principal Executive Officer

Dated: December 12, 2005 By: /s/ Igal Nissim

Igal Nissim
Vice President and Chief Financial Officer
Principal Financial Officer

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SHARE PURCHASE AGREEMENT

BY AND AMONG

VERINT SYSTEMS INC.,

MULTIVISION HOLDINGS LIMITED

AND

MULTIVISION INTELLIGENT SURVEILLANCE LIMITED

Dated as of September 7, 2005

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SHARE PURCHASE AGREEMENT

SHARE PURCHASE AGREEMENT, dated as of September 7, 2005 (the "Agreement"), by and among Verint Systems Inc., a Delaware corporation ("Purchaser"), MultiVision Holdings Limited, a British Virgin Islands company (the "Company"), and MultiVision Intelligent Surveillance Limited, a Bermuda company ("Seller").

W I T N E S S E T H:

WHEREAS, Seller owns an aggregate of 10,500 Ordinary Shares (the "Shares"), which constitutes 100% of the issued and paid up share capital of the Company;

WHEREAS, Seller desires to sell to Purchaser, and Purchaser desires to purchase from Seller, the Shares for the purchase price and upon the terms and conditions hereinafter set forth;

WHEREAS, the Board of Directors of Seller has duly and validly approved this Agreement and the transactions contemplated hereby;

WHEREAS, certain shareholders of Seller have entered into Deeds of Undertaking (the "Voting Agreements") as of the date hereof whereby each such shareholder has committed in its capacity as a shareholder of Seller to vote all shares of Seller owned or controlled by such shareholder in favor of this Agreement and the transactions contemplated hereby;

WHEREAS, Terence Luk and Purchaser have entered into a Non-Solicitation Agreement (the "Luk Non-Solicitation Agreement") as of the date hereof;

WHEREAS, Louis Mak and Purchaser have entered into a Non-Competition Agreement (the "Mak Non-Compete") as of the date hereof; and

WHEREAS, certain terms used in this Agreement are defined in Section 1.1;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter contained, the parties hereby agree as follows:

ARTICLE I

DEFINITIONS

1.1. Certain Definitions.

(a) For purposes of this Agreement, the following terms shall have the meanings specified in this Section 1.1:

"Affiliate" means, with respect to any Person, any other Person that, directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person, and the term "control" (including the terms "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities, by contract or otherwise.

"Antitrust Law" means any applicable Law that is designed to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade.

"Acquired Subsidiary" means any Subsidiary other than an Excluded Subsidiary.

"Business Day" means a day that the financial markets in New York City and Hong Kong are open for business.

"Contract" means any contract, agreement, indenture, note, bond, mortgage, loan, instrument, lease, license or other binding arrangement, understanding, undertaking, commitment or obligation, whether written or oral.

"Copyrights" means all copyrights (including copyrights in software programs) and registrations and applications therefor, works of authorship and mask work rights.

"Environmental Law" means any Law, as now or hereafter in effect, in any way relating to the protection of human health and safety, the environment or natural resources.

"Environmental Permit" means any Permit required by Environmental Laws for the operation of the Company and the Acquired Subsidiaries.

"Escrow Agreement" means the Escrow Agreement to be entered into by and among Purchaser, Seller and the Escrow Agent as of the Closing in substantially the form of Exhibit A hereto.

"Escrow Agent" means the escrow agent for the Escrow Agreement.

"Excluded Subsidiary" means the Subsidiaries listed on Schedule 7.13.

"GAAP" means United States generally accepted accounting principles as in effect during the time period of the relevant financial statement.

"Governmental Body" means any government or governmental or regulatory body thereof, or political subdivision thereof, whether federal, state, local or foreign, or any agency, instrumentality or authority thereof, or any court or arbitrator (public or private), or any other supervisory or regulatory body, including the SGX.

"ICC" means the International Chamber of Commerce.

"IFRS" means the International Financial Reporting Standards promulgated by the International Accounting Standards Board as of the date hereof, including International Accounting Standards and related interpretations.

"Indebtedness" of any Person means, without duplication, (i) the principal, accreted value, accrued and unpaid interest, prepayment and redemption premiums or penalties (if any), unpaid fees or expenses and other monetary obligations in respect of (A) indebtedness of such Person for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable; (ii) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding trade accounts payable and other accrued current liabilities arising in the Ordinary Course of Business (other than the current liability portion of any indebtedness for borrowed money)); (iii) all obligations of such Person under leases required to be capitalized in accordance with IFRS; (iv) all obligations of such Person for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction; (v) all obligations of such Person under interest rate or currency swap transactions (valued at the termination value thereof); (vi) the liquidation value, accrued and unpaid dividends, prepayment or redemption premiums and penalties (if any), unpaid fees or expenses and other monetary obligations in respect of any redeemable preferred equity of such Person; (vii) all obligations of the type referred to in clauses (i) through (vi) of any Persons for the payment of which such Person is responsible or liable, directly or indirectly, as obligor, guarantor, surety or otherwise, including guarantees of such obligations; and (viii) all obligations of the type referred to in clauses (i) through (vii) of other Persons secured by (or for which the holder of such obligation has an existing right, contingent or otherwise, to be secured by) any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person).

"Intellectual Property" means all U.S. and foreign rights under patent, copyright, trademark or trade secret law or any other similar statutory provision or common law doctrine.

"Intellectual Property Licenses" means (i) any grant by the Company or any Acquired Subsidiary to another Person of any right to use any of the Intellectual Property or Technology, and (ii) any grant by another Person to the Company or any Subsidiary of a right to use such Person's Intellectual Property or Technology.

"Knowledge" means, with respect to any Person that is not an individual, the knowledge after due inquiry of such Person's directors and executive officers and all other officers and managers having responsibility relating to the applicable matter or, in the case of an individual, knowledge after due inquiry.

"Law" means any foreign, federal, state or local law (including common law), statute, code, ordinance, rule, regulation, Order, the listing rules of any stock exchange or other requirement.

"Legal Proceeding" means any judicial, administrative or arbitral actions, suits, material inquiry, proceedings or claims (including counterclaims) by or before a Governmental Body.

"Liability" means any debt, loss, damage, adverse claim, fine, penalty, liability or obligation (whether direct or indirect, known or unknown, asserted or unasserted, absolute or contingent, accrued or unaccrued, matured or unmatured, determined or determinable, liquidated or unliquidated, or due or to become due, and whether in contract, tort, strict liability or otherwise), and including all costs and expenses relating thereto including all fees, disbursements and expenses of legal counsel, experts, engineers and consultants and other costs of investigation.

"Lien" means any lien, pledge, mortgage, deed of trust, security interest, claim, lease, charge, option, right of first refusal, easement, servitude, proxy, voting trust or agreement, transfer restriction under any shareholder or similar agreement, encumbrance or any other restriction or limitation whatsoever.

"Losses" means losses, liabilities, claims, obligations, deficiencies, demands, judgments, damages (including incidental and consequential damages), interest, fines, claims, suits, actions, causes of action, assessments, costs and expenses (including costs of investigation and defense and attorneys' and other professionals' fees), or any diminution in value, whether or not involving a third party claim.

"Marks" means all trademarks, service marks, trade names, service names, brand names, trade dress rights, logos, Internet domain names and corporate names and other similar identifiers, together with the goodwill associated with any of the foregoing, and all applications, registrations and renewals thereof.

"Material Adverse Effect" means any fact, event, circumstance or condition that, individually or in the aggregate with any other facts, events, circumstances or conditions has, or would reasonably be likely to have, a material adverse effect on (x) the business, assets, properties, results of operations or condition (financial or otherwise) of the Company or the Acquired Subsidiaries or (y) the ability of Seller or the Company to consummate the transactions contemplated by this Agreement or to perform their respective obligations under this Agreement or the Seller Documents; provided, however, that any effect resulting from changes in (i) the financial markets, or the general economic conditions, in China, Asia generally or worldwide or (ii) the conditions affecting the security/surveillance industry as a whole in China, Asia generally or worldwide shall not be considered when determining if a Material Adverse Effect has occurred.

"Non-Competition Agreement" means the Non-Competition Agreement to be entered into by and between Purchaser and Seller as of the Closing in substantially the form of Exhibit B hereto.

"Order" means any order, injunction, judgment, decree, ruling, writ, assessment or arbitration award of a Governmental Body.

"Ordinary Course of Business" means the ordinary and usual course of day-to-day operations of the business of the Company and the Acquired Subsidiaries through the date hereof, consistent with past practice as applicable.

"Ordinary Shares" means the ordinary shares of the Company of \$1.00 each, or any other share capital of the Company into which such shares are reclassified or reconstituted.

"Patents" means all patents and applications therefor, including continuations, divisionals, continuations-in-part, or reissues of patent applications and patents issuing thereon, and all similar rights arising under the Laws of any jurisdiction.

"Permits" means any approvals, authorizations, consents, licenses, permits or certificates of a Governmental Body.

"Permitted Exceptions" means (i) all defects, exceptions, restrictions, easements, rights of way and encumbrances disclosed in policies of title insurance which have been delivered to Purchaser; (ii) statutory liens for current Taxes, assessments or other governmental charges not yet delinquent or the amount or validity of which is being contested in good faith by appropriate proceedings, provided an appropriate reserve has been established therefor in the Financial Statements in accordance with applicable accounting standards; (iii) mechanics', carriers', workers', and repairers' Liens arising or incurred by operation of law or in the Ordinary Course of Business that are not material to the business, operations and financial condition of the Company Leased Property so encumbered and that are not resulting from a material breach, default or violation by the Company or any of the Acquired Subsidiaries of any Contract or Law; and (iv) zoning, entitlement and other land use and environmental regulations by any Governmental Body, provided that such regulations have not been violated.

"Person" means any individual, corporation, limited liability company, partnership, firm, joint venture, association, joint-stock company, trust, unincorporated organization, Governmental Body or other entity.

"Purchaser Common Stock" means the Common Stock, par value \$0.001 per share, of Purchaser, or any other share capital of Purchaser into which such equity is reclassified or reconstituted.

"Purchaser Preferred Stock" means the Preferred Stock, par value \$0.001 per share, of Purchaser.

"Purchaser Indemnified Parties" means Purchaser, the Company, and their respective directors, officers, employees, Affiliates, shareholders, agents, attorneys, representatives, successors and assigns.

"Registration Rights Agreement" means the Registration Rights Agreement, dated as of the date hereof, by and between Purchaser and Seller.

"SEC" means the United States Securities and Exchange Commission.

"Securities Act" means the United States Securities Act of 1933, as amended.

"Seller Indemnified Parties" means Seller and its Affiliates, shareholders, agents, attorneys, representatives, successors and permitted assigns.

"SGX" means the Singapore Exchange Securities Trading Limited.

"Shelf Registration Statement" means the registration statement contemplated by Section 2.1(a) of the Registration Rights Agreement. "Software" means any and all (i) computer programs, including any and all software implementations of algorithms, models and methodologies, whether in source code or object code, (ii) databases and compilations, including any and all data and collections of data, whether machine readable or otherwise, (iii) descriptions, flow-charts and other work product used to design, plan, organize and develop any of the foregoing, screens, user interfaces, report formats, firmware, development tools, templates, menus, buttons and icons, and (iv) all documentation including user manuals and other training documentation related to any of the foregoing.

"Subsidiary" means any Person of which (i) a majority of the outstanding share capital, voting securities or other equity interests are owned, directly or indirectly, by the Company or (ii) the Company is entitled, directly or indirectly, to appoint a majority of the board directors, board of managers or comparable body of such Person.

"Taxes" means (i) all federal, state, local or foreign taxes, charges, fees, imposts, levies or other assessments, including all net income, gross receipts, capital, sales, use, ad valorem, value added, transfer, franchise, profits, inventory, share capital, license, withholding, payroll, employment, social security, unemployment, excise, severance, stamp, occupation, property and estimated taxes, customs duties or similar charges; (ii) all interest, penalties, fines, additions to tax or additional amounts imposed by any Taxing Authority in connection with any item described in clause (i); and (iii) any transferee liability in respect of any items described in clauses (i) and/or (ii) payable by reason of Contract, assumption, transferee liability, operation of Law or otherwise.

"Taxing Authority" means any Governmental Body responsible for the administration of any Tax.

"Tax Return" means any return, report or statement required to be filed with respect to any Tax (including any attachments thereto, and any amendment thereof) including any information return, claim for refund, amended return or declaration of estimated Tax, and including, where permitted or required, combined, consolidated or unitary returns for any group of entities that includes the Company, any of the Acquired Subsidiaries.

"Technology" means, collectively, all designs, formulae, algorithms, procedures, methods, techniques, ideas, know-how, research and development, technical data, computer software programs, subroutines, tools, materials, specifications, processes, software (whether in source code, object code or human readable form), inventions (whether patentable or unpatentable and whether or not reduced to practice), apparatus, creations, improvements, works of authorship and other similar materials, and all recordings, graphs, drawings, reports, analyses, and other writings, and other tangible embodiments of the foregoing, in any form whether or not specifically listed herein, and all related technology, that are used in, incorporated in, embodied in, displayed by or relate to, or are used by the Company or any Acquired Subsidiary.

"Trade Secrets" means all discoveries, concepts, ideas, research and development, know-how, formulae, inventions, compositions, manufacturing and production processes and techniques, technical data, procedures, designs, drawings, specifications, databases, and other proprietary or confidential information, including customer lists, supplier lists, pricing and cost information, and business and marketing plans and proposals of the Company and the Acquired Subsidiaries, in each case excluding any rights in respect of any of the foregoing that comprise or are protected by Copyrights or Patents.

"Trading Day" means a day on which shares of Purchaser Common Stock are traded on the Nasdaq National Market.

(b) Terms Defined Elsewhere in this Agreement. For purposes of this Agreement, the following terms have meanings set forth in the sections indicated:

Term	Section
Accounting Referee.....	3.3(d)
Acquisition Transaction.....	7.5(a)
Agreement.....	Recitals
Arbitrators.....	10.3
Balance Sheet.....	5.8(a)
Balance Sheet Date.....	5.8(a)
Base Purchase Price.....	3.1(a)
Basket Amount.....	9.4(a)
Claiming Party.....	7.7(b)
Closing.....	4.1
Closing Date.....	4.1
Closing Statement.....	3.3(c)
Company.....	Recitals

Term	Section
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Company Intellectual Property.....	5.14(a)
Company Lease.....	5.12(a)
Company Leased Property.....	5.12(a)
Company Marks.....	7.8
Company Permits.....	5.19(b)
Company Plans.....	5.16(a)
Company Software.....	5.14(n)
Customer Contracts.....	5.14(e)
Defending Party.....	7.7(b)
Disputed Item.....	3.3(d)
Employees.....	5.16(a)
Escrow Account.....	9.5
Escrow Amount.....	9.5
Estimated NAV.....	3.3(b)
Estimated Purchase Price.....	3.3(b)
Estimated Purchase Price Adjustment.....	3.3(b)
Excluded Asset.....	7.13
Exclusive Supply Agreements.....	8.2(n)
Final NAV.....	3.3(c)
Final Purchase Price.....	3.3(c)
Final Purchase Price Adjustment.....	3.3(c)
Financial Statements.....	5.8(a)
Huge Hill Exclusive Supply Agreement.....	8.2(m)
Indemnification Cap.....	9.4(a)
Indemnification Claim.....	9.3(b)
License.....	7.8
Luk Non-Solicitation Agreement.....	Recitals
Mak Non-Compete.....	Recitals
Material Contracts.....	5.15(a)
NAV.....	3.3(a)
NAV Accounting Principles.....	3.3(b)
Objection.....	3.3(d)
Objection Period.....	3.3(d)
Organic Change.....	3.1(b)
Outside Date.....	4.2(a)
Per Share Value.....	3.1(b)
Personal Property Leases.....	5.13(b)
Purchaser.....	Recitals
Purchaser Documents.....	6.2
Purchaser SEC Reports.....	6.6
Receivables Date.....	3.4
Related Persons.....	5.24
Representatives.....	7.5(a)
Response Date.....	3.3(d)
Rules.....	10.3

Term	Section
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Scheduled Closing Date.....	3.1(b)
Seller.....	Recitals
Seller Documents.....	5.2
Seller Shareholder Approval.....	7.12
Seller Shareholder Meeting.....	7.12
SGX Documents.....	5.8(d)
Share Consideration Amount.....	3.1(b)
Share Election.....	3.1(b)
Share Election.....	3.1(b)
Shutdown Adjustment.....	7.15(b)
Shutdown Support Agreement.....	7.15(a)
Shares.....	Recitals
Sino Gear Exclusive Supply Agreement.....	8.2(n)
Straddle Period.....	9.7(c)
Supplemental Disclosure.....	9.6(a)
Supplemental Disclosure Schedules.....	9.6(a)
Survival Period.....	9.1
Target NAV.....	3.3(a)
Tax Claim.....	9.7(d)(i)
Tax Expert.....	9.7(f)
True-up Amount.....	3.3(c)
Uncollected Accounts Receivable.....	3.4
Unresolved Claims.....	9.5
Unsolicited Offer.....	7.5(d)
Voting Agreements.....	Recitals

(c) Other Definitional and Interpretive Matters. Unless otherwise expressly provided, for purposes of this Agreement, the following rules of interpretation shall apply:

Calculation of Time Period. When calculating the period of time before which, within which or following which any act is to be done or step taken pursuant to this Agreement, the date that is the reference date in calculating such period shall be excluded. If the last day of such period is a non-Business Day, the period in question shall end on the next succeeding Business Day.

Dollars. Any reference in this Agreement to \$ shall mean U.S. dollars and any reference in this Agreement to HK\$ shall mean Hong Kong dollars.

Exhibits/Schedules. The Exhibits and Schedules to this Agreement are hereby incorporated and made a part hereof and are an integral part of this Agreement. All Exhibits and Schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Any capitalized terms used in any Schedule or Exhibit but not otherwise defined therein shall be defined as set forth in this Agreement.

Gender and Number. Any reference in this Agreement to gender shall include all genders, and words imparting the singular number only shall include the plural and vice versa.

Headings. The provision of a Table of Contents, the division of this Agreement into Articles, Sections and other subdivisions and the insertion of headings are for convenience of reference only and shall not affect or be utilized in construing or interpreting this Agreement. All references in this Agreement to any "Section" are to the corresponding Section of this Agreement unless otherwise specified.

Herein. The words such as "herein," "hereinafter," "hereof," "hereby" and "hereunder" refer to this Agreement as a whole and not merely to a subdivision in which such words appear unless the context otherwise requires.

Including. The word "including" or any variation thereof means "including, without limitation" and shall not be construed to limit any general statement that it follows to the specific or similar items or matters immediately following it.

(d) The parties hereto have participated jointly in the negotiation and drafting of this Agreement and, in the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as jointly drafted by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement.

ARTICLE II

SALE AND PURCHASE OF SHARES

2.1 Sale and Purchase of Shares. Upon the terms and subject to the conditions contained herein, on the Closing Date, Seller agrees to sell to Purchaser, free and clear of any and all Liens, and Purchaser agrees to purchase from Seller, the Shares.

ARTICLE III

PURCHASE PRICE

3.1 Purchase Price.

(a) The aggregate purchase price to be paid by Purchaser for the Shares shall be an amount in cash (subject to Section 3.1(b)) equal to forty-eight million two hundred thousand U.S. dollars (\$48,200,000) (as increased by the Shutdown Adjustment, the "Base Purchase Price"), subject to adjustment as provided in Sections 3.3 and 7.15(b).

(b) Notwithstanding anything to the contrary contained in Section 3.1(a), at any time on or prior to the fourth (4th) Business Day before the date that is scheduled by the parties to be the Closing Date (the "Scheduled Closing Date"), Purchaser may, in its sole and absolute discretion, elect (the "Share Election") to pay up to seventy percent (70%) of the Estimated Purchase Price

(such elected amount, the "Share Consideration Amount"), in the form of Purchaser Common Stock. For purposes of this Agreement, the per share value of Purchaser Common Stock (the "Per Share Value") shall be equal to the average closing price of the Purchaser Common Stock as reported on the Nasdaq National Market for a period of twenty (20) Trading Days ending on the date that is five (5) Business Days (if such day is not a Trading Day, then ending on the Trading Day immediately preceding such day) prior to the Closing Date, as equitably adjusted for any Organic Change to Purchaser Common Stock that occurs during or after such measurement period. An "Organic Change" shall mean any recapitalization, reorganization, forward or reverse split, merger, consolidation, spin-off, combination, repurchase, or exchange of equity or other securities, any capital share dividend or other special and nonrecurring dividend or distribution (whether in the form of cash, securities or other property), liquidation, dissolution or any other similar transactions or events that affect the Purchaser Common Stock. In the event that the Closing does not occur on the Scheduled Closing Date (or any new Scheduled Closing Date) for any reason, (i) the parties will schedule a new Scheduled Closing Date and (ii) Purchaser may revoke its existing Share Election and make a new Share Election.

3.2 Payment of Purchase Price. On the Closing Date, Purchaser shall pay:

(a) to Seller the Estimated Purchase Price less the Escrow Amount, which shall be paid to Seller (i) by wire transfer of immediately available funds into accounts designated in writing by Seller not less than three (3) Business Days prior to the Closing Date and, (ii) if Purchaser makes the Share Election pursuant to Section 3.1(b), by delivery to Seller of the number of shares of Purchaser Common Stock equal to the Share Consideration Amount, provided that Purchaser shall pay cash in lieu of any fractional shares of Purchaser Common Stock; and

(b) to the Escrow Agent the Escrow Amount in cash payable by wire transfer of immediately available funds for deposit into the Escrow Account.

3.3 Purchase Price Adjustment.

(a) The target consolidated net asset value (the "NAV") of the Company and the Acquired Subsidiaries as of the Closing Date is one hundred and thirty-three million four hundred thousand Hong Kong dollars (HK\$ 133,400,000) (such target NAV, the "Target NAV").

(b) At least three (3) Business Days prior to the Closing Date, Seller shall prepare and deliver to Purchaser a statement setting forth a reasonably detailed calculation of Seller's good faith estimate of (i) the NAV of the Company and the Acquired Subsidiaries as of the Closing Date (the "Estimated NAV"), prepared in accordance with (A) the books and records of the Company and the Acquired Subsidiaries, and (B) the accounting principles for NAV set forth in Schedule 3.3 (the "NAV Accounting Principles") and (ii) an adjustment to the

Base Purchase Price (such adjustment, the "Estimated Purchase Price Adjustment", and the sum of the Base Purchase Price and the Estimated Purchase Price Adjustment being the "Estimated Purchase Price")), which may be positive or negative, equal to the Estimated NAV minus the Target NAV. The purchase price to be paid by Purchaser on the Closing Date pursuant to Section 3.2 will be increased (or decreased by such amount if negative) by the amount of the Estimated Purchase Price Adjustment.

(c) Purchaser shall prepare and deliver to Seller, within ninety (90) days following the Closing Date, a statement (the "Closing Statement") setting forth a reasonably detailed calculation of (i) the NAV of the Company and the Acquired Subsidiaries as of the Closing Date (the "Final NAV"), prepared in accordance with (A) the books and records of the Company and the Acquired Subsidiaries and (B) the NAV Accounting Principles, (ii) a reasonably detailed explanation of each variance from the Estimated NAV, (iii) an aggregate adjustment to the Base Purchase Price (such adjustment, the "Final Purchase Price Adjustment", and the sum of the Base Purchase Price and the Final Purchase Price Adjustment being the "Final Purchase Price")), which may be positive or negative, equal to the Final NAV minus the Target NAV, and (iv) a true-up amount (the "True-up Amount"), which may be positive or negative, equal to the Estimated Purchase Price Adjustment minus the Final Purchase Price Adjustment.

(d) Seller shall have twenty (20) days from its receipt of the Closing Statement (the "Objection Period") to review the Closing Statement. Purchaser shall grant Seller and its Affiliates and Representatives access at reasonable times and places to all books and records of the Company and the Acquired Subsidiaries that are reasonably requested by Seller in connection with Seller's review of the Closing Statement. Upon the expiration of the Objection Period, Seller shall be deemed to have accepted, and shall be bound by, the Closing Statement and the calculation therein of the Final Purchase Price Adjustment, unless Seller shall have informed Purchaser in writing of its disagreement with the Closing Statement prior to the expiration of the Objection Period (the "Objection"), specifying each disputed item and setting forth in reasonable detail the basis for each such dispute (each, a "Disputed Item"). Purchaser shall have twenty (20) days from the date on which it receives the Objection (the date on which such twenty (20) day period ends, the "Response Date") to review and respond to such Objection. If Purchaser and Seller are able to negotiate a mutually agreeable resolution of each Disputed Item, and each signs a certificate to that effect, the Closing Statement and the calculation therein of the Final Purchase Price Adjustment, and, if applicable, the True-up Amount, as adjusted to reflect such resolution, shall be deemed final, non-appealable and binding for purposes of this Agreement. If within twenty (20) days of the Response Date any Disputed Items have not been resolved, Seller and Purchaser shall refer such Disputed Items to an accounting expert (the "Accounting Referee"), who shall be a partner in the Hong Kong office of the accounting firm of Ernst & Young (or if unable or unwilling to accept such mandate, an independent accountant to be mutually agreed upon by Seller and Purchaser) and who shall accept its appointment within five (5) days after such referral, to make a final, non-appealable and binding determination as to such remaining Disputed Items pursuant to the terms hereof. If Purchaser and Seller cannot agree on the selection of a partner at an independent accounting firm to act as the Accounting Referee, the parties shall request the ICC to appoint such a

partner (who must be an active or recently retired accounting expert with substantial experience with complex financial transactions of the type set forth in this Agreement) and such appointment shall be conclusive and binding on the parties. The Accounting Referee shall be directed to make a determination in accordance with Section 3.3(f) below of the Disputed Items promptly, but no later than thirty (30) days, after acceptance of its appointment. Seller and Purchaser agree to use their commercially reasonable efforts to effect the selection and appointment of the Accounting Referee pursuant to this Section 3.3(e), including executing an engagement agreement with the Accounting Referee providing for reasonable and customary compensation and other terms of such engagement. Seller and Purchaser shall make readily available to the Accounting Referee all relevant books, records and employees of the Company and the Acquired Subsidiaries that are reasonably requested by the Accounting Referee in connection with the Accounting Referee's review of any Disputed Items; provided that Seller, Purchaser and their respective Affiliates shall not be obligated to provide any information the disclosure of which would jeopardize any professional privilege available to such Person relating to such information or which would cause such Person to breach a confidentiality obligation to which it is bound; and provided further that Seller, Purchaser and their respective Affiliates shall use their best efforts to minimize the effects of any such limitations.

(e) If Disputed Items are referred to the Accounting Referee for resolution pursuant to Section 3.3(d) above, the Accounting Referee (i) shall determine only with respect to the Disputed Items submitted whether and to what extent, if any, the Final Purchase Price Adjustment set forth in the Closing Statement and, if applicable, the True-up Amount requires adjustment, (ii) shall utilize the NAV Accounting Principles without modification and (iii) shall not assign a value to any item greater than the greatest value for such item claimed by either party or less than the smallest value for such item claimed by either party. Any finding by the Accounting Referee shall be a reasoned award stating in reasonable detail the findings of fact on which it is based, shall be final, non-appealable and binding upon the parties and shall be the sole and exclusive remedy between the parties regarding the Disputed Items so presented. The fees and expenses of the Accounting Referee shall be borne by Seller and Purchaser in the same proportion that the dollar amount of Disputed Items which are not resolved in favor of Seller or Purchaser, as applicable, bears to the total dollar amount of Disputed Items resolved by the Accounting Referee. For illustration purposes only, (A) if the total amount of Disputed Items by Seller is \$1,000, and Seller is awarded \$500 by the Accounting Referee, Seller and Purchaser shall bear the Accounting Referee's fees and expenses equally; or (B) if the total amount of Disputed Items by Seller is \$1,000, and Seller is awarded \$250 by the Accounting Referee, Seller shall bear seventy-five percent (75%) and Purchaser shall bear twenty-five percent (25%) of the Accounting Referee's fees and expenses. Each of Seller and Purchaser shall bear the fees, costs and expenses of its own accountants and all of its other expenses incurred in connection with matters contemplated by this Section 3.3.

(f) If the True-up Amount is a positive number, then Seller shall pay to Purchaser such amount in cash. If the True-up Amount is a negative number, then Purchaser shall pay to Seller such amount in cash. Payment of the True-up Amount calculated pursuant to this Section 3.3 shall be made (i) if no Objection

is made by Seller during the Objection Period, within five (5) Business Days following the expiration of the Objection Period or (ii) if Seller submits an Objection within the Objection Period, within five (5) Business Days following final resolution of all Disputed Items by the parties or the Accounting Referee. Payment of the True-up Amount shall be made by wire transfer of immediately available funds to an account designated by the parties receiving such funds.

3.4 Uncollected Accounts Receivable. Within five (5) Business Days of the date (the "Receivables Date") that is one hundred and eighty (180) days after the Closing Date, Seller shall pay to Purchaser an amount equal to the Uncollected Accounts Receivable. For purposes of this Agreement, "Uncollected Accounts Receivable" means the accounts receivable of the Company and the Acquired Subsidiaries as of the Closing Date to the extent that they are not collected on or prior to the Receivables Date. From and after the Receivables Date, Purchaser shall use commercially reasonable efforts, consistent with the Company's and the Acquired Subsidiaries' past practices of collecting accounts receivable, to collect any Uncollected Accounts Receivable, and shall remit to Seller any proceeds thereof within five (5) Business Days of receipt thereof.

ARTICLE IV

CLOSING AND TERMINATION

4.1 Closing Date. The consummation of the sale and purchase of the Shares provided for in Section 2.1 hereof (the "Closing") shall take place in Hong Kong (or at such other place as the parties may designate in writing) at 2:30 p.m. local time on the date (the "Closing Date") which is the fourth (4th) Business Day after the satisfaction or waiver of all of the conditions set forth in Article VIII (other than conditions that by their nature are to be satisfied at Closing, but subject to the satisfaction or waiver of those conditions at such time), unless another time, date or place is agreed to by the parties hereto.

4.2 Termination of Agreement. This Agreement may be terminated prior to the Closing as follows:

(a) At the election of Seller or Purchaser on or after the date which is six (6) months after the date hereof (the "Outside Date"), if the Closing shall not have occurred on or before such date, provided that (i) the terminating party is not in material default of any of its obligations hereunder and (ii) the right to terminate this Agreement pursuant to this Section 4.2(a) shall not be available to any party whose breach of any provision of this Agreement has been the cause of, or resulted, directly or indirectly, in, the failure of the Closing to be consummated by the Termination Date;

(b) by mutual written consent of Seller and Purchaser;

(c) in the event that a Material Adverse Effect has occurred, by written notice from Purchaser to Seller that there has been a Material Adverse Effect;

(d) by Seller or Purchaser if there shall be in effect a final non-appealable Order of a Governmental Body of competent jurisdiction restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated hereby; it being agreed that the parties hereto shall promptly appeal any adverse determination which is not non-appealable (and pursue such appeal with reasonable diligence); provided, however, that the right to terminate this Agreement under this Section 4.2(d) shall not be available to a party if such Order was primarily due to the failure of such party to perform any of its obligations under this Agreement;

(e) by Purchaser if either Seller or the Company shall have breached or failed to perform any of its representations, warranties, covenants or agreements set forth in this Agreement, or if any representation or warranty of Seller or the Company shall have become untrue, in either case such that the conditions set forth in Sections 8.2(a) or 8.2(b) would not be satisfied and such breach is incapable of being cured or, if capable of being cured, shall not have been cured within ten (10) days following receipt by Seller of notice of such breach from Purchaser;

(f) by Seller if Purchaser shall have breached or failed to perform any of its representations, warranties, covenants or agreements set forth in this Agreement, or if any representation or warranty of Purchaser shall have become untrue, in either case such that the conditions set forth in Sections 8.3(a) or 8.3(b) would not be satisfied and such breach is incapable of being cured or, if capable of being cured, shall not have been cured within ten (10) days following receipt by Purchaser of notice of such breach from Seller;

(g) by Seller or Purchaser if the Seller Shareholder Approval shall not have been obtained at the Seller Shareholder Meeting; or

(h) by Purchaser if Seller has provided any Supplemental Disclosure pursuant to Section 9.6(b).

4.3 Procedure Upon Termination. In the event of termination and abandonment by Purchaser and/or Seller pursuant to Section 4.2 hereof, written notice thereof shall forthwith be given to the other party or parties, and this Agreement shall terminate, and the purchase of the Shares hereunder shall be abandoned, without further action by Purchaser or Seller.

4.4 Effect of Termination. In the event that this Agreement is validly terminated as provided herein, then each of the parties shall be relieved of their duties and obligations arising under this Agreement after the date of such termination and such termination shall be without liability to Purchaser, Seller or the Company; provided, however, that the obligations of the parties set forth in this Section 4.4 and Section 7.6, Article X and, to the extent necessary to effectuate the foregoing enumerated provisions, Article I hereof, shall survive any such termination and shall be enforceable hereunder; provided further, however, that nothing in this Section 4.4 shall relieve Purchaser, Seller or the Company of any liability for a breach of this Agreement prior to the effective date of termination.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF SELLER

Seller hereby represents and warrants to Purchaser that except as specifically disclosed in the disclosure schedules attached hereto:

5.1 Organization and Good Standing. Seller is a corporation duly organized, validly existing and in good standing under the laws of Bermuda, and the Company is a corporation duly organized, validly existing and in good standing under the laws of the British Virgin Islands. Each of Seller and the Company has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as now conducted. The Company is duly qualified or authorized to do business as a foreign corporation and is in good standing under the laws of each jurisdiction in which it owns or leases real property and each other jurisdiction in which the conduct of its business or the ownership of its properties requires such qualification or authorization, except where the failure to be so qualified, authorized or in good standing would not have a Material Adverse Effect.

5.2 Authorization of Agreement. Each of Seller and the Company has full corporate power and authority to execute and deliver this Agreement and each other agreement, document, instrument or certificate contemplated by this Agreement or to be executed by such party in connection with the consummation of the transactions contemplated by this Agreement (the "Seller Documents"), and, subject to obtaining the Seller Shareholder Approval, to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement and each of the Seller Documents, and the consummation of the transactions contemplated hereby and thereby, have been duly authorized and approved by all necessary corporate action on the part of Seller and the Company, as applicable, subject to obtaining the Seller Shareholder Approval. This Agreement has been, and each Seller Document will be at or prior to the Closing, duly and validly executed and delivered by Seller and the Company, as applicable, and (assuming due authorization, execution and delivery by the other parties hereto and thereto, and subject to obtaining the Seller Shareholder Approval) this Agreement constitutes, and each Seller Document when so executed and delivered will constitute, the legal, valid and binding obligation of Seller and the Company, as applicable, enforceable against each of Seller and the Company in accordance with its respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity).

5.3 Conflicts; Consents of Third Parties.

(a) Neither the execution and delivery by Seller of this Agreement and of the Seller Documents, nor the compliance by Seller with any of the provisions hereof or thereof will (i) conflict with, or result in the breach of, any

provision of the certificate of incorporation or by-laws (or equivalent organizational documents) of Seller, (ii) conflict with, violate, result in the breach of, or constitute a default under any note, bond, mortgage, indenture, license, agreement or other obligation to which Seller is a party or by which Seller or its properties or assets are bound or (iii) violate any statute, rule, regulation or Order of any Governmental Body by which Seller is bound, except, in the case of clauses (ii) and (iii), for such violations, breaches or defaults as would not, individually or in the aggregate, have a Material Adverse Effect on the ability of Seller to consummate the transactions contemplated by this Agreement.

(b) None of the execution and delivery of this Agreement by the Company, or the Seller Documents by the Company or any of the Acquired Subsidiaries to which any is a party, the consummation of the transactions contemplated hereby or thereby, or compliance by the Company and any Acquired Subsidiaries with any of the provisions hereof or thereof will conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a material benefit under, or give rise to any obligation of the Company or any Acquired Subsidiaries to make any payment under, or to the increased, additional, accelerated or guaranteed rights or entitlements of any Person under, or result in the creation of any Liens upon any of the properties or assets of the Company or any Acquired Subsidiary under, any provision of (i) the organizational documents of the Company or any Acquired Subsidiary, (ii) any material Contract or Permit to which the Company or any Acquired Subsidiary is a party or by which any of the properties or assets of the Company or any Acquired Subsidiary are bound, (iii) any Order of any Governmental Body applicable to the Company or any Acquired Subsidiary or any of the properties or assets of the Company or any Acquired Subsidiary or by which any of the properties or assets of the Company or any Acquired Subsidiary are bound or (iv) any applicable Law.

(c) No consent, waiver, approval, Order, Permit or authorization of, or declaration or filing with, or notification to, any Person or Governmental Body is required on the part of Seller, the Company or any Acquired Subsidiary in connection with (i) the execution and delivery of this Agreement or the Seller Documents, the compliance by Seller and the Company with any of the provisions hereof or thereof, or the consummation of the transactions contemplated hereby or thereby or (ii) the continuing validity and effectiveness immediately following the Closing of any Permit or Contract of the Company or any Acquired Subsidiary.

5.4 Ownership and Transfer of the Shares; Other Assets of Seller.

Seller is the record and beneficial owner of all of the Shares, free and clear of any and all Liens. Seller has the power and authority to sell, transfer, assign and deliver the Shares as provided in this Agreement, and such delivery will convey to Purchaser legal and beneficial title to the Shares, with full title guarantee, free and clear of any and all Liens.

5.5 Capitalization.

(a) The authorized share capital of the Company consists of 50,000 Ordinary Shares. As of the date hereof, there are 10,500 Ordinary Shares issued and outstanding and no Ordinary Shares are held by the Company as treasury shares. All of the issued and outstanding Ordinary Shares were duly authorized for issuance and are validly issued and fully paid up and were not issued in violation of any preemptive or similar rights. The Shares represent all of the outstanding Ordinary Shares.

(b) There is no existing option, warrant, call, right or Contract of any character to which Seller or the Company is a party requiring, and there are no securities of the Company outstanding which upon conversion or exchange would require, the issuance, sale or transfer of any additional capital shares or other equity securities of the Company or other securities convertible into, exchangeable for or evidencing the right to subscribe for or purchase capital shares or other equity securities of the Company. There are no obligations, contingent or otherwise, of the Company or the Acquired Subsidiaries to (i) repurchase, redeem or otherwise acquire any Ordinary Shares or the share capital or other equity interests of any Acquired Subsidiary or (ii) provide material funds to, or make any material investment in (in the form of a capital contribution, loan or otherwise), or provide any guarantee with respect to the obligations of, any Person. There are no outstanding share appreciation, phantom shares, profit participation or similar rights of the Company or any of the Acquired Subsidiaries. There are no bonds, debentures, notes or other indebtedness of the Company or the Acquired Subsidiaries having the right to vote or consent (or, convertible into, or exchangeable for, securities having the right to vote or consent) on any matters on which shareholders (or other equityholders) of the Company or the Acquired Subsidiaries may vote. There are no voting trusts, irrevocable proxies or other Contracts to which Seller, the Company or any Acquired Subsidiary is a party or is bound with respect to the voting or consent rights of any Ordinary Shares or the equity interests of any Acquired Subsidiary.

5.6 Subsidiaries. Schedule 5.6 sets forth the name of each Subsidiary, and, with respect to each Subsidiary, the jurisdiction in which it is incorporated or organized, the number of shares of its authorized share capital, the number and class of shares thereof duly issued and outstanding, the names of all shareholders or other equity owners, the number of capital shares owned by each shareholder or the amount of equity owned by each equity owner and, with respect to each of the Acquired Subsidiaries, the jurisdictions, if any, in which it is qualified to do business. Each Subsidiary is a duly organized and validly existing corporation in good standing under the laws of the jurisdiction of its incorporation or organization and is duly qualified or authorized to do business as a foreign corporation or entity and is in good standing under the laws of each jurisdiction in which the conduct of its business or the ownership of its properties requires such qualification or authorization, except where the failure to be so qualified, authorized or in good standing has not had and would not reasonably be likely to have a Material Adverse Effect. Each Acquired Subsidiary has all requisite corporate or entity power and authority to own its properties and carry on its business as presently conducted. The outstanding capital shares or equity interests of each Acquired Subsidiary are validly issued, fully paid and non-assessable and were not issued in violation of any preemptive or similar rights. All such shares or other equity interests represented as being owned by the Company or any of the Acquired Subsidiaries are owned by them free and clear of any and all Liens. No capital shares of any Acquired Subsidiary are held by such Acquired Subsidiary. There is no existing

option, warrant, call, right or Contract to which any Acquired Subsidiary is a party requiring, and there are no convertible securities of any Acquired Subsidiary outstanding which upon conversion would require, the issuance of any capital shares or other equity interests of any Acquired Subsidiary or other securities convertible into capital shares or other equity interests of any Acquired Subsidiary. As of the date of this Agreement, the Company does not own, directly or indirectly, any capital shares or equity securities of any Person other than the Subsidiaries. There are no material restrictions on the ability of the Acquired Subsidiaries to make distributions of cash to their respective equity holders.

5.7 Corporate Records.

(a) Seller or the Company has provided to Purchaser in the data room or delivered to Purchaser pursuant to Purchaser's request true, correct and complete copies of the constitutional documents of the Company and each of the Acquired Subsidiaries, in each case as amended and in effect on the date hereof, including all amendments thereto.

(b) The minute books of the Company and each Acquired Subsidiary previously made available to Purchaser contain true, correct and materially complete records of all meetings for at least the last three (3) years prior to the date hereof, and properly reflect all other corporate action of the shareholders and board of directors (including committees thereof) of the Company and the Acquired Subsidiaries during such time (if required). The share certificate books and share transfer ledgers of the Company and the Acquired Subsidiaries previously made available to Purchaser are true, correct and materially complete. All share transfer taxes or duties levied, if any, or payable with respect to all transfers of shares of the Company and the Acquired Subsidiaries prior to the date hereof have been paid and appropriate transfer tax or duty stamps affixed.

5.8 Financial Statements.

(a) Seller or the Company has provided to Purchaser in the data room or delivered to Purchaser pursuant to Purchaser's request copies of the audited consolidated balance sheets of Seller and its consolidated subsidiaries as of March 31, 2005, 2004 and 2003 and the related audited consolidated statements of income and of cash flows of Seller and its consolidated subsidiaries for the years then ended (such audited statements, including the related notes and schedules thereto, are referred to herein as the "Financial Statements"). Each of the Financial Statements is complete and correct in all material respects, has been prepared in accordance with IFRS consistently applied by Seller without modification of the accounting principles used in the preparation thereof throughout the periods presented and presents a true and fair view in all material respects the consolidated financial position, results of operations and cash flows of Seller and its consolidated subsidiaries, including the Company and the Acquired Subsidiaries, as at the dates and for the periods indicated therein. The audited consolidated balance sheet of Seller and its consolidated subsidiaries as at March 31, 2005 is referred to herein as the "Balance Sheet" and March 31, 2005 is referred to herein as the "Balance Sheet Date."

(b) All books, records and accounts of Seller and its consolidated subsidiaries, including the Company and the Acquired Subsidiaries, are accurate and complete in all material respects and are maintained in all material respects in accordance with good business practice and all applicable Laws. Seller and its consolidated subsidiaries, including the Company and the Acquired Subsidiaries, maintain systems of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization, (ii) transactions are recorded as necessary to permit the preparation of financial statements in conformity with IFRS and to maintain accountability for assets, (iii) access to material assets is permitted only in accordance with management's general or specific authorization and (iv) the recorded accountability for material assets is compared with the actual levels at reasonable intervals and appropriate action is taken with respect to any differences.

(c) The reports of Seller's independent auditors regarding Seller's consolidated financial statements in the SGX filings have not been withdrawn, supplemented or modified, and none of Seller or its consolidated subsidiaries, including the Company and the Acquired Subsidiaries, has received any communication from its independent auditors concerning any such withdrawal, supplement or modification. Seller has provided to Purchaser in the data room or delivered to Purchaser pursuant to Purchaser's request copies of all issued annual reports, auditors' reports, letters from its auditors to management regarding accounting practices and systems of internal controls, and all written responses to such letters from management, whether the same are issued to Seller or any of its consolidated subsidiaries, for the past three (3) financial years. Seller or the Company has also provided to Purchaser in the data room or delivered to Purchaser pursuant to Purchaser's request copies of all announcements and circulars issued in the past three (3) financial years.

5.9 No Undisclosed Liabilities. None of Seller, the Company or any Subsidiary has any Indebtedness, Liabilities (whether or not required under IFRS to be reflected on a balance sheet or the notes thereto) or obligations of any kind other than those (i) specifically reflected on and properly reserved against in the Balance Sheet, (ii) incurred in the Ordinary Course of Business since the Balance Sheet Date or (iii) that are immaterial to the Company and the Acquired Subsidiaries taken as a whole.

5.10 Absence of Certain Developments. Except as expressly contemplated by this Agreement, since the Balance Sheet Date: (a) the Company and the Acquired Subsidiaries have conducted their respective businesses only in the Ordinary Course of Business; and (b) there has not been any event, change, occurrence or circumstance that has had or, to the Knowledge of Seller or the Company, would reasonably be likely to have a Material Adverse Effect. Without limiting the generality of the foregoing, since the Balance Sheet Date:

(i) there has not been any damage, destruction or loss, whether or not covered by insurance, with respect to the property and assets of the Company or any Acquired Subsidiary having a replacement cost of more than \$100,000 for any single loss or \$500,000 for all such losses;

(ii) there has not been any declaration, setting aside or payment of any dividend or other distribution in respect of any capital shares of the Company or any repurchase, redemption or other acquisition by the Company or any Acquired Subsidiary of any outstanding capital shares or other securities of, or other ownership interest in, the Company or any Acquired Subsidiary;

(iii) neither the Company nor any Acquired Subsidiary has (A) awarded or paid any bonuses to employees of the Company or any Acquired Subsidiary with respect to the fiscal year ended March 31, 2005, except to the extent accrued on the Balance Sheet, (B) entered into (1) any employment agreement outside of the Ordinary Course of Business or (2) any deferred compensation, severance or similar agreement (nor amended any such agreement), (C) agreed to increase, outside of the Ordinary Course of Business, the compensation payable or to become payable by it to any of the Company's or any Acquired Subsidiary's directors, officers or employees, or (D) agreed to increase, outside the Ordinary Course of Business, the coverage or benefits available under any severance pay, termination pay, vacation pay, company awards, salary continuation for disability, sick leave, deferred compensation, bonus or other incentive compensation, insurance, pension or other employee benefit plan, payment or arrangement made to, for or with such directors, officers or employees;

(iv) there has not been any material change by the Company or any Acquired Subsidiary in accounting or Tax reporting principles, methods or policies;

(v) neither the Company nor any Acquired Subsidiary has made or rescinded any election relating to Taxes or settled or compromised any claim relating to Taxes other than those of a de minimus value;

(vi) neither the Company nor any Acquired Subsidiary has failed to promptly pay and discharge current liabilities except where disputed in good faith by appropriate proceedings;

(vii) neither the Company nor any Acquired Subsidiary has made any loans, advances or capital contributions to, or investments in, any Person or, outside of the Ordinary Course of Business, paid any fees or expenses to Seller or any director, officer, partner, shareholder or Affiliate of Seller;

(viii) neither the Company nor any Acquired Subsidiary has (A) mortgaged, pledged or subjected to any Lien any of its assets, except for Permitted Exceptions, or (B) acquired any material assets or sold, assigned, transferred, conveyed, leased or otherwise disposed of any material assets of the Company or any Acquired Subsidiary, except in the case of clause (B) for assets acquired, sold, assigned, transferred, conveyed, leased or otherwise disposed of in the Ordinary Course of Business;

(ix) neither the Company nor any Acquired Subsidiary has discharged or satisfied any Lien, or paid any obligation or Liability, except in the Ordinary Course of Business;

(x) neither the Company nor any Acquired Subsidiary has canceled or compromised any debt or claim or amended, canceled, terminated, relinquished, waived or released any Contract or right except in the Ordinary Course of Business and which, in the aggregate, would not be material to the Company and the Acquired Subsidiaries taken as a whole;

(xi) neither the Company nor any Acquired Subsidiary has made or committed to make any capital expenditures or capital additions or betterments in excess of \$100,000 individually or \$500,000 in the aggregate;

(xii) neither Company nor any Acquired Subsidiary has issued, created, incurred, assumed or guaranteed any Indebtedness;

(xiii) neither the Company nor any Acquired Subsidiary has instituted or settled any material Legal Proceeding; and

(xiv) neither Seller nor the Company has agreed or committed to do anything set forth in this Section 5.10.

5.11 Taxes.

(a) All Returns required to be filed by or on behalf of the Company and any Subsidiary have been duly and timely (including any extensions or grace periods) filed with the appropriate Taxing Authority in all jurisdictions in which such Tax Returns are required to be filed (after giving effect to any valid extensions of time in which to make such filings), and all such Tax Returns are true, correct and materially complete. No other entity files Tax Returns for or on behalf of the Company or any Subsidiary. All Taxes payable by or on behalf of the Company and any Subsidiary have been duly and timely (including any extensions or grace periods) paid. With respect to any period prior to the date of this Agreement or prior to the Closing Date, as the case may be, for which Tax Returns have not yet been filed or for which Taxes are not yet due or owing, or for which Taxes have otherwise not yet been paid, such Tax liability does not exceed the accruals or reserves for such Tax liability in the Financial Statements and its books and records. All required estimated Tax payments sufficient to avoid any underpayment penalties or interest have been made by or on behalf of the Company and each Subsidiary.

(b) The Company and each Acquired Subsidiary has complied in all material respects with all applicable Laws relating to the payment and withholding of Taxes and has duly and timely (including any extensions or grace periods) withheld and paid over to the appropriate Taxing Authority all amounts required to be so withheld and paid under all applicable Laws.

(c) Seller or the Company has provided to Purchaser in the data room or delivered to Purchaser pursuant to Purchaser's request materially complete copies of (i) all income or franchise Tax Returns, if available, of the Company and the Acquired Subsidiaries relating to the taxable years ended March 31, 2005, 2004 and 2003 and (ii) any audit report issued by a Taxing Authority within the last three (3) years relating to any Taxes due from or with respect to the Company or any Acquired Subsidiary.

(d) Schedule 5.11 lists to the Knowledge of Seller or the Company (i) all material types of Taxes paid, and all types of Tax Returns filed by or on behalf of the Company or any Acquired Subsidiary, and (ii) all of the jurisdictions that impose such Taxes and/or duty to file such Tax Returns. Neither the Company nor any Acquired Subsidiary has received notice that any claim has been made by a Taxing Authority in a jurisdiction where the Company or any Acquired Subsidiary does not file Tax Returns such that it is or may be subject to taxation by that jurisdiction.

(e) All deficiencies asserted or assessments made as a result of any examinations by any Taxing Authority of the Tax Returns of, or including, the Company or any Acquired Subsidiary have been fully paid, and there are no other audits or, to the Knowledge of Seller or the Company, investigations by any Taxing Authority in progress, nor has Seller, the Company or any of the Acquired Subsidiaries received any notice from any Taxing Authority that it intends to conduct such an audit or investigation.

(f) Neither the Company nor any Acquired Subsidiary nor any other Person on their behalf has (i) agreed to or is required to make any material adjustments or has any Knowledge that any Taxing Authority has proposed any such material adjustment, or has any application pending with any Taxing Authority requesting permission for any material changes in accounting methods that relate to the Company or any Acquired Subsidiary, (ii) executed or entered into a "closing" or settlement agreement with any Taxing Authority with respect to any Tax liability of the Company or any Acquired Subsidiary, (iii) requested any extension of time within which to file any Tax Return, which Tax Return has since not been filed within such extension of time, (iv) been granted any extension for the assessment or collection of Taxes, which Taxes have not since been paid when due, or (v) granted to any Person any power of attorney that is currently in force with respect to any Tax matter.

(g) Neither the Company nor any Acquired Subsidiary is a party to any tax sharing, allocation, indemnity or similar agreement or arrangement (whether or not written) pursuant to which it will have any obligation to make any payments pursuant to such agreement or arrangement after the Closing.

(h) Neither the Company nor any Acquired Subsidiary has been subject to any private letter ruling or comparable rulings of any Taxing Authority within the past three (3) years.

(i) There are no liens as a result of any unpaid Taxes upon any of the assets of the Company or any Acquired Subsidiary.

(j) Without limiting the scope of any other representation or warranty, all capital contributions have been made in respect of MultiVision Intelligent Surveillance (Zhu Hai) Limited to maintain its favorable tax treatment in China, except to the extent that the cash distributions to be made by the Company and the Acquired Subsidiaries immediately prior to the Closing, as contemplated by this Agreement, reduce the share capital of MultiVision Intelligent Surveillance (Zhu Hai) Limited.

(k) There is no taxable income of the Company or any of the Acquired Subsidiaries that will be required under applicable tax law to be reported by Purchaser or any of its Affiliates, including the Company or any of the Acquired Subsidiaries, for a taxable period beginning after the Closing Date which taxable income was received and enjoyed prior to the Closing Date. Indemnification or other liability for breaches of this Section 5.11(k) shall be limited to the amount of the tax that would have been borne by Seller, the Company or the Subsidiaries had the sale of the Shares herein not taken place.

(l) Neither the Company nor any non-U.S. Acquired Subsidiary has or was required to file any United States Tax Returns.

(m) Neither the Company nor any Acquired Subsidiary has filed with the U.S. Internal Revenue Service any Tax elections for U.S. Tax purposes.

(n) Neither the Company nor any non-U.S. Acquired Subsidiary has any investment (directly or indirectly) in United States real property.

(o) The Company and the Acquired Subsidiaries have properly maintained all intercompany agreements and concurrent and supporting documentation as required under all applicable tax laws, such that no transfer pricing amounts will be denied as deductions or will be considered to have created income to the Company or any of the Acquired Subsidiaries of a type other than that specified in the intercompany agreement in any jurisdiction either by reason of a lack of proper agreements or supporting documentation or by reason of a non-compliance with the "arm's length" principle as defined under applicable tax laws.

(p) Neither the Company nor any of the Acquired Subsidiaries has agreed to participate in, or cooperate with, an international boycott.

5.12 Real Property.

(a) Neither the Company nor the Acquired Subsidiaries own any real property or interests in real property. Schedule 5.12 sets forth a complete list of all real property and interests in real property leased by the Company and the Acquired Subsidiaries (the "Company Leased Properties") as lessee or lessor, including a description of each such Company Leased Property (including the name of the third party lessor or lessee and the date of the lease or sublease and all amendments thereto). The Company Leased Properties constitute all interests in real property currently used, occupied or currently held for use in connection with the business of the Company and the Acquired Subsidiaries and which are necessary for the continued operation of the business of the Company and the Acquired Subsidiaries as the business is currently conducted. All

Company Leased Property, buildings, fixtures and improvements thereon leased by the Company and the Acquired Subsidiaries are (i) in good condition (except for ordinary wear and tear), and all mechanical and other systems located thereon are in good condition (except for ordinary wear and tear), and, to the Knowledge of Seller or the Company, no condition exists requiring material repairs, alterations or corrections, and (ii) suitable, sufficient and appropriate in all respects for their current uses. To the Knowledge of Seller or the Company, none of the improvements located on the Company Leased Properties constitute a legal non-conforming use or otherwise require any special dispensation, variance or special permit under any Laws. Seller or the Company has provided to Purchaser in the data room or delivered to Purchaser pursuant to Purchaser's request true, correct and materially complete copies of all Contracts related to the Company Leased Property (each such Contract, a "Company Lease"), together with all amendments, modifications or supplements thereto, if any, as of the date of delivery.

(b) The Company and the Acquired Subsidiaries, as applicable, have a valid and enforceable leasehold interest under each of the Company Leases, free and clear of all Liens other than Permitted Exceptions, and each of the Company Leases is in full force and effect. The Company is not in material default under any of the Company Leases, and, to the Knowledge of Seller or the Company, no events have occurred and no circumstances exist which, if not remedied, and whether with or without notice or the passage of time or both, would result in such a material default. Neither the Company nor any Acquired Subsidiary has received or given any notice of any default or event that, to the Knowledge of Seller or the Company, with notice or lapse of time, or both, would constitute a default by the Company or any Acquired Subsidiary under any of the Company Leases and, to the Knowledge of Seller or the Company, no other party is in material default thereof, and no party to the Company Leases has exercised any termination rights with respect thereto.

(c) The Company and the Acquired Subsidiaries have all certificates of occupancy and Permits of any Governmental Body necessary for the current use and operation of each Company Leased Property, and the Company and the Acquired Subsidiaries have fully complied with all material conditions of the Permits applicable to them. None of Seller, the Company or any Acquired Subsidiary has received any notice of any default, violation or event that, to the Knowledge of Seller or the Company, with notice or lapse of time, or both, would constitute a default or violation by the Company or any Acquired Subsidiary in the due observance of any Permit

(d) There does not exist any actual or, to the Knowledge of Seller or the Company, threatened or contemplated condemnation (or order not to occupy) or compulsory acquisition proceedings by a Governmental Body that affect any Company Leased Property or any part thereof, and neither Seller nor the Company has received any notice, oral or written, of the intention of any Governmental Body or other Person to take or use all or any part thereof.

(e) Neither Seller nor the Company has received any written notice from any insurance company that has issued a policy with respect to any Company Leased Property requiring performance of any structural or other repairs or alterations to such Company Leased Property.

(f) Neither the Company nor any Acquired Subsidiary owns or holds, and is not obligated under or a party to, any sublease, option to purchase, right of occupancy, right of first refusal or other contractual right to purchase, acquire, sell, assign or dispose of any real estate or any portion thereof or interest therein, other than lease renewal options.

5.13 Tangible Personal Property.

(a) The Company and the Acquired Subsidiaries have legal and beneficial title to all of the items of tangible personal property reflected on the Balance Sheet (except as sold or disposed of subsequent to the date thereof in the Ordinary Course of Business and not in violation of this Agreement), free and clear of any and all Liens, other than the Permitted Exceptions. All such items of tangible personal property which, individually or in the aggregate, are material to the operation of the business of the Company and the Acquired Subsidiaries are in good condition and in a state of good maintenance and repair (ordinary wear and tear excepted) and are suitable for the purposes used.

(b) Schedule 5.13 sets forth all leases of personal property ("Personal Property Leases") involving annual payments in excess of \$5,000 relating to personal property used in the business of the Company or any of the Acquired Subsidiaries or to which the Company or any of the Acquired Subsidiaries is a party. All of the items of personal property under the Personal Property Leases are in good condition and repair (ordinary wear and tear excepted) and are suitable for the purposes used, and such property is in all material respects in the condition required of such property by the terms of the lease applicable thereto during the term of the lease. Seller or the Company has provided to Purchaser in the data room or delivered to Purchaser pursuant to Purchaser's request true, correct and materially complete copies of the Personal Property Leases, together with all amendments, modifications or supplements thereto as of the date of such delivery.

(c) The Company and each of the Acquired Subsidiaries have a valid and enforceable leasehold interest under each of the Personal Property Leases under which it is a lessee, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity). Each of the Personal Property Leases is in full force and effect and neither the Company nor any Acquired Subsidiary has received or given any notice of any default or event that, to the Knowledge of Seller or the Company, with notice or lapse of time, or both, would constitute a default by the Company or any Acquired Subsidiary under any of the Personal Property Leases and, to the Knowledge of Seller or the Company, no other party is in material default thereof, and neither the Company or any Acquired Subsidiary has exercised any termination rights with respect to a Personal Property Lease or received notice of the exercise of any termination right by any other party to a Personal Property Lease.

5.14 Intellectual Property.

(a) Schedule 5.14(a) sets forth an accurate and complete list of all Patents, registered Marks, registered Copyrights, material unregistered Marks and material unregistered Copyrights owned by the Company or the Acquired Subsidiaries, and lists the jurisdictions in which each such item of Intellectual Property has been issued or registered or in which any such application for such issuance and registration has been filed (the "Company Intellectual Property"). Each item of the Company's Intellectual Property and Technology is valid (except that with respect to Patents, each Patent is valid only to the Knowledge of Seller), enforceable and subsisting; all necessary registration, maintenance and renewal fees in connection with registered Company Intellectual Property have been paid and all necessary documents and certificates in connection with registered Company Intellectual Property have been filed with the relevant patent, copyright, trademark or other authorities in the United States or foreign jurisdictions, as the case may be, for the purposes of perfecting or maintaining such registered Company Intellectual Property. There are no actions that must be taken by the Company or the Acquired Subsidiaries within ninety (90) days of the Closing Date for the purposes of obtaining, maintaining, perfecting or renewing any such registrations and applications.

(b) The Company or the Acquired Subsidiaries owns, licenses or otherwise possesses legally enforceable rights, to use all Company Intellectual Property and all of the Intellectual Property and Technology used in and necessary to conduct the business and operations of the Company or the Acquired Subsidiaries as presently conducted, including the design, development, manufacture, use, import, marketing, sale, distribution, and provision of products, technology and services, and each of the Copyrights listed on Schedule 5.14(a) in any works of authorship prepared by or for the Company or the Acquired Subsidiaries that resulted from or arose out of any work performed by or on behalf of the Company or the Acquired Subsidiaries or by any employee, officer, consultant or contractor of any of them, in each case, is free and clear of all Liens or obligations to others (except for those specified licenses included in Schedule 5.14(d)).

(c) The Intellectual Property and Technology owned or otherwise commercially exploited by the Company or any of the Acquired Subsidiaries, and the development, manufacturing, licensing, marketing, importation, offer for sale, sale or use of the Technology or the products of the Company or the Acquired Subsidiaries in connection with the business as presently conducted, and the Company's or any of the Acquired Subsidiaries' present business practices and methods do not infringe, violate or constitute an unauthorized use or misappropriation of any Intellectual Property right of any third party (including pursuant to any non-disclosure agreements or obligations to which the Company or any of the Acquired Subsidiaries or any of their present or former employees is a party). The Intellectual Property and Technology owned by or licensed to the Company or any of the Acquired Subsidiaries includes all of the

Intellectual Property rights used by the Company and the Acquired Subsidiaries to conduct their businesses in the manner in which such business is currently being conducted. For the avoidance of doubt, Seller shall not be in breach of this Section 5.14(c) for any infringement of any Intellectual Property right of any third party in respect of the use or other exploitation by the Company or the Acquired Subsidiaries first arising after the Closing Date of (i) material unregistered Marks owned by the Company and the Acquired Subsidiaries or (ii) material unregistered Copyrights owned by the Company and the Acquired Subsidiaries which do not relate to applications or software developed by the Company and the Acquired Subsidiaries.

(d) Except with respect to licenses of commercial off-the-shelf Software, Schedule 5.14(d) sets forth a complete and accurate list of all Intellectual Property Licenses pursuant to which the Company or the Acquired Subsidiaries licenses or otherwise is authorized to use any Intellectual Property or Technology used in the business of the Company and the Acquired Subsidiaries as currently conducted. Each of the Intellectual Property Licenses has been duly approved or recorded with appropriate government authorities if applicable, is in full force and effect and is the legal, valid and binding obligation of the Company and/or the Acquired Subsidiaries, enforceable in accordance with its terms. Neither the Company nor any Acquired Subsidiary is in default under any Intellectual Property License, nor, to the Knowledge of Seller or the Company, is any other party to any Intellectual Property License in default thereunder, and no event has occurred that with the lapse of time or the giving of notice or both would constitute a default thereunder. Neither the Company nor any Acquired Subsidiary has exercised any termination rights with respect to an Intellectual Property License or received notice of the exercise of any termination right by any other party to an Intellectual Property License. Following the Closing, the Company will continue to exercise all of the Company's rights under such Intellectual Property Licenses to the same extent and in the same manner the Company would have been able to had the transaction not occurred, and without the payment of any additional consideration and without the necessity of any third party consent. Except pursuant to the licenses set forth on Schedule 5.14(d), neither the Company nor any of the Acquired Subsidiaries is required, obligated, or under any liability whatsoever, to make any payments by way of royalties, fees or otherwise or provide any other consideration of any kind, to any third party with respect to use of any Intellectual Property or Technology used in the businesses of the Company and the Acquired Subsidiaries as currently conducted other than commercial off-the-shelf Software.

(e) Schedule 5.14(e) sets forth a complete and accurate list of all Contracts (other than with respect to subsections (i) and (iii) below, Contracts of the Company or any Acquired Subsidiary to provide products or services to their customers or clients ("Customer Contracts")) to which the Company or the Acquired Subsidiaries is a party (i) granting any Intellectual Property Licenses, (ii) containing a covenant not to compete or otherwise limiting the ability of the Company or any Acquired Subsidiary to use or exploit fully any of their Intellectual Property or Technology or (iii) containing an agreement to indemnify any other person against any claim of infringement of, violation, misappropriation or unauthorized use of any Intellectual Property. Seller or the Company has provided to Purchaser in the data room or delivered to Purchaser pursuant to Purchaser's request true, correct and materially complete copies of each Contract set forth on Schedule 5.14(e), together with all amendments, modifications or supplements thereto.

(f) No Trade Secret or any other non-public, proprietary information material to the business of the Company or any Acquired Subsidiary as presently conducted has been authorized to be disclosed or has been actually disclosed by the Company or any of the Acquired Subsidiaries to any employee or any third party other than pursuant to a written non-disclosure agreement including restrictions on the disclosure and use of the Intellectual Property and Technology consistent with standard practices in the industry in which the Company and the Acquired Subsidiaries operate. The Company and the Acquired Subsidiaries have executed valid written agreements with all of their employees by which the employees have acknowledged the "work for hire" status of all Intellectual Property and Technology they may develop during their employment and by which they have assigned to the Company or the Acquired Subsidiaries all of their rights in and to such Intellectual Property and Technology and agreed to hold all Trade Secrets and confidential information of the Company and the Acquired Subsidiaries in confidence both during and after their employment. The Company and the Acquired Subsidiaries have executed valid written agreements with all consultants and contractors who have been retained in connection with the development of Intellectual Property and Technology by which the consultants and contractors have assigned to the Company or the Acquired Subsidiaries all of their rights in and to such Intellectual Property and Technology and agreed to hold all Trade Secrets and confidential information of the Company and the Acquired Subsidiaries in confidence both during and after the term of their engagements.

(g) As of the date hereof, neither the Company nor any of the Acquired Subsidiaries is the subject of any pending or, to the Knowledge of Seller or the Company, threatened Legal Proceedings which involve a claim of infringement, misappropriation, unauthorized use, or violation of any intellectual property rights by any Person against the Company or the Acquired Subsidiaries or challenging the ownership, use, validity or enforceability of, any material Intellectual Property or Technology. Neither the Company nor any Acquired Subsidiary has received notice of any such threatened claim and, to the Knowledge of Seller or the Company, there are no facts or circumstances that would form the basis for any claim of infringement, unauthorized use, misappropriation or violation of any intellectual property rights by any Person against the Company or any Acquired Subsidiary, or challenging the ownership, use, validity or enforceability of any material Intellectual Property or Technology. All of the Company's or the Acquired Subsidiaries' rights in and to material Intellectual Property and Technology are valid and enforceable.

(h) To the Knowledge of Seller or the Company, no Person is infringing, violating, misusing or misappropriating any material Intellectual Property or Technology of the Company or any Acquired Subsidiary, and no such claims have been made against any Person by the Company or any Acquired Subsidiary.

(i) There are no Orders to which the Company or any Acquired Subsidiary is a party or by which the Company or any Acquired Subsidiary is bound which restrict, in any material respect, the right to use any of the Intellectual Property or Technology.

(j) Except as expressly contemplated by this Agreement, neither the execution of this Agreement, the consummation of the transactions contemplated by this Agreement nor the conduct of the business and operations of the Company and the Acquired Subsidiaries as presently conducted will result in (i) Purchaser's granting to any third party any right to any Intellectual Property or Technology owned by, or licensed to, the Company and the Acquired Subsidiaries, (ii) Purchaser's being bound by, or subject to, any non-compete or other restriction on the operation or scope of its business or (iii) Purchaser's being obligated to pay any royalties or other amounts to any third party in excess of those payable by Company or the Acquired Subsidiaries prior to the Closing.

(k) No present or former employee has any right, title, or interest, directly or indirectly, in whole or in part, in any material Intellectual Property or Technology owned or used by the Company or any Acquired Subsidiary. To the Knowledge of Seller or the Company, no employee, consultant or independent contractor of the Company or any Acquired Subsidiary is, as a result of or in the course of such employee's, consultant's or independent contractor's engagement by the Company or any Acquired Subsidiary, in default or breach of any material term of any employment agreement, non-disclosure agreement, assignment of invention agreement or similar agreement. The Company and the Acquired Subsidiaries are not in breach of any material term of any employment agreement, non-disclosure agreement, assignment of invention agreement or similar agreement. All such agreements which are in force on the date hereof comply with the applicable Laws and regulations.

(l) Schedule 5.14(l) sets forth a complete and accurate list of (i) all Software that is owned exclusively by the Company or any Acquired Subsidiary that is material to the operation of the business and (ii) all Software that is used by the Company or any Acquired Subsidiary in the business that is not exclusively owned by the Company or any Acquired Subsidiary, excluding Software available (A) on reasonable terms through commercial distributors or (B) in consumer retail stores for a license fee of no more than \$1,000.

(m) No open source or public software or freeware, including but not limited to any version of any software licensed pursuant to any GNU public license, was used in the development or modification of any software that has been incorporated into or utilized in the products or services of the Company or any Acquired Subsidiary that would in any way limit the ability to make, use or sell such products or that would diminish or transfer the rights of ownership in any Intellectual Property or Software of the Company to a third party, and neither the Company nor any of the Acquired Subsidiaries is in default or subject to claims of infringement based on such use. No open source code used by the Company or any Acquired Subsidiary has been modified or embedded in any way that creates an obligation to disclose such source code (or any Intellectual Property or Software of the Company or any of the Acquired Subsidiaries), or would result in a default or would subject the Company or the Acquired Subsidiaries to claims of infringement.

(n) All Software owned or used by the Company ("Company Software"), other than Company Software available (i) on reasonable terms through commercial distributors or (ii) in consumer retail stores for a license fee of no more than \$1,000, is free of any material bugs or defects and is and shall be useable in the same form in the Ordinary Course of Business after the execution of this Agreement. There are no "time bombs" or other intentionally harmful components in any Company Software. All Company Software, other than Company Software available (i) on reasonable terms through commercial distributors or (ii) in consumer retail stores for a license fee of no more than \$1,000, is free from significant programming errors and operates in substantial conformity with its user documentation and other descriptions and standards applicable thereto provided by Company and such Software does not contain any known virus. The Company has used reasonable measures, consisting of scanning by means of commercially available scanning products to detect and remove any known virus. Company Software and, to the Knowledge of Seller or the Company, all commercial off-the-shelf Software used by the Company, does not have any timer, clock, counter or other limiting design, instruction or routine that would erase data or programming or cause a computer to become inoperable or otherwise incapable of being used in the full manner for which it was designed.

5.15 Material Contracts.

(a) Schedule 5.15 sets forth, by reference to the applicable subsection of this Section 5.15(a), all of the following outstanding Contracts to which the Company or any of the Acquired Subsidiaries is a party (collectively, the "Material Contracts"):

(i) Contracts with Seller or an Affiliate thereof (including the Excluded Subsidiaries) or any current or former officer, director, shareholder or Affiliate of the Company or any of the Acquired Subsidiaries, excluding employment Contracts with any current or former officer or director of the Company or any Acquired Subsidiary;

(ii) Contracts with any labor union or association representing any employee of the Company or any of the Acquired Subsidiaries;

(iii) Contracts for (A) the sale of any of the assets of the Company or any of the Acquired Subsidiaries other than in the Ordinary Course of Business or (B) for the grant to any person of any preferential rights to purchase any of its assets;

(iv) Contracts for joint ventures, strategic alliances, partnerships, licensing arrangements, or sharing of profits or proprietary information;

(v) Contracts containing covenants of the Company or any of the Acquired Subsidiaries not to compete in any line of business or with any person in any geographical area or not to solicit or hire any Person with respect to employment or covenants of any other person not to compete with the Company or any of the Acquired Subsidiaries in any line of business or in any geographical area or not to solicit or hire any Person with respect to employment;

(vi) Contracts relating to the acquisition (by merger, purchase of equity or assets or otherwise) by the Company or any of the Acquired Subsidiaries of any operating business or assets material to the business of the Company or the Acquired Subsidiaries or the equity of any other Person;

(vii) Contracts relating to the incurrence, assumption or guarantee of any Indebtedness or imposing a Lien other than a Permitted Exception on any of its assets, including indentures, guarantees, loan or credit agreements, sale and leaseback agreements or purchase money obligations incurred in connection with the acquisition of property, mortgages, pledge agreements, security agreements, or conditional sale or title retention agreements;

(viii) purchase Contracts giving rise to Liabilities of the Company or any of the Acquired Subsidiaries in excess of \$50,000;

(ix) all Contracts other than Customer Contracts providing for payments by or to the Company or any of the Acquired Subsidiaries in excess of \$100,000 in any fiscal year or \$200,000 in the aggregate during the term thereof, and Customer Contracts providing for payments to the Company or any of the Acquired Subsidiaries in excess of \$250,000 in any fiscal year or \$500,000 in the aggregate during the term thereof. Notwithstanding the foregoing, any Customer Contract providing for payments to the Company or any of the Acquired Subsidiaries in excess of \$100,000 in any fiscal year or \$200,000 in the aggregate during the term thereof shall be deemed to be a "Material Contract" for all purposes of this Agreement other than the first sentence of this Section 5.15(a)(ix);

(x) all Contracts obligating the Company or any of the Acquired Subsidiaries to provide or obtain products or services for a period exceeding one year or requiring the Company to purchase or sell a stated portion of its requirements or outputs, excluding employment Contracts;

(xi) Contracts under which the Company or any of the Acquired Subsidiaries has made advances or loans to any other Person;

(xii) Contracts providing for severance, retention, change in control or other similar payments;

(xiii) Contracts for the employment of any individual on a full-time, part-time or consulting or other basis providing annual compensation in excess of \$40,000;

(xiv) outstanding agreements of guaranty, surety or indemnification, direct or indirect, by the Company or any of the Acquired Subsidiaries; and

(xv) Contracts that are otherwise material to the Company and the Acquired Subsidiaries taken as a whole.

(b) Each of the Material Contracts is in full force and effect and is the legal, valid and binding obligation of the Company and/or the Acquired Subsidiaries, enforceable against each of them in accordance with its terms. Neither the Company nor any Acquired Subsidiary is in material default under any Material Contract, nor, to the Knowledge of Seller or the Company, is any other party to any Material Contract in material default thereunder, and, to the Knowledge of Seller or the Company, no event has occurred that with the lapse of time or the giving of notice or both would constitute a material default thereunder. Neither the Company nor any Acquired Subsidiary has given notice of any significant dispute or exercised any termination rights with respect to a Material Contract or received notice of a significant dispute or the exercise of any termination right by any other party to a Material Contract. Seller or the Company has provided to Purchaser in the data room or delivered to Purchaser pursuant to Purchaser's request true, correct and materially complete copies of all of the Material Contracts, together with all amendments, modifications or supplements thereto as of the date of such delivery. The Contracts listed on Schedule 5.15(b) are terminable by, as applicable, the Company or the relevant Acquired Subsidiary at any time for any reason without penalty or fee to, or other payment by (other than for goods or services previously received), the Company or any of the Acquired Subsidiaries, and do not otherwise subject the Company or any of the Acquired Subsidiaries to any fixed payment obligation without a right to receive a corresponding benefit.

5.16 Employee Benefits Plans.

(a) Schedule 5.16 sets forth a correct and complete list of all employee benefit plans, employee pension plans, programs, agreements, policies, arrangements or payroll practices, including bonus plans, employment, consulting or other compensation agreements, collective bargaining agreements, incentive, equity or equity-based compensation, or deferred compensation arrangements, change in control, termination or severance plans or arrangements, share purchase, severance pay, sick leave, vacation pay, salary continuation for disability, hospitalization, medical insurance, life insurance and scholarship plans and programs maintained by Seller, the Company or any of the Acquired Subsidiaries or to which Seller, the Company or any of the Acquired Subsidiaries contributed or is obligated to contribute thereunder for current or former employees of the Company or any of the Acquired Subsidiaries (the "Employees") (collectively, the "Company Plans"). Neither the Company nor any Acquired Subsidiary is part of or is obligated to contribute to any multiemployer plan.

(b) Correct and complete copies of the following documents, with respect to each of the Company Plans (other than a multiemployer plan), have been made available or delivered to Purchaser by the Company, to the extent applicable: (i) any plans, all amendments thereto and related trust documents, insurance contracts or other funding arrangements, and amendments thereto; (ii) the most recent Tax forms for the Company Plans and all schedules thereto and the most recent actuarial report, if any; (iii) written communications to employees relating to the Company Plans; and (iv) written descriptions of all non-written agreements relating to the Company Plans.

(c) The Company Plans have been maintained in all material respects in accordance with their terms and with all provisions of applicable Law.

(d) All contributions (including all employer contributions and employee salary reduction contributions) required to have been made under any of the Company Plans (including workers compensation) or by Law, to any funds or trusts established thereunder or in connection therewith have been made by the due date thereof (including any valid extension), and all contributions for any period ending on or before the Closing Date that are not yet due will have been paid or sufficient accruals for such contributions and other payments in accordance with IFRS are duly and properly provided for on the Balance Sheet.

(e) There is no material violation of applicable Law with respect to the filing of applicable reports, documents and notices regarding the Company Plans with any Governmental Body or the furnishing of such documents to the participants in or beneficiaries of the Company Plans.

(f) None of the Company Plans provides for post-employment life or health insurance, benefits or coverage for any participant or any beneficiary of a participant.

(g) Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (i) result in any payment becoming due to any Employee, (ii) increase any benefits otherwise payable under any Company Plan or (iii) result in the acceleration of the time of payment or vesting of any such benefits under any Company Plan.

(h) Neither the Company nor any of the Acquired Subsidiaries has a contract, plan or commitment, whether legally binding or not, to create any additional Company Plan or to modify any existing Company Plan.

(i) No equity or other security issued by the Company or any of the Acquired Subsidiaries forms or has formed a material part of the assets of any Company Plan.

5.17 Labor.

(a) Neither the Company nor any of the Acquired Subsidiaries is a party to any labor or collective bargaining agreement and there are no labor or collective bargaining agreements which pertain to employees of the Company or any of the Acquired Subsidiaries.

(b) No Employees are represented by any labor organization. No labor organization or group of employees of the Company or any of the Acquired Subsidiaries has made a pending demand for recognition, and there are no representation proceedings or petitions seeking a representation proceeding

presently pending or, to the Knowledge of Seller or the Company, threatened to be brought or filed, with a labor relations tribunal. To the Knowledge of Seller or the Company, there is no organizing activity involving the Company or any of the Acquired Subsidiaries pending or threatened by any labor organization or group of employees of the Company or any of the Acquired Subsidiaries.

(c) There are no (i) strikes, work stoppages, slowdowns, lockouts or arbitrations or (ii) material grievances or other labor disputes pending or, to the Knowledge of Seller or the Company, threatened against or involving the Company or any of the Acquired Subsidiaries. There are no unfair labor practice charges, formal grievances or formal complaints pending or, to the Knowledge of Seller or the Company, threatened by or on behalf of any employee or group of employees of the Company.

(d) None of Seller, the Company or any of the Acquired Subsidiaries have received notice of any complaints, charges or claims against the Company or any of the Acquired Subsidiaries that could be brought or filed, with any Governmental Body or based on, arising out of, in connection with or otherwise relating to the employment or termination of employment, or failure to employ, by the Company or any of the Acquired Subsidiaries of any individual. Each of the Company and the Acquired Subsidiaries is in compliance with all Laws relating to the employment of labor, including all such Laws relating to wages, hours, and any similar mass layoff or plant closing Law, collective bargaining, discrimination, civil rights, safety and health, workers' compensation and the collection and payment of withholding and/or social security taxes and any similar tax except for immaterial non-compliance.

5.18 Litigation. There is no Legal Proceeding pending or threatened in writing against, and, to the Knowledge of Seller or the Company, there is no material Legal Proceeding threatened orally against, Seller, the Company or any of the Acquired Subsidiaries (or to the Knowledge of Seller or the Company, pending or threatened, against any of the officers, directors or employees of the Company or any of the Acquired Subsidiaries with respect to their business activities on behalf of the Company), or to which Seller, the Company or any of the Acquired Subsidiaries is otherwise a party before any Governmental Body; nor to the Knowledge of Seller or the Company is there any reasonable basis for any such Legal Proceeding that would have a Material Adverse Effect or would reasonably be likely to have a Material Adverse Effect. Neither the Company nor any Acquired Subsidiary is engaged in any legal action to recover monies due it or for damages sustained by it. There are no Legal Proceedings pending or, to the Knowledge of Seller or the Company, threatened that are reasonably likely to prohibit or restrain the ability of Seller to perform its obligations under this Agreement or consummate the transactions contemplated hereby. To the Knowledge of Seller or the Company, there are no investigations of Seller, the Company or any of the Acquired Subsidiaries by or on behalf of any Governmental Body.

5.19 Compliance with Laws; Permits.

(a) The Company and the Acquired Subsidiaries are in compliance in all material respects with all Laws of any Governmental Body applicable to its business, operations or assets. Neither the Company nor any Acquired Subsidiary has received notice of any material violation, or been charged with any violation, of any Laws. To the Knowledge of Seller or the Company, neither the Company nor any Acquired Subsidiary is under investigation with respect to the violation of any Laws and there are no facts or circumstances which could form the basis for any such violation.

(b) Schedule 5.19 contains a list of all Permits which are required for the operation of the business of the Company and the Acquired Subsidiaries as presently conducted and as presently intended to be conducted ("Company Permits"), other than those the failure of which to possess is immaterial. The Company and the Acquired Subsidiaries currently have all Permits which are required for the operation of their respective businesses as presently conducted, other than those the failure of which to possess is immaterial. None of the Company or any of the Acquired Subsidiaries is in default or violation, and, to the Knowledge of Seller or the Company, no event has occurred which, with notice or the lapse of time or both, would constitute a default or violation, in any material respect of any term, condition or provision of any Company Permit. None of the Company Permits will be impaired or in any material way affected by the consummation of the transactions contemplated by this Agreement.

5.20 Environmental Matters. The operations of the Company and each of the Acquired Subsidiaries are and have been in compliance with all applicable Environmental Laws which compliance includes obtaining, maintaining in good standing and complying with all Environmental Permits and no action or proceeding is pending to revoke, modify or terminate any such Environmental Permit.

5.21 Insurance. The Company and the Acquired Subsidiaries have insurance policies in full force and effect and comply with all requirements of Law and all agreements to which the Company or any of the Acquired Subsidiaries is a party or by which it is bound. Set forth in Schedule 5.21 is a list of all insurance policies held by or applicable to the Company or any of the Acquired Subsidiaries setting forth, in respect of each such policy, the policy name, policy number, carrier and type. None of the policies may be terminated upon consummation of the transactions contemplated hereby. To the Knowledge of Seller or the Company, no event relating to the Company or any of the Acquired Subsidiaries has occurred which would reasonably be likely to result in a retroactive upward adjustment in premiums under any such insurance policies or which would reasonably be likely to result in a prospective upward adjustment in such premiums. Excluding insurance policies that have expired and been replaced in the Ordinary Course of Business, no insurance policy has been cancelled other than by the Company or the Acquired Subsidiaries within the last two (2) years and, to the Knowledge of Seller or the Company, no threat has been made to cancel any insurance policy of the Company or any of the Acquired Subsidiaries during such period. All such insurance will remain in full force and effect immediately following the consummation of the transactions contemplated hereby.

5.22 Notes Receivable and Accounts Payable. The Company and the Acquired Subsidiaries have no notes receivable. All accounts payable of the Company and the Acquired Subsidiaries reflected in the Balance Sheet or arising after the date thereof are the result of bona fide transactions in the Ordinary Course of Business and have been paid or are not yet due and payable.

5.23 No Questionable Payments. No current or former director, officer, or employee of Seller, the Company or any Subsidiary, directly or indirectly, (i) has used or is using any funds of Seller, the Company or any Subsidiary for any contribution, gift, entertainment or other expense relating to political activity, (ii) has used or is using any funds of Seller, the Company or any Subsidiary for any improper payment to any foreign or domestic government official or employee or (iii) has made any bribe, payoff, influence payment or kickback using funds of Seller, the Company or any Subsidiary which, with respect to clauses (i)-(iii), was in violation of any applicable Law in effect as of the date of such event.

5.24 Related Party Transactions. No employee, officer, director, shareholder, partner or member of the Company or any of the Subsidiaries, any member of his or her immediate family or any of their respective Affiliates ("Related Persons") (i) owes any amount to the Company or any of the Acquired Subsidiaries nor does the Company or any of the Acquired Subsidiaries owe any amount to, or has the Company or any of the Acquired Subsidiaries committed to make any loan or extend or guarantee credit to or for the benefit of, any Related Person, (ii) is involved in any business arrangement with the Company or any of the Acquired Subsidiaries (whether written or oral), (iii) owns any property or right, tangible or intangible, that is used by the Company or any of the Acquired Subsidiaries or (iv) has any claim or cause of action against the Company or any of the Acquired Subsidiaries, except with respect to clauses (i) - (iv) above, employment agreements and petty cash advances to employees in the Ordinary Course of Business.

5.25 Customers and Suppliers.

(a) Schedule 5.25 sets forth a list of the ten (10) largest customers and the ten (10) largest suppliers of the Company and the Acquired Subsidiaries, as measured by the dollar amount of purchases therefrom or thereby, during each of the fiscal years ended March 31, 2005, 2004 and 2003, showing the approximate total sales by the Company and the Acquired Subsidiaries to each such customer and the approximate total purchases by the Company and the Acquired Subsidiaries from each such supplier, during such period.

(b) Since the Balance Sheet Date, no customer or supplier listed on Schedule 5.25 has terminated its relationship with the Company or any of the Acquired Subsidiaries or materially reduced or changed the pricing or other terms of its business with the Company or any of the Acquired Subsidiaries and, to the Knowledge of Seller or the Company, no customer or supplier listed on Schedule 5.25 has notified the Company or the Acquired Subsidiaries that it intends to terminate or materially reduce or change the pricing or other terms of its business with the Company or any of the Acquired Subsidiaries.

5.26 Product Warranty; Product Liability.

(a) Each product manufactured, sold or delivered by the Company or any of the Acquired Subsidiaries in conducting its business has been in conformity in all material respects with all product specifications and all express and implied warranties. Neither the Company nor any of the Acquired Subsidiaries has any material liability for replacement or repair of any such products or other damages in connection therewith not reserved against on the Balance Sheet. Neither the Company nor any of the Acquired Subsidiaries has sold any products or delivered any services that included an warranty for a period of longer than one (1) year which has not since expired.

(b) Neither the Company nor any of the Acquired Subsidiaries has committed any act or failed to commit any act, which would result in, and to the Knowledge of Seller or the Company, there has been no occurrence which would give rise to or form the basis of, any product liability or liability for breach of warranty (whether covered by insurance or not) on the part of the Company or any of the Acquired Subsidiaries with respect to products sold or services rendered prior to the Closing.

5.27 Banks. Schedule 5.27 contains a complete and correct list of the names and locations of all banks in which Company or any Acquired Subsidiary has accounts or safe deposit boxes and the names of all persons authorized to draw thereon or to have access thereto. No person holds a power of attorney to act on behalf of the Company or any Acquired Subsidiary.

5.28 Full Disclosure. No representation or warranty of Seller contained in this Agreement or in any of the Seller Documents and no written statement made by or on behalf of Seller to Purchaser or any of its Affiliates pursuant to this Agreement or any of the Seller Documents or otherwise in connection with the transactions contemplated hereby or thereby contains an untrue statement of a material fact or, to the Knowledge of Seller or the Company, omits to state a material fact necessary to make the statements contained herein or therein not misleading; provided, however, that Seller does not make any representation or warranty with respect to the accuracy of any projections or forward-looking statements provided to Purchaser or any of its Affiliates by Seller or the Company.

5.29 Financial Advisors. No Person has acted, directly or indirectly, as a broker, finder or financial advisor for the Company or the Acquired Subsidiaries in connection with the transactions contemplated by this Agreement and no Person is or will be entitled to any fee or commission or like payment by the Company or the Acquired Subsidiaries in respect thereof.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser hereby represents and warrants to Seller that:

6.1 Organization and Good Standing. Purchaser is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own, lease and operate properties and carry on its business.

6.2 Authorization of Agreement. Purchaser has full corporate power and authority to execute and deliver this Agreement and each other agreement, document, instrument or certificate contemplated by this Agreement or to be executed by Purchaser in connection with the consummation of the transactions contemplated by this Agreement (the "Purchaser Documents"), and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance by Purchaser of this Agreement and each Purchaser Document, and the consummation of the transactions contemplated hereby and thereby, have been duly authorized and approved by all necessary corporate action on behalf of Purchaser. This Agreement has been, and each Purchaser Document will be at or prior to the Closing, duly and validly executed and delivered by Purchaser and (assuming the due authorization, execution and delivery by the other parties hereto and thereto) this Agreement constitutes, and each Purchaser Document when so executed and delivered will constitute, the legal, valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is sought in a proceeding at law or in equity).

6.3 Conflicts; Consents of Third Parties.

(a) Neither the execution and delivery by Purchaser of this Agreement and of the Purchaser Documents, nor the compliance by Purchaser with any of the provisions hereof or thereof will (i) conflict with, or result in the breach of, any provision of the certificate of incorporation or by-laws of Purchaser, (ii) conflict with, violate, result in the breach of, or constitute a default under any note, bond, mortgage, indenture, license, agreement or other obligation to which Purchaser is a party or by which Purchaser or its properties or assets are bound or (iii) violate any statute, rule, regulation or Order of any Governmental Body by which Purchaser is bound, except, in the case of clauses (ii) and (iii), for such violations, breaches or defaults as would not, individually or in the aggregate, have a material adverse effect on the ability of Purchaser to consummate the transactions contemplated by this Agreement.

(b) No consent, waiver, approval, Order, Permit or authorization of, or declaration or filing with, or notification to, any Person or Governmental Body is required on the part of Purchaser in connection with the execution and delivery of this Agreement or the Purchaser Documents, the compliance by Purchaser with any of the provisions hereof or thereof, or the consummation of the transactions contemplated hereby or thereby.

6.4 Litigation. There are no Legal Proceedings pending or, to the Knowledge of Purchaser, threatened that are reasonably likely to prohibit or restrain the ability of Purchaser to perform its obligations under this Agreement or consummate the transactions contemplated hereby.

6.5 Capitalization. The authorized share capital of Purchaser consists of 120,000,000 shares of Purchaser Common Stock and 2,500,000 shares of Purchaser Preferred Stock. As of the close of business in New York on September 2, 2005, there were 31,894,226 shares of Purchaser Common Stock issued and outstanding, no shares of Purchaser Preferred Stock issued and outstanding and no shares of Purchaser Common Stock or Purchaser Preferred Stock held by Purchaser as treasury stock. All of the issued and outstanding shares of Purchaser Common Stock were duly authorized for issuance and are validly issued, fully paid and non-assessable and were not issued in violation of any preemptive or similar rights. The outstanding shares of Purchaser Common Stock are issued in accordance with the registration provisions of the Securities Act and any relevant state securities laws, or pursuant to a valid exemption therefrom. The offer, issuance and exchange of Purchaser Common Stock as contemplated herein are made pursuant to a valid exemption from the registration requirements of the Securities Act.

6.6 SEC Reports; Financial Statements. Purchaser has filed all required forms, reports and documents with the SEC since January 1, 2002 (the "Purchaser SEC Reports"), each of which has complied in all material respects with all applicable requirements of the Securities Act and the Securities Exchange Act of 1934, as amended, each as in effect on the dates such forms, reports and documents were filed. None of the Purchaser SEC Reports, including any financial statements or schedules included or incorporated by reference therein, contained, when filed, any untrue statements of a material fact or omitted to state a material fact required to be stated or incorporated by reference therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The consolidated financial statements of Purchaser included in the Purchaser SEC Reports complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto as in effect on the dates such Purchaser SEC Reports were filed, and fairly present, in all material respects and in conformity with GAAP applied on a consistent basis (except as may be indicated in the notes thereto), the consolidated financial position of Purchaser and its consolidated subsidiaries as of the dates thereof and their consolidated results of operations and changes in financial position for the periods then ended (subject, in the case of the unaudited interim financial statements, to normal year-end adjustments)

6.7 Financial Advisors. No Person has acted, directly or indirectly, as a broker, finder or financial advisor for Purchaser in connection with the transactions contemplated by this Agreement and no Person is entitled to any fee or commission or like payment in respect thereof.

ARTICLE VII

COVENANTS

7.1 Pre-Closing Access to Information; Confidentiality. Seller and the Company shall, and the Company shall cause the Acquired Subsidiaries to, afford to Purchaser and its accountants, counsel, financial advisors and other representatives reasonable access, during normal business hours upon reasonable notice throughout the period prior to the Closing, to their respective properties and facilities (including all real property owned or leased by the Company or any of the Acquired Subsidiaries and the buildings, structures, fixtures, appurtenances and improvements erected, attached or located thereon), books, financial information (including working papers and data in the possession of Seller's or the Company's independent public accountants, internal audit reports, and "management letters" from such accountants with respect to Seller's or Company's systems of internal control), Contracts, commitments and records and, during such period, shall furnish promptly such information concerning its businesses, properties and personnel as Purchaser shall reasonably request; provided, however, such investigation shall not unreasonably disrupt the Company's operations. Prior to the Closing, Seller shall use reasonable efforts to generally keep Purchaser reasonably informed as to all material matters involving the operations and businesses of the Company and the Acquired Subsidiaries taken as a whole. The Company shall authorize and direct the appropriate directors, managers and employees of each of the Acquired Subsidiaries to discuss matters involving the operations and business of such Acquired Subsidiary with Purchaser and its representatives. All nonpublic information provided to, or obtained by, Purchaser in connection with the transactions contemplated hereby shall be "Confidential Information" for purposes of the Non Disclosure Agreement, dated as of January 12, 2005, among Purchaser, the Company and Seller (as amended by the Memorandum of Understanding, dated as of May 17, 2005, by and among Purchaser, the Company and Seller), the terms of which shall continue in force until the Closing; provided that Purchaser and the Company may disclose such information as may be necessary in connection with seeking necessary consents and approvals as contemplated hereby. Notwithstanding the foregoing, the Company shall not be required to provide any information which it reasonably believes (which belief must be supported by written opinion of independent counsel) it may not provide to Purchaser by reason of applicable Law. No information provided to or obtained by Purchaser pursuant to this Section 7.1(a) shall limit or otherwise affect the remedies available hereunder to Purchaser (including, but not limited to, Purchaser's right to seek indemnification pursuant to Article IX), or the representations or warranties of, or the conditions to the obligations of, the parties hereto. For the avoidance of doubt, nothing in this Section 7.1 shall in any way obligate Seller to provide Purchaser with Supplemental Disclosure Schedules pursuant to Section 9.6, and no information provided to Purchaser pursuant to this Section 7.1 shall be a Supplemental Disclosure unless it is contained in a Supplemental Disclosure Schedule provided by Seller pursuant to Section 9.6.

7.2 Conduct of the Business Pending the Closing.

(a) Except as otherwise expressly provided in this Agreement or with the prior written consent of Purchaser, from the date hereof until the Closing, Seller shall, and shall cause the Company to, and the Company shall, and shall cause the Acquired Subsidiaries to:

(i) conduct the respective businesses of the Company and the Acquired Subsidiaries only in the Ordinary Course of Business;

(ii) use their commercially reasonable efforts to (A) preserve its present business operations, organization (including officers and employees) and goodwill of the Company and the Acquired Subsidiaries, (B) preserve its present relationship with Persons having material business dealings with the Company and the Acquired Subsidiaries (including material customers and suppliers) and (C) maintain the listing of Seller's ordinary shares, par value HK\$ 0.07, on the SGX;

(iii) maintain (A) all of the material assets and properties of the Company and the Acquired Subsidiaries in working condition, ordinary wear and tear excepted, and (B) insurance upon all of the material properties and assets of the Company and the Acquired Subsidiaries in such amounts and of such kinds comparable to that in effect on the date of this Agreement;

(iv) (A) maintain the books, accounts and records of the Company and the Acquired Subsidiaries in the Ordinary Course of Business, (B) continue to collect accounts receivable and pay accounts payable utilizing normal procedures and without discounting or accelerating payment of such accounts, and (C) comply with all material contractual and other material obligations of the Company and the Acquired Subsidiaries;

(v) make on a timely basis and not delay the making of material planned capital expenditures; and

(vi) comply in all material respects with all applicable Laws.

(b) Without limiting the generality of the foregoing, except as otherwise expressly provided in this Agreement or with the prior written consent of Purchaser, from the date hereof until the Closing, Seller shall not, and shall cause the Company not to, and the Company shall not, and shall cause the Acquired Subsidiaries not to:

(i) declare, set aside, make or pay any dividend or other distribution in respect of the share capital of, or other ownership interests in, the Company or any of the Acquired Subsidiaries or repurchase, redeem or otherwise acquire any outstanding capital shares or other securities of, or other ownership interests in, the Company or any of the Acquired Subsidiaries;

(ii) transfer, issue, sell, pledge, encumber or dispose of any capital shares or other securities of, or interests in, the Company or any of the Acquired Subsidiaries or grant options, warrants, calls or other rights to purchase or otherwise acquire capital shares or other securities of, or interests in, the Company or any of the Acquired Subsidiaries;

(iii) effect any recapitalization, reclassification, capital share split, combination or like change in the capitalization of the Company or any of the Acquired Subsidiaries, or amend the terms of any outstanding securities of the Company or any Acquired Subsidiary;

(iv) amend the organizational documents of the Company or any of the Acquired Subsidiaries;

(v) (A) materially increase the salary or other compensation of any senior officer or senior employee of the Company or any of the Acquired Subsidiaries, except for normal year-end increases in the Ordinary Course of Business (B) grant any unusual or extraordinary bonus, benefit or other direct or indirect compensation to any employee, director or consultant, (C) increase the coverage or benefits available under any (or create any new) severance pay, termination pay, vacation pay, company awards, salary continuation for disability, sick leave, deferred compensation, bonus or other incentive compensation, insurance, pension or other employee benefit plan or arrangement made to, for, or with any of the directors, officers, employees, agents or representatives of the Company or any of the Acquired Subsidiaries or otherwise modify or amend or terminate any such plan or arrangement or (D) enter into any employment, deferred compensation, severance, special pay, consulting, non-competition or similar agreement or arrangement with any directors or officers of the Company or any Acquired Subsidiary (or amend any such agreement to which the Company or any of the Acquired Subsidiaries is a party);

(vi) (A) create, incur, assume, guarantee, endorse or otherwise become liable or responsible with respect to (whether directly, contingently, or otherwise) any Indebtedness; (B) except in the Ordinary Course of Business, pay, repay, discharge, purchase, repurchase or satisfy any Indebtedness issued or guaranteed by the Company or any of the Acquired Subsidiaries; (C) modify the terms of any Indebtedness or other material Liability; or (D) make any loans, advances of capital contributions to, or investments in, any other Person (other than to wholly-owned Acquired Subsidiaries in the Ordinary Course of Business);

(vii) subject to any Lien or otherwise encumber or, except for Permitted Exceptions, permit, allow or suffer to be encumbered, any of the properties or assets (whether tangible or intangible) of the Company or any of the Acquired Subsidiaries;

(viii) acquire any material properties or assets or sell, assign, license, transfer, convey, lease or otherwise dispose of any of the material properties or assets of the Company and the Acquired Subsidiaries, other than in the Ordinary Course of Business;

(ix) enter into or agree to enter into any merger or consolidation with, any corporation or other entity, and not engage in any new business or invest in, make a loan, advance or capital contribution to, or otherwise acquire the securities of any other Person;

(x) cancel or compromise any debt or claim or waive or release any material right of the Company or any of the Acquired Subsidiaries except in the Ordinary Course of Business;

(xi) enter into any commitment for capital expenditures of the Company and the Acquired Subsidiaries in excess of \$50,000 for any individual commitment and \$250,000 for all commitments in the aggregate;

(xii) enter into, modify or terminate any labor or collective bargaining agreement of the Company or any of the Acquired Subsidiaries or, through negotiation or otherwise, make any commitment or incur any liability to any labor organization with respect to the Company or any of the Acquired Subsidiaries;

(xiii) introduce any material change with respect to the operation of the Company or any of the Acquired Subsidiaries, including any material change in the types, nature, composition or quality of its products or services, or, other than in the Ordinary Course of Business, make any material change in product specifications or prices or terms of distributions of such products;

(xiv) permit the Company or any of the Acquired Subsidiaries to enter into any transaction or to enter into, modify or renew any Contract which by reason of its size, nature or otherwise is not in the Ordinary Course of Business;

(xv) except for transfers of cash pursuant to normal cash management practices in the Ordinary Course of Business, permit the Company or any of the Acquired Subsidiaries to make any investments in or loans to, or pay any material fees or expenses to, or enter into or modify any Contract with any Affiliate of the Company or any of the Acquired Subsidiaries, or any director, officer or employee of the Company or any of the Acquired Subsidiaries other than existing contractual obligations previously disclosed to Purchaser;

(xvi) except as required by applicable Law, make a material change in its accounting or Tax reporting principles, methods or policies;

(xvii) (A) make or revoke any material Tax election, or settle or compromise any material Tax liability or enter into a settlement or compromise, or change (or make a request to any taxing authority to change) any material aspect of its method of accounting for Tax purposes, or (B) prepare or file any Tax Return (or any amendment thereof) unless such Tax Return shall have been prepared in a manner consistent with past practice and the Company shall have provided Purchaser a copy thereof (together with supporting papers) at least three (3) Business Days prior to the due date thereof for Purchaser to review and approve (such approval not to be unreasonably withheld or delayed);

(xviii) enter into any Contract, understanding or commitment that restrains, restricts, limits or impedes the ability of the Company or any Acquired Subsidiary to compete with or conduct any business or line of business in any geographic area or solicit the employment of any persons;

(xix) terminate, amend, restate, supplement or waive any rights under (A) any Material Contract, Company Lease, Personal Property Lease or Intellectual Property License, other than in the Ordinary Course of Business or as otherwise would not prejudice the interests of the Company or the Acquired Subsidiaries or (B) any Permit;

(xx) settle or compromise any pending or threatened Legal Proceeding or any claim or claims for, or that would result in a loss of revenue of, an amount that could, individually or in the aggregate, reasonably be expected to be greater than \$25,000;

(xxi) change or modify in any material respect its credit, collection or payment policies, procedures or practices, including acceleration of collections or receivables (whether or not past due) or fail to pay or delay payment of payables or other liabilities;

(xxii) take any action which would adversely affect the ability of Seller or the Company to consummate the transactions contemplated by this Agreement; and

(xxiii) agree to do anything (A) prohibited by this Section 7.2, (B) which would make any of the representations and warranties of Seller in this Agreement or the Seller Documents untrue or incorrect in any material respect or (C) that would be reasonably likely to have a Material Adverse Effect.

7.3 Further Assurances. Subject to, and not in limitation of, Section 7.4, each of Seller, the Company and Purchaser shall use its commercially reasonable efforts to cause the Company and the Acquired Subsidiaries to (i) take all actions necessary or appropriate to consummate the transactions contemplated by this Agreement and (ii) cause the fulfillment at the earliest practicable date of all of the conditions to their respective obligations to consummate the transactions contemplated by this Agreement. Seller and the Company shall use, and the Company shall cause the Acquired Subsidiaries to use, their commercially reasonable efforts to obtain at the earliest practicable date all consents and approvals required to consummate the transactions contemplated by this Agreement, including the consents and approvals, if any, referred to in Section 5.3(c) hereof.

7.4 Regulatory Approvals. Purchaser, Seller and the Company shall make all filings required of each of them or any of their respective subsidiaries or Affiliates under any Antitrust Laws with respect to the transactions contemplated hereby as promptly as practicable and, in any event, within four (4) weeks.

7.5 No Shop. From the date of this Agreement until the earlier of the Closing or the termination of this Agreement pursuant to Section 4.2:

(a) Seller and the Company will not, and will not permit the Subsidiaries or any of the Affiliates, directors, officers, employees, representatives or agents of Seller, the Company or any of the Subsidiaries (collectively, the "Representatives") to, directly or indirectly, (i) discuss, negotiate, undertake, authorize, recommend, propose or enter into, either as the proposed surviving, merged, acquiring or acquired corporation, any transaction involving a merger, consolidation, business combination, purchase or disposition of any material amount of the assets of Seller, the Company or any of the Acquired Subsidiaries or any share capital of Seller, the Company or any of the Acquired Subsidiaries other than the transactions contemplated by this Agreement (an "Acquisition Transaction"), (ii) facilitate, encourage, solicit or initiate discussions, negotiations or submissions of proposals or offers in respect of an Acquisition Transaction.

(b) Seller shall notify Purchaser orally and in writing promptly (but in no event later than 24 hours) after receipt of any proposal or offer from any Person other than Purchaser to effect an Acquisition Transaction or any request for non-public information relating to the Company or any of the Acquired Subsidiaries or for access to the properties, books or records of the Company or any Acquired Subsidiary by any Person other than Purchaser. Such notice shall indicate the identity of the Person making the proposal or offer, or intending to make a proposal or offer or requesting non-public information or access to the books and records of the Company, the material terms of any such proposal or offer, or modification or amendment to such proposal or offer and copies of any written proposals or offers or amendments or supplements thereto. Seller shall keep Purchaser informed, on a current basis, of any material changes in the status and any material changes or modifications in the material terms of any such proposal, offer, indication or request.

(c) Seller and the Company shall (and Seller and the Company shall cause their Representatives to, and the Company shall cause the Subsidiaries to) immediately cease and cause to be terminated any existing discussions or negotiations with any Persons (other than Purchaser) conducted heretofore with respect to any of the foregoing. Seller and the Company agree not to (and the Company agrees to cause the Subsidiaries not to) release any third party from the confidentiality and standstill provisions of any agreement to which the Company or any of the Acquired Subsidiaries is a party.

(d) For the avoidance of doubt, nothing in this Agreement shall prohibit Seller or the Company from receiving any unsolicited or uninitiated submissions, proposals or offers in respect of an Acquisition Transaction. In the event that Seller or the Company receives any such unsolicited or uninitiated submission, proposal or offer (an "Unsolicited Offer") in respect of an Acquisition Transaction, Seller shall be entitled to:

(i) announce such Unsolicited Offer so far as such announcement is required under the listing rules or requirements of the SGX or any other Law;

(ii) do or refrain from doing anything required by the SGX; and

(iii) make, or refrain from making, any recommendation to its shareholders as Seller's directors (other than directors who have executed Voting Agreements) may deem necessary in order to comply with their fiduciary duties in respect of such Unsolicited Offer;

provided, however, that the receipt of any Unsolicited Offer shall in no way derogate Seller's obligations under any other section of this Agreement.

(e) In the event that this Agreement is terminated pursuant to Section 4.2, and within six (6) months following such termination Seller enters into an agreement to consummate an Acquisition Transaction on terms and conditions which are more favorable to Seller, as reasonably determined in good faith by Purchaser, than the terms and conditions set forth in this Agreement, Seller shall, on the date of the execution of such Acquisition Transaction agreement, reimburse Purchaser for all actual costs and expenses incurred by Purchaser in connection with its effort to acquire the Shares or otherwise relating to the negotiation, preparation or execution of this Agreement or any documents or agreements contemplated hereby or the performance or consummation of the transactions contemplated hereby; provided, however, that such expense reimbursement shall not exceed one million U.S. dollars (\$1,000,000).

7.6 Publicity.

(a) None of Purchaser, Seller or the Company shall issue any press release, public announcement, circular or notice concerning this Agreement or the transactions contemplated hereby without obtaining the prior written approval of the other parties hereto (which approval will not be unreasonably withheld or delayed), unless in the reasonable judgment of the party intending to make such issuance, disclosure is otherwise required by applicable Law or by the applicable rules of any stock exchange on which such party or its Affiliates lists securities, provided that, to the extent required by applicable Law, the party intending to make such release or announcement shall use its commercially reasonable efforts consistent with such applicable Law to consult with the other party with respect to the text thereof.

(b) Each of Purchaser, Seller and the Company agrees that the terms of this Agreement shall not be disclosed or otherwise made available to the public and that copies of this Agreement shall not be publicly filed or otherwise made available to the public, except where such disclosure, availability or filing is required by applicable Law and only to the extent required by such Law. In the

event that such disclosure, availability or filing is required by applicable Law, each of Purchaser, the Company and Seller (as applicable) agrees to use its commercially reasonable efforts to obtain confidential treatment of this Agreement with any Governmental Body and to redact such terms of this Agreement the other party shall request.

7.7 Preservation of Records; Post-Closing Access; Cooperation with SEC Filings.

(a) Seller and Purchaser agree that each of them shall (and shall cause the Company and the Acquired Subsidiaries to) preserve and keep the records held by them relating to the respective businesses of the Company and the Acquired Subsidiaries for a period of seven (7) years from the Closing Date and shall make such records and personnel available to the other as may be reasonably required by such party in connection with, among other things, any insurance claims by, legal proceedings against or governmental investigations of Seller, the Company, the Acquired Subsidiaries or Purchaser or any of their Affiliates or in order to enable Seller or Purchaser to comply with their respective obligations under this Agreement and each other agreement, document or instrument contemplated hereby or thereby. In the event Seller or Purchaser wishes to destroy (or permit to be destroyed) such records after that time, such party shall first give ninety (90) days prior written notice to the other and such other party shall have the right at its option and expense, upon prior written notice given to such party within such ninety (90) day period, to take possession of the records within one hundred and eighty (180) days after the date of such notice.

(b) In the event of any claim by a party for a breach of the representations and warranties under this Agreement, the party making such claim (the "Claiming Party") shall allow, and shall cause its Affiliates to allow, the party alleged of such breach (the "Defending Party") and its accountants and professional advisers to investigate the matter or circumstance alleged to give rise to such claim and whether and to what extent any amount is payable in respect of such claim. In furtherance of the foregoing, the Claiming Party shall provide, and shall cause its Affiliates to provide, to the Defending Party and its accountants and professional advisers reasonable information and assistance, including reasonable access to the premises and personnel of the Claiming Party and its Affiliates and to any relevant property, documents and records within the possession or control of the Claiming Party and its Affiliates, as well as the right to examine any property, accounts, documents and records of the Claiming Party and its Affiliates as reasonably requested by the Defending Party or its accountants or professional advisers; provided that the Defending Party shall reimburse the Claiming Party for all costs and expenses reasonably incurred by the Claiming Party and its Affiliates in connection with the foregoing. The Defending Party and its accountants and professional advisers shall keep all such information confidential and shall only use such information for the purpose of the claim in question.

(c) From and after the date hereof, Seller shall, and prior to the Closing shall cause the Company and the Acquired Subsidiaries to, cooperate with Purchaser and promptly provide any information reasonably requested by Purchaser in connection with any document that Purchaser may file with the SEC (including the Shelf Registration Statement), including by providing any financial

statement working papers, auditor communications or other financial statement documents of the Company and the Acquired Subsidiaries. All information provided pursuant to this Section 7.7(c) by Seller, and, prior to the Closing, by the Company and the Acquired Subsidiaries shall, to the knowledge of Seller or the Company, be true and correct in all material respects.

(d) For a period twelve (12) months from and after the Closing Date, Seller shall provide Purchaser with reasonable access to its executive officers which are employed by Seller as of the date hereof, including its chief financial officer, and cause such persons to be reasonably available and cooperate with Purchaser, at no cost to Purchaser, as Purchaser deems necessary in connection with the preparation of financial statements of the Company and the Acquired Subsidiaries. In furtherance of the foregoing, Seller's chief financial officer shall: (i) ensure that all appropriate steps are taken to provide for a clean accounting "cutoff" as of the Closing Date for both book and tax purposes, and assist Purchaser in preparing the Closing Statement; (ii) file the March 31, 2005 Tax Return on behalf of the Company and the Acquired Subsidiaries prior to the latest date prescribed by Law that such return can be filed (including any extensions and grace periods) without late fee, penalty or interest; and (iii) prepare such audited financial statements for Seller, the Company and/or any of the Subsidiaries relating to periods occurring prior to the Closing that are reasonably determined by Purchaser to be necessary in connection with the forms, reports and documents that Purchaser will file with the SEC after the Closing with respect to the consummation of the transactions contemplated by this Agreement.

7.8 Use of Name. Seller hereby agrees that upon the consummation of the transactions contemplated hereby, the Company and the Acquired Subsidiaries shall own and have the sole and exclusive right in relation to Seller and its Affiliates to the use of the name "MultiVision" or similar names, any service marks, trademarks, trade names, identifying symbols, logos, emblems, signs or insignia related thereto or containing or comprising the foregoing, including any name or mark confusingly similar thereto and the Marks listed on Schedule 5.14(a) (collectively, the "Company Marks"). Notwithstanding the foregoing, Purchaser hereby grants to Seller upon the Closing a twelve (12) month non-exclusive, non-transferable, royalty-free license (the "License") to use the Company Marks solely and exclusively in connection with transitioning to Marks other than the Company Marks upon the expiration of the License, provided that Seller may not use the Company Marks in a Restricted Business (as defined in the Non-Competition Agreement). After the expiration of the License, Seller shall not, and shall not permit its Affiliates to, use such name or any variation or simulation thereof or any of the Company Marks. Seller shall, and shall cause its Affiliates to, immediately after the Closing, cease to hold itself out as having any affiliation with the Company or any of its Affiliates other than the use of the License. In furtherance thereof, upon the expiration of the License, Seller shall have removed, struck over or otherwise obliterated all Company Marks from all materials, including any vehicles, business cards, schedules, stationery, packaging materials, displays, signs, promotional materials, manuals, forms, computer software and other materials.

7.9 Affiliate Transactions. On or prior to the Closing Date, the Company shall, and shall cause the Acquired Subsidiaries to, terminate all Contracts with its Affiliates or Seller or its Affiliates (other than (i) those Contracts set forth on Schedule 7.9, (ii) Contracts between the Company and the Acquired Subsidiaries, (iii) Contracts between the Company and the Acquired Subsidiaries and their respective officers and employees and (iv) Contracts whose continuance Purchaser has approved in writing), and deliver releases executed by such Affiliates or Seller or its Affiliates with whom the Company has terminated such Contracts pursuant to this Section 7.9 providing that no further payments are due, or may become due, under or in respect of any such terminated Contracts; provided that in no event shall the Company or any of the Acquired Subsidiaries pay any consideration with respect to any such termination or release.

7.10 Monthly Financial Statements. As soon as reasonably practicable, but in no event later than thirty (30) days after the end of each calendar month during the period from the date hereof to the Closing, the Company shall provide Purchaser with unaudited monthly reports for the Company and each of the Acquired Subsidiaries showing for such preceding month (i) revenues and (ii) bookings for new orders.

7.11 Notification of Certain Matters. Each of Seller and Purchaser shall give notice to the other party, as promptly as reasonably practicable upon becoming aware of (a) any occurrence, or failure to occur, of any event, which occurrence or failure to occur has caused or is reasonably likely to cause any representation or warranty in this Agreement made by it to be untrue or inaccurate in any respect at any time after the date hereof and prior to the Closing, except where such occurrences of failures to occur could not, individually or in the aggregate, reasonably be expected to result in a failure of the conditions set forth in Section 8.2(a) or 8.3(a), as applicable, to be satisfied and (b) any material failure on its part to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder; provided that the delivery of any notice pursuant to this Section 7.11 shall not limit or otherwise affect the remedies available hereunder to the party receiving such notice, or the representations or warranties of, or the conditions to the obligations of, the parties hereto.

7.12 Seller Shareholder Approval. Seller, acting through its Board of Directors, shall, in accordance with its organizational documents and applicable Law (a) duly call, give notice of, convene and hold an extraordinary meeting of its shareholders (the "Seller Shareholder Meeting") as soon as reasonably practicable after the date hereof for the purposes of considering and taking action upon the approval and adoption of this Agreement and the Seller Documents and the transactions and obligations of Seller and the Company contemplated hereby and thereby (such approval, the "Seller Shareholder Approval"), (b) prepare and file with the SGX information required to be disclosed by the SGX in connection with the Seller Shareholder Meeting and (c) use its commercially reasonable efforts to take such reasonable steps in the circumstances (taking into account the fiduciary duties of the directors of Seller and the requirements of the SGX) to obtain the necessary approvals by its shareholders of this Agreement and the Seller Documents and the transactions and obligations of Seller and the Company contemplated hereby and thereby.

7.13 Excluded Assets. Prior to the Closing, Seller shall cause the Company and the Subsidiaries to transfer the Excluded Subsidiaries and all of the assets and liabilities which are set forth on Schedule 7.13 hereto (collectively, the "Excluded Assets") to Seller or any other Person designated by Seller who will not be an Affiliate of Purchaser after the Closing.

7.14 Dividend and Affiliate Transaction Restrictions. For a period two (2) years from and after the Closing Date, Seller shall not (i) declare, set aside, make or pay dividends or other distributions in respect of its share capital or repurchase, redeem or otherwise acquire outstanding capital shares or other securities, if after taking any such action, the book value (determined in accordance with IFRS) of Seller's net assets would in the aggregate be less than (A) thirty million U.S. dollars (\$30,000,000) if such action is taken on or prior to the first (1st) anniversary of the Closing Date or (B) twenty-four million U.S. dollars (\$24,000,000) if such action is taken after the first (1st) anniversary of the Closing Date, (ii) declare, set aside or make distributions to its shareholders of any shares of Purchaser Common Stock issued by Purchaser in connection with this Agreement or the transactions contemplated hereby or (iii) enter into any agreement or arrangement, including an agreement for the sale or purchase of assets, with an Affiliate, employee, officer, director or shareholder of Seller or any of their respective immediate family members or Affiliates which is not on fair and commercially reasonable terms with respect to Seller. For the avoidance of doubt, this Section 7.14 shall not prevent Seller from purchasing assets from a bona fide third party seller on commercially reasonable terms.

7.15 Shutdown of Certain Excluded Subsidiaries.

(a) Prior to the Closing, Seller and Purchaser shall negotiate in good faith a Shutdown Support Agreement (the "Shutdown Support Agreement"), whereby Purchaser shall agree to provide certain reasonable support services in connection with the termination of operations and shutdown of the Excluded Subsidiaries listed on Schedule 7.15 by Seller after the Closing.

(b) Prior to the Closing, Seller and Purchaser shall negotiate in good faith an additional adjustment (the "Shutdown Adjustment") to the purchase price equal to the severance, lease termination and other costs reasonably incurred by Seller in connection with the termination of operations and shutdown of the Excluded Subsidiaries listed on Schedule 7.15 by Seller after the Closing; provided that the Shutdown Adjustment shall be no less than seventy thousand U.S. dollars (\$70,000) and no greater than two hundred and fifty thousand U.S. dollars (\$250,000). The Base Purchase Price shall be increased for all purposes of this Agreement by the amount of the Shutdown Adjustment.

ARTICLE VIII

CONDITIONS TO CLOSING

8.1 Conditions Precedent to Obligations of Each Party. The respective obligations of each of Seller and Purchaser to consummate the transactions contemplated by this Agreement is subject to the fulfillment, on or prior to the Closing Date, of each of the following conditions precedent:

(a) no Legal Proceedings shall have been instituted or threatened or claim or demand made against Purchaser, Seller, the Company or any of the Subsidiaries seeking to restrain or prohibit or to obtain substantial damages with respect to the consummation of the transactions contemplated hereby, and there shall not be in effect any Order by a Governmental Body of competent jurisdiction restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated hereby; and

(b) the Seller Shareholder Approval shall have been obtained or Purchaser and Seller shall have each determined that the Seller Shareholder Approval is not necessary.

8.2 Conditions Precedent to Obligations of Purchaser. The obligation of Purchaser to consummate the transactions contemplated by this Agreement is subject to the fulfillment, on or prior to the Closing Date, of each of the following conditions precedent (any or all of which may be waived by Purchaser in whole or in part to the extent permitted by applicable Law):

(a) the representations and warranties of Seller qualified as to materiality shall be true and correct, and those not so qualified shall be true and correct in all material respects, in each case, as of the date of this Agreement and as of the Closing as though made at and as of the Closing, except to the extent such representations and warranties expressly speak as of an earlier date (in which case such representations and warranties qualified as to materiality shall be true and correct, and those not so qualified shall be true and correct in all material respects, on and as of such earlier date);

(b) Seller and the Company shall have performed and complied in all material respects with all obligations and agreements required in this Agreement to be performed or complied with by them prior to the Closing Date;

(c) there shall not have been or occurred any Material Adverse Effect since the Balance Sheet Date;

(d) Purchaser shall have received certificates, each in form and substance reasonably satisfactory to Purchaser, signed by Seller and the chief executive officer and chief financial officer of Seller, dated as the Closing Date, to the effect that each of the conditions specified above in Sections 8.2(a)-(c) have been satisfied in all respects;

(e) Seller shall have obtained (i) any consent, approval, Order or authorization of, or registration, declaration or filing with, any Governmental Body necessary to be obtained or made in connection with the execution and delivery of this Agreement or the performance of the transactions contemplated herein (and where any conditions are attached to such consent or approval, such conditions are reasonably acceptable to Purchaser) or any applicable mandatory waiting periods shall have expired or been granted early termination and (ii) those consents, waivers and approvals, if any, referred to in Section 5.3(c) hereof in a form reasonably satisfactory to Purchaser;

(f) Seller shall have obtained those consents and releases listed on Schedule 8.2(f) in a form reasonably satisfactory to Purchaser;

(g) each of the Persons listed on Schedule 8.2(g) shall have entered into an employment agreement on terms satisfactory to Purchaser, and such employment agreements shall be in full force and effect and all of such persons shall be willing and able to perform in accordance with such employment agreements;

(h) Purchaser shall have received the written resignations of each of the directors of the Company;

(i) Seller and the Escrow Agent shall have entered into, executed and delivered to Purchaser the Escrow Agreement substantially in the form of Exhibit A hereto;

(j) Seller shall have entered into, executed and delivered to Purchaser the Non-Competition Agreement substantially in the form of Exhibit B hereto;

(k) Seller shall have entered into, executed and delivered to Purchaser the Shutdown Support Agreement;

(l) Seller shall have agreed with Purchaser as to the amount of the Shutdown Adjustment at least ten (10) days prior to the Closing; provided that if any time prior to the Closing, Seller irrevocably offers (conditional on the Closing) to make the amount of the Shutdown Adjustment seventy thousand U.S. dollars (\$70,000), then this condition shall be deemed to have been waived by Purchaser;

(m) Huge Hill Limited and, as appropriate, the Company and/or one or more of the Acquired Subsidiaries shall have each entered into, executed and delivered to Purchaser an exclusive supply agreement (the "Huge Hill Exclusive Supply Agreement"), substantially in the form of Exhibit C hereto;

(n) Sino Gear Force Limited and, as appropriate, the Company and/or one or more of the Acquired Subsidiaries shall have each entered into, executed and delivered to Purchaser an exclusive supply agreement (the "Sino Gear Exclusive Supply Agreement" and, together with the Huge Hill Exclusive Supply Agreement, the "Exclusive Supply Agreements"), substantially in the form of Exhibit C hereto;

(o) Seller shall have amended each of the Contracts set forth on Schedule 8.2(o) so that each such Contract will, to the reasonable satisfaction of Seller, comply with the representations of Seller contained in the last sentence of Section 5.15(b);

(p) Seller shall have amended each of the Contracts set forth on Schedule 8.2(p) in a manner reasonably satisfactory to Purchaser to clarify that the Intellectual Property covered by each such Contract is owned by the Company and the Acquired Subsidiaries;

(q) Seller shall have delivered, or caused to be delivered, to Purchaser share certificates representing the Shares, duly endorsed in blank or accompanied by share transfer powers and forms and with all requisite share transfer tax stamps, if applicable, attached, along with a certified copy of the share registry of the Company which reflects the transfer of the Shares and the change of directors; and

(r) the Company shall have delivered to Purchaser certificates of good standing, if applicable, with respect to the Company and each of the Acquired Subsidiaries as of a recent date issued by an authorized official from the appropriate Governmental Body of such entity's jurisdiction of organization and each jurisdiction in which such entity is qualified to do business as a foreign corporation.

8.3 Conditions Precedent to Obligations of Seller. The obligations of Seller to consummate the transactions contemplated by this Agreement are subject to the fulfillment, prior to or on the Closing Date, of each of the following conditions precedent (any or all of which may be waived by Seller in whole or in part to the extent permitted by applicable Law):

(a) the representations and warranties of Purchaser set forth in this Agreement qualified as to materiality shall be true and correct, and those not so qualified shall be true and correct in all material respects, in each case, as of the date of this Agreement and as of the Closing as though made at and as of the Closing, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties qualified as to materiality shall be true and correct, and those not so qualified shall be true and correct in all material respects, on and as of such earlier date); provided, however, that if Purchaser does not make the Share Election, the representations and warranties of Purchaser set forth in Sections 6.5, 6.6, and 6.7 shall be deemed true and correct in all respects at all times for purposes of this Section 8.3;

(b) Purchaser shall have performed and complied in all respects with all obligations and agreements required by this Agreement to be performed or complied with by Purchaser on or prior to the Closing Date;

(c) Purchaser and the Escrow Agent shall have entered into, executed and delivered to Seller the Escrow Agreement substantially in the form of Exhibit A hereto;

(d) Purchaser shall have entered into, executed and delivered to Seller the Non-Competition Agreement substantially in the form of Exhibit B hereto; and

(e) Purchaser shall have entered into, executed and delivered to Seller the Shutdown Support Agreement;

(f) Purchaser shall have agreed with Seller as to the amount of the Shutdown Adjustment at least ten (10) days prior to the Closing; provided that if at any time prior to the Closing, Purchaser irrevocably offers (conditional on the Closing) to make the amount of the Shutdown Adjustment two hundred and fifty thousand U.S. dollars (\$250,000), then this condition shall be deemed to have been waived by Seller; and

(g) the Shelf Registration Statement shall have been declared effective by the SEC; provided, however, that in the event that Seller does not provide to Purchaser within fourteen (14) days after the written request by Purchaser for any information reasonably determined by Purchaser to be necessary to file the Shelf Registration Statement with, and have it declared effective by, the SEC, this condition shall be deemed to have been waived by Seller.

ARTICLE IX

INDEMNIFICATION

9.1 Survival of Representations and Warranties. The representations and warranties of the parties contained in this Agreement (other than in Section 5.11 (taxes), which is governed by Section 9.7), any certificate delivered pursuant hereto or any Seller Document or Purchaser Document shall survive the Closing through and including the second (2nd) anniversary of the Closing Date; provided, however, that (i) the representations and warranties of Seller set forth in Sections 5.1 (organization), 5.2 (authorization), 5.4 (ownership), 5.5 (capitalization), 5.6 (subsidiaries) and 5.29 (financial advisors) shall survive the Closing indefinitely and (ii) the representations and warranties of Purchaser set forth in Sections 6.1 (organization), 6.2 (authorization) and 6.7 (financial advisors) shall survive the Closing indefinitely (in each case, the "Survival Period"); provided, further, that any obligations to indemnify and hold harmless shall not terminate with respect to any Losses as to which the Person to be indemnified shall have given notice (stating in reasonable detail the basis of the claim for indemnification) to the indemnifying party in accordance with Section 9.3 before the termination of the applicable Survival Period. Notwithstanding anything to the contrary contained herein, if Purchaser does not make the Share Election, the representations and warranties of Purchaser set forth in Sections 6.5, 6.6 and 6.7 shall expire with and terminate upon the Closing.

9.2 Indemnification.

(a) Subject to Sections 9.1, 9.4, 9.6 and 9.7 hereof, Seller hereby agrees to indemnify and hold the Purchaser Indemnified Parties harmless from and against, and pay to the applicable Purchaser Indemnified Parties the amount of any and all Losses based upon, attributable to or resulting from:

(i) the failure of any of the representations or warranties made by Seller in this Agreement (other than in Section 5.11), any certificate delivered pursuant hereto or in any Seller Document to be true and correct in all respects on the date hereof and, as this Agreement may be modified by any Supplemental Disclosure Schedules, as of the Closing Date;

(ii) the breach of any covenant or other agreement on the part of Seller or the Company under this Agreement, any certificate delivered pursuant hereto or any Seller Document; and

(iii) the Excluded Assets or the transfer of the Excluded Assets pursuant to Section 7.13, including any Taxes imposed on or payable by any Purchaser Indemnified Party at any time as a result of the transfer of the Excluded Assets.

(b) Subject to Sections 9.1 and 9.4, Purchaser hereby agrees to indemnify and hold the Seller Indemnified Parties harmless from and against, and pay to the applicable Seller Indemnified Parties the amount of any and all Losses:

(i) based upon, attributable to or resulting from the failure of any of the representations or warranties made by Purchaser in this Agreement or in any Purchaser Document to be true and correct in all respects on the date hereof and as of the Closing Date; provided, however, that if Purchaser does not make the Share Election, Purchaser shall have no obligation to indemnify with respect to the representations and warranties of Purchaser set forth in Sections 6.5, 6.6 and 6.7; and

(ii) based upon, attributable to or resulting from the breach of any covenant or other agreement on the part of Purchaser under this Agreement or any Purchaser Document.

(c) The right to indemnification or any other remedy based on representations, warranties, covenants and agreements in this Agreement shall not be affected by (and shall exist notwithstanding) any investigation conducted with respect to, or any knowledge acquired (or capable of being acquired) at any time, whether before or after the execution and delivery of this Agreement or the Closing Date, with respect to the accuracy or inaccuracy of or compliance with, any such representation, warranty, covenant or agreement. The waiver of any condition based on the accuracy of any representation or warranty, or on the performance of or compliance with any covenant or agreements, will not affect the right to indemnification or any other remedy based on such representations, warranties, covenants and agreements.

9.3 Indemnification Procedures.

(a) A claim for indemnification for any matter not involving a third party claim may be asserted by notice to the party from whom indemnification is sought.

(b) In the event that any Legal Proceedings shall be instituted or that any claim or demand shall be asserted by any third party in respect of which payment may be sought under Section 9.2 hereof or for any breach of contract claim with respect to breach of the representations and warranties (other than Section 5.11) contained herein (regardless of the limitations set forth in Section 9.4) (an "Indemnification Claim"), the indemnified party shall promptly cause written notice of the assertion of any Indemnification Claim of which it has knowledge which is covered by this indemnity to be forwarded to the indemnifying party. The failure of the indemnified party to give reasonably prompt notice of any Indemnification Claim shall not release, waive or otherwise affect the indemnifying party's obligations with respect thereto except to the extent that the indemnifying party can demonstrate prejudice as a result of such failure. The indemnifying party shall have the right, at its sole expense, (i) to be represented by counsel of its choice, which must be reasonably satisfactory to the indemnified party, and (ii) to defend against, negotiate, settle or otherwise deal with any Indemnification Claim which relates to any Losses indemnified against hereunder; provided that the indemnifying party shall have acknowledged in writing to the indemnified party its unqualified obligation to indemnify the indemnified party as provided hereunder. If the indemnifying party elects to defend against, negotiate, settle or otherwise deal with any Indemnification Claim which relates to any Losses indemnified by it hereunder, it shall within five (5) Business Days (or sooner, if the nature of the Indemnification Claim so requires) notify the indemnified party of its intent to do so. If the indemnifying party elects not to defend against, negotiate, settle or otherwise deal with any Indemnification Claim which relates to any Losses indemnified against hereunder, fails to notify the indemnified party of its election as herein provided or contests its obligation to indemnify the indemnified party for such Losses under this Agreement, the indemnified party may defend against, negotiate, settle or otherwise deal with such Indemnification Claim. If the indemnified party defends any Indemnification Claim, then the indemnifying party shall reimburse the indemnified party for the expenses of defending such Indemnification Claim upon submission of periodic bills. If the indemnifying party shall assume the defense of any Indemnification Claim, the indemnified party may participate, at its own expense, in the defense of such Indemnification Claim; provided, however, that such indemnified party shall be entitled to participate in any such defense with separate counsel at the expense of the indemnifying party if (i) so requested by the indemnifying party to participate or (ii) in the reasonable opinion of counsel to the indemnified party, a conflict or potential conflict exists between the indemnified party and the indemnifying party that would make such separate representation advisable; and provided, further, that the indemnifying party shall not be required to pay for more than one such counsel for all indemnified parties in connection with any Indemnification Claim. The parties hereto agree to cooperate fully with each other in connection with the defense, negotiation or settlement of any such Indemnification Claim. Notwithstanding anything in this Section 9.3 to the contrary, neither the indemnifying party nor the indemnified party shall, without the written consent of the other party, settle or compromise any Indemnification Claim or permit a default or consent to entry of any judgment unless the claimant and such party provide to such other party an unqualified release from all liability in respect of the Indemnification Claim. If the indemnifying party makes any payment on any Indemnification Claim, the indemnifying party shall be subrogated, to the extent of such payment, to all rights and remedies of the indemnified party to any insurance benefits or other claims of the indemnified party with respect to such Indemnification Claim.

(c) After any final decision, judgment or award shall have been rendered by a Governmental Body of competent jurisdiction (as permitted by Section 10.3) and the expiration of the time in which to appeal therefrom, or a settlement shall have been consummated, or the indemnified party and the indemnifying party shall have arrived at a mutually binding agreement with respect to an Indemnification Claim hereunder, the indemnified party shall forward to the indemnifying party notice of any sums due and owing by the indemnifying party pursuant to this Agreement with respect to such matter and the indemnifying party shall be required to pay all of such remaining sums so due and owing to the indemnified party in accordance with Section 9.5.

9.4 Limitations on Indemnification; Calculation of Losses. All of the following are subject to Section 9.4(j):

(a) Notwithstanding the provisions of this Article IX, (i) neither Seller nor Purchaser shall have any liability (x) under Section 9.2(a)(i), 9.2(b)(i) or 9.7(a)(i)(C)(1) as applicable, or (y) for any breach of contract claim with respect to breaches of the representations and warranties contained herein (A) for any individual item where the Loss relating thereto is less than \$5,000 (provided, that claims relating to a series of similar, connected or related matters arising out of the same breach shall be aggregated for this purpose to the extent that such claims relate to different Losses) and (B) with respect to each individual item where the Loss relating thereto is equal to or greater than \$5,000, unless the aggregate amount of such Losses to the indemnified or damaged parties finally determined to arise thereunder based upon, attributable to or resulting from the failure of any of the representations or warranties to be true and correct exceeds \$300,000 (the "Basket Amount") and, in such event, the indemnifying or liable party shall be required to pay the entire amount of all such Losses, and (ii) in no event shall the aggregate indemnification to be paid by Seller or Purchaser pursuant to Section 9.2(a)(i) or 9.2(b)(i), as applicable, along with the aggregate amount of damages for any other breach of contract claim with respect to a breach of the representations and warranties contained herein, exceed the Indemnification Cap. For purposes of this Agreement, the "Indemnification Cap" shall mean an amount equal to the sum of the cash consideration received as part of the Final Purchase Price plus ninety-five percent (95%) of the aggregate value (based upon the Per Share Value per share of Purchaser Common Stock) of the Purchaser Common Stock consideration to be received as part of the Final Purchase Price. Notwithstanding the foregoing, the Basket Amount and the Indemnification Cap limitations shall not apply to Losses related to the failure to be true and correct of any of the representations and warranties set forth in Sections 5.1 (organization), 5.2 (authorization), 5.4 (ownership), 5.5 (capitalization), 5.29 (financial advisors), 6.1 (organization), 6.2 (authorization), 6.5 (capitalization) and 6.7 (financial advisors) and, with respect to claims from Taxing Authorities or claims pursuant to Tax sharing or indemnity agreements, Section 5.11 (taxes).

(b) Notwithstanding anything in this Agreement to the contrary, after the Closing, for purposes of this Article IX or for purposes of any breach of contract claim with respect to breaches of the representations and warranties contained herein, any breach of a representation or warranty of a party contained herein that does not cause or result in a Loss shall not be deemed to be a breach of this Agreement or a default hereunder.

(c) For purposes of calculating the amount of Losses hereunder, any materiality or Material Adverse Effect qualifications in the representations, warranties, covenants and agreements shall be disregarded.

(d) The amount of any Losses for which indemnification is provided under this Article IX or for which damages for a breach of the representations and warranties contained herein may be payable shall be net of any amounts actually recovered by the indemnified party under insurance policies with respect to such Losses, net of any increases in premiums due to such Losses.

(e) Seller shall have no right of contribution or other recourse against the Company or the Acquired Subsidiaries or their respective directors, officers, employees, Affiliates, agents, attorneys, representatives, assigns or successors for any Indemnification Claims or other claims for breaches of this Agreement asserted by Purchaser Indemnified Parties.

(f) Notwithstanding any other provision of this Agreement, no party shall be:

(i) obligated to pay any claim in respect of any liability if and to the extent that it is contingent unless and until such liability becomes an actual liability that is due and payable and the amount thereof is reasonably ascertainable;

(ii) liable in respect of any claim to the extent that such claim is reserved for on the Closing Statement and taken into account in determining the Final Purchase Price Adjustment;

(iii) liable with respect to any claim if and to the extent that the facts giving rise to such claim would not have occurred but for the intentional wrongful and improper act or omission of the other party or its Affiliates after the Closing which (A) is taken or failed to be taken other than in the ordinary and usual course of business, with the knowledge that such intentional wrongful and improper act or omission would be reasonably likely to lead to a claim under this Agreement, (B) due to retroactive treatment, causes a breach of the terms of this Agreement with respect to pre-Closing activities and (C) is not an act or omission which Purchaser or its Affiliates has reasonably determined is necessary to comply with any Law or contractual obligation (provided, that this Section 9.4(f)(iii) shall be solely used for purposes of determining whether liability exists, and not for determining indemnifiable Loss with respect to such liability); or

(iv) liable with respect to (A) the passing of, or any change in, any Law after the Closing or (B) any change in accounting policy, bases or practice after the Closing, which, in the case of both clauses (A) and (B), due to retroactive treatment, causes a breach of the terms of this Agreement with respect to pre-Closing activities.

(g) The indemnified or damaged party shall take reasonable steps to avoid, dispute, resist, appeal, compromise, defend or mitigate any Losses which in the absence of mitigation might give rise to a liability in respect of any claim for breach of a representation or warranty contained herein; provided, however, that any costs incurred by or on behalf of the indemnified or damaged party in such mitigation shall be added to the amount of the Loss of the underlying claim.

(h) No party shall be entitled to indemnification or damages for breach of the representations and warranties contained herein more than once in respect of the same Loss arising from any one claim.

(i) If a party hereto pays an amount to discharge any claim for indemnification or breach of the representations and warranties contained herein, and the other party hereto or its Affiliates subsequently recovers and is entitled to retain (whether by payment, discount, credit, relief or otherwise) from a third party a sum which is referable to the subject matter of the claim and which would not otherwise have been received by the indemnified or damaged party without such claim, such indemnified or damaged party shall pay, or shall cause its Affiliate to pay, to the other party an amount equal to (i) the sum recovered from the third party less any costs and expenses incurred in obtaining such recovery and less any Taxes attributable to the recovery after taking account of any tax relief available in respect of any matter giving rise to the claim, or, (ii) if less, the amount previously paid by the other party less any Taxes attributable to it.

(j) Notwithstanding any other provision of this Agreement, (i) nothing contained in this Section 9.4 shall have any effect with respect to the satisfaction of the conditions set forth in Article VIII and, (ii) other than Sections 9.4(a), 9.4(b), 9.4(e), 9.4(g) and 9.4(h), this Section 9.4 shall not apply to or in any way limit indemnification or other right to recover damages with respect to Taxes, which limitations shall solely be governed by Section 9.7 (and Sections 9.4(a), 9.4(b), 9.4(e), 9.4(g) and 9.4(h)).

9.5 Escrow. On the Closing Date, Purchaser shall, on behalf of Seller, pay to the Escrow Agent, as agent to Purchaser and Seller, in immediately available funds, to the account designated by the Escrow Agent (the "Escrow Account"), an amount equal to five percent (5%) of the Estimated Purchase Price (such amount, as it may be subsequently reduced pursuant to this Section 9.5, the "Escrow Amount"), in accordance with the terms of this Agreement and the Escrow Agreement. Any payment Seller is obligated to make to any Purchaser Indemnified Parties pursuant to this Article IX shall be paid first, to the extent there are sufficient funds in the Escrow Account, by release of funds to the Purchaser Indemnified Parties from the Escrow Account by the Escrow Agent within five (5) Business Days after the date notice of any sums due and owing is given to Seller (with a copy to the Escrow Agent pursuant to the Escrow Agreement) by the applicable Purchaser Indemnified Party and shall accordingly

reduce the Escrow Amount and, second, to the extent the Escrow Amount is insufficient to pay any remaining sums due, then Seller shall be required to pay all of such additional sums due and owing to the Purchaser Indemnified Parties by wire transfer of immediately available funds within five (5) Business Days after the date of such notice. On the first anniversary of the Closing Date, the Escrow Agent shall release the Escrow Amount (to the extent not utilized to pay Purchaser for any indemnification claim) to Seller, except that the Escrow Agent shall retain an amount equal to the amount of claims for indemnification under this Article IX asserted prior to such anniversary but not yet resolved ("Unresolved Claims"). The Escrow Amount retained for Unresolved Claims shall be released by the Escrow Agent (to the extent not utilized to pay Purchaser for any such claims resolved in favor of Purchaser) upon their resolution in accordance with this Article IX. For the avoidance of doubt, the release of the Escrow Amount to Seller after the first anniversary of the Closing Date pursuant to this Section 9.5 shall not prejudice any of the rights of the Purchaser Indemnified Parties to seek indemnification from Seller under this Agreement.

9.6 Supplemental Disclosures.

(a) Solely for purposes of this Article IX, through the Closing Date, Seller shall have the right to deliver to Purchaser one or more supplemental disclosure schedules (collectively, the "Supplemental Disclosure Schedules") setting forth any matter relating to a representation or warranty of Seller contained in this Agreement (i) that occurred between the date of this Agreement and the Closing Date, (ii) as to which Seller had no Knowledge as of the date of this Agreement, (iii) that is not reflected on the disclosure schedules delivered by Seller in connection with the execution of this Agreement and (iv) that did not arise as a result of the breach of a covenant (i.e., not a representation or warranty) of Seller contained in this Agreement (any item meeting such requirements, a "Supplemental Disclosure"). Seller shall deliver the Supplemental Disclosure Schedules to Purchaser no later than five (5) Business Days prior to the Closing Date, and shall be entitled to deliver additional Supplemental Disclosure Schedules until immediately prior to Closing (which additional Supplemental Disclosure Schedules shall each include matters that arise or are discovered since the delivery of the prior Supplemental Disclosure Schedules). Seller shall use commercially reasonable efforts to mitigate Losses relating to any Supplemental Disclosure. For the avoidance of doubt, Supplemental Disclosures shall not modify or create exceptions to Seller's representations and warranties or other obligations under this Agreement for any purpose other than Section 4.2(h), this Article IX and any claim with respect to breaches of the representations and warranties contained herein.

(b) Notwithstanding anything to the contrary contained herein, Seller shall not be liable under this Agreement with respect to any Supplemental Disclosure and no Supplemental Disclosure shall be deemed a breach of a representation or warranty of Seller under this Agreement for purposes of this Article IX or with respect to any breach of contract claim for breaches of the representations and warranties contained herein; provided, however, that if Seller provides any Supplemental Disclosures to Purchaser, Purchaser shall have the right to terminate this Agreement without any liability to Purchaser or its Affiliates.

9.7 Tax Matters.

(a) Tax Indemnification.

(i) Seller hereby agrees to be liable for and to indemnify and hold the Purchaser Indemnified Parties harmless from and against any and all Losses in respect of:

(A) all Taxes of the Company and the Subsidiaries (or any predecessor thereof) (1) for any taxable period ending on or before the Closing Date, and (2) for the portion of any Straddle Period ending at the close of business on the Closing Date (determined as provided in Section 9.7(c));

(B) any and all Taxes imposed on any member of a consolidated, combined or unitary group of which the Company or any Subsidiary (or any predecessor thereof) is or was a member on or prior to the Closing Date, by reason of the liability of the Company or any Subsidiary (or any predecessor thereof); and

(C) the failure (1) of any of the representations and warranties contained in Section 5.11 to be true and correct in all respects (determined without regard to any qualification related to materiality contained therein) on the date hereof and as of the Closing Date or (2) to perform any covenant contained in this Agreement with respect to Taxes.

(ii) Notwithstanding anything to the contrary contained in this Section 9.7, Seller shall not be liable to the extent that:

(A) such Taxes are (1) not in excess of the amount, if any, reserved for such Taxes (excluding any reserve for deferred Taxes established to reflect timing differences between book and Tax income) on the Closing Statement and (2) taken into account in determining the Final Purchase Price Adjustment;

(B) Purchaser, the Company or the Acquired Subsidiaries have recovered in respect of such Tax from a Person or Persons other than Seller;

(C) such Tax is a penalty, charge or interest directly caused by a delay or default after the Closing by Purchaser, the Company or any of the Acquired Subsidiaries;

(D) a Tax Claim is not yet due and payable, which date shall be the last date the Tax Claim may be paid without incurring any interest charge or penalty;

(E) the facts giving rise to any claim by a Purchaser Indemnified Party would not have occurred but for the intentional wrongful and improper act or omission of Purchaser or its Affiliates after the Closing which (1) is taken or failed to be taken other than in the ordinary and usual course of business, with the knowledge that such intentional wrongful and improper act or omission would be reasonably likely to lead to a claim under this Agreement, (2) due to retroactive treatment, causes a breach of the terms of this Agreement with respect to pre-Closing activities and (3) is not an act or omission which Purchaser or its Affiliates has reasonably determined is necessary to comply with any Law or contractual obligation, (provided, that this Section 9.7(a)(ii)(E) shall be solely used for purposes of determining whether liability exists under Section 9.7, and not for determining indemnifiable Loss with respect to such liability); or

(F) due to retroactive treatment, (1) the passing of, or any change in, any Tax Law after the Closing, including any increase in the rates of Taxes or any imposition of Taxes or any withdrawal of relief from Taxes not in effect at the date of this Agreement, or (2) any change in Tax policy, bases or practice or any change in the practice or procedure of any Taxing Authorities introduced and having effect after Closing, causes a breach of the terms of this Agreement with respect to pre-Closing activities.

(b) Filing of Tax Returns; Payment of Taxes.

(i) Seller shall cause the Company and the Acquired Subsidiaries to timely file all Tax Returns, if any, of or which include the Company or any of the Acquired Subsidiaries required to be filed on or prior to the Closing Date and shall pay or cause to be paid all Taxes shown due thereon. All such Tax Returns shall be prepared in a manner consistent with prior practice and shall be correct and complete in all material respects. Seller shall provide Purchaser or its designated advisors with copies of such completed Tax Returns at least twenty (20) days prior to the due date for filing thereof, along with supporting workpapers, for Purchaser's review.

(ii) Following the Closing, Purchaser shall cause to be timely filed all Tax Returns required to be filed by the Company and the Acquired Subsidiaries after the Closing Date and, subject to the right to payment from Seller under Section 9.7(b)(iii), pay or cause to be paid all Taxes shown due thereon. To the extent that such Tax Returns include taxable periods ending prior to the Closing Date, Purchaser and Seller shall work together to complete such portions of the Tax Returns. Seller and Purchaser shall attempt in good faith to resolve any disagreements regarding such Tax Returns prior to the due date for filing. In the event that Seller and Purchaser are unable to resolve any dispute with respect to such Tax Return at least ten (10) days prior to the due date for filing, such dispute shall be resolved pursuant to Section 9.7(f), which resolution shall be binding on the parties.

(iii) Not later than ten (10) days prior to the due date for the payment of Taxes on any Tax Returns which Purchaser has the responsibility to cause to be filed pursuant to Section 9.7(b)(ii), Seller shall pay to Purchaser the amount of Taxes, as reasonably determined by Seller and Purchaser, owed by Seller pursuant to the provisions of Section 9.7(a). No payment pursuant to this Section 9.7(b)(iii) shall excuse Seller from its indemnification obligations pursuant to Section 9.7(a) if the amount of Taxes as ultimately determined (on audit or otherwise) for the periods covered by such Tax Returns exceeds the amount of Seller's payment under this Section 9.7(b)(iii).

(c) Straddle Period Tax Allocation. Seller and Purchaser will, unless prohibited by applicable Law, close the taxable period of the Company and the Acquired Subsidiaries as of the close of business on the Closing Date. If applicable Law does not permit the Company or any Acquired Subsidiary to close its taxable year on the Closing Date or in any case in which a Tax is assessed with respect to a taxable period which includes the Closing Date (but does not begin or end on that day) (a "Straddle Period"), the Taxes, if any, attributable to a Straddle Period shall be allocated (i) to Seller for the period up to and including the close of business on the Closing Date, and (ii) to Purchaser for the period subsequent to the Closing Date. Any allocation of income or deductions required to determine any Taxes attributable to a Straddle Period shall be made by means of a closing of the books and records of the Company and the Acquired Subsidiaries as of the close of the Closing Date, provided that exemptions, allowances or deductions that are calculated on an annual basis (including, but not limited to, depreciation and amortization deductions) shall be allocated between the period ending on the Closing Date and the period after the Closing Date in proportion to the number of days in each such period.

(d) Tax Audits.

(i) If any party becomes aware of any fact or circumstance which would be reasonably likely to give rise to a breach of representation or warranty in relation to Taxes by Seller, or notice of any Legal Proceeding with respect to Taxes of the Company or any of the Acquired Subsidiaries (a "Tax Claim") shall be received by either party for which the other party may reasonably be expected to be liable pursuant to Section 9.7(a), the notified party (or the aware party, as the case may be) shall notify such other party in writing of such Tax Claim (or fact or circumstance); provided, however, that the failure of the notified party to give the other party notice as provided herein shall not relieve such failing party of its obligations under this Section 9.7 except to the extent that the other party is prejudiced thereby.

(ii) Purchaser shall have the right, at the expense of Seller to the extent such Tax Claim is subject to indemnification by Seller pursuant to Section 9.7(a) hereof, to represent the interests of the Company and the Acquired Subsidiaries in any Tax Claim (other than Tax Claims arising out of Tax Returns referred to in Section 9.7(b)(i)), provided that with respect to a Tax Claim relating exclusively to taxable periods ending on or before the Closing Date, Purchaser shall not settle such claim without the consent of Seller, which consent shall not be unreasonably withheld.

(iii) Purchaser shall, or shall cause the Company to, take such action as reasonably requested in writing by Seller to avoid, dispute, resist, appeal, compromise or defend any claim or action relating to a Tax Claim and any adjudication in respect thereof; provided that the foregoing shall be at Seller's sole expense and Purchaser, the Company and the Acquired Subsidiaries shall cooperate, but incur no out-of-pocket expenses incurred in connection with any such request; and provided further, that if the results of such Tax Claim involves an issue that recurs in taxable periods of the Company or any Acquired Subsidiary that recurs in taxable periods of the Company or any Acquired Subsidiary ending after the Closing Date or otherwise could adversely affect Purchaser, Company or any of their respective Affiliates for any taxable period ending after the Closing Date, then (A) Seller and Purchaser shall jointly control the defense and settlement of any such Tax Claim at each party's own expense, and (B) there shall be no settlement with respect thereto without the consent of the other party, which consent will not be unreasonably withheld.

(e) Transfer Taxes. Seller and Purchaser shall equally share, be liable for and pay (and shall indemnify and hold harmless the other party hereto for any amount paid by such party in excess of amounts for which they are liable hereunder) all sales, use, stamp, documentary, filing, recording, transfer or similar fees or taxes or governmental charges as levied by any Governmental Body including any interest and penalties) in connection with the transactions contemplated by this Agreement, other than Taxes related to the Excluded Assets which shall be borne by Seller.

(f) Disputes. Any dispute as to any matter covered by this Section 9.7 shall be resolved by a tax expert (the "Tax Expert"), who shall be a partner in the Hong Kong office of the accounting firm of Ernst & Young (or if unable or unwilling to accept such mandate, an independent accountant to be mutually agreed upon by Seller and Purchaser), and who shall accept its appointment within five (5) days after such referral, to make a final, non-appealable and binding determination as to such disputed matter pursuant to the terms hereof. If Purchaser and Seller cannot agree on the selection of a partner at an independent accounting firm to act as the Tax Expert, the parties shall request the ICC to appoint such a partner (who must be an active or recently retired tax expert with substantial experience with complex financial transactions of the type set forth in this Agreement) and such appointment shall be conclusive and binding on the parties. The fees and expenses of the Tax Expert shall be borne equally by Seller and Purchaser. If any dispute with respect to a Tax Return is not resolved prior to the due date of such Tax Return, such Tax Return shall be filed in the manner which the party responsible for preparing such Tax Return deems correct.

(g) Time Limits. Any claim for indemnity under this Section 9.7 may be made at any time prior to sixty (60) days after the expiration of the applicable Tax statute of limitations with respect to the relevant taxable period (including all periods of extension, whether automatic or permissive).

(h) Exclusivity. The indemnification provided for in this Section 9.7 shall be the sole remedy for any claim in respect of Taxes, including any claim arising out of or relating to a breach of Section 5.11. In the event of a conflict between the provisions of this Section 9.7, on the one hand, and the provisions of Sections 9.1 through 9.4, on the other, the provisions of this Section 9.7 shall control.

(i) Refunds and Tax Benefits. Any Tax refunds or reimbursements from a third party for Taxes paid by Seller that are received by Purchaser, the Company or the Acquired Subsidiaries and any amounts credited against Tax to which Purchaser, the Company or the Acquired Subsidiaries become entitled, that relate to any taxable periods or portions thereof ending on or before the Closing Date shall be for the account of Seller, and Purchaser shall pay over to Seller any such refund, reimbursement or the amount of any such credit within fifteen (15) days after receipt thereof or entitlement thereto.

(j) Cooperation on Tax Matters. Purchaser, Seller, the Company and the Subsidiaries shall cooperate fully, as and to the extent reasonably requested by the other parties, in connection with the filing of Tax Returns and any audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. The Company and Seller shall (i) retain all books and records with respect to Tax matters pertinent to the Company and each Acquired Subsidiary relating to any whole or partial taxable period beginning before the Closing Date until the expiration of the statute of limitations (and, to the extent notified by the Company or Seller, any extensions thereof) of the respective taxable periods, and to abide by all record retention agreements entered into with any taxing authority, and (ii) give the other party reasonable written notice prior to transferring, destroying or discarding any such books and records and, if the other party so requests, Purchaser or Seller, as the case may be, shall allow the other party to take possession of such books and records. Purchaser and Seller further agree, upon request, to use commercially reasonable efforts to obtain any certificate or other document from any Governmental Authority or any other Person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed.

9.8 Tax Treatment of Indemnity Payments. Seller and Purchaser agree to treat any indemnity payment made pursuant to this Article IX as an adjustment to the purchase price for all income tax purposes.

ARTICLE X
MISCELLANEOUS

10.1 Expenses. Except as otherwise provided in this Agreement, each of Seller and Purchaser shall each bear its own expenses incurred in connection with the negotiation and execution of this Agreement and each other agreement, document and instrument contemplated by this Agreement and the consummation of the transactions contemplated hereby and thereby. The Company and the Acquired Subsidiaries shall not pay for any fees and expenses incurred by or on behalf of Seller, the Company or any of the Acquired Subsidiaries in connection with the process of selling the Company or otherwise relating to the negotiation, preparation or execution of this Agreement or any documents or agreements contemplated hereby or the performance or consummation of the transactions contemplated hereby, including (i) any fees and expenses associated with obtaining necessary or appropriate waivers, consents or approvals of any Governmental Body or third parties on behalf of the Company or any of the Acquired Subsidiaries, (ii) any fees or expenses associated with obtaining the release and termination of any Liens, (iii) all brokers' or finders' fees, (iv) fees and expenses of counsel, advisors, consultants, investment bankers, accountants, and auditors and experts and (v) all sale, "stay-around," retention, or similar bonuses or payments to current or former directors, officers, employees and consultants paid as a result of or in connection with the consummation of the transactions contemplated hereby.

10.2 Specific Performance. Seller acknowledges and agrees that the breach of this Agreement would cause irreparable damage to Purchaser and that Purchaser will not have an adequate remedy at law. Therefore, the obligations of Seller under this Agreement, including Seller's obligation to sell the Shares to Purchaser, shall be enforceable by a decree of specific performance issued by any court of competent jurisdiction after such a decision by the Arbitrators pursuant to Section 10.3, and appropriate injunctive relief may be applied for and granted in connection therewith. Such remedies shall, however, be cumulative and not exclusive and shall be in addition to any other remedies which any party may have under this Agreement or otherwise.

10.3 Dispute Resolution. Except for determinations by the Accounting Referee pursuant to Section 3.3 and Tax disputes pursuant to Section 9.7(f), any and all disputes, controversies or claims arising out of, relating to or in connection with this Agreement (including any question regarding its existence, validity, interpretation, scope, breach or termination) shall be resolved by a final and binding arbitration, without any appeal, to be held in London, England using the English language, under the then-prevailing Rules of Arbitration (the "Rules") of the ICC by three (3) arbitrators (the "Arbitrators") mutually selected by the parties, subject to the Rules. The decision of the Arbitrators shall be in writing, and shall set forth in detail the reasons for such decision. The Arbitrators shall be entitled to award damages, injunctive or other equitable relief and any other remedy allowed by the Rules and applicable Law. Judgment upon the award may be entered into any court of competent jurisdiction. Each party shall bear its own expenses incurred in connection with arbitration and the fees and expenses of the Arbitrators shall be shared equally by the parties involved in the dispute and advanced by them from time to time as required. It is the mutual intention and desire of the parties that the tribunal of the Arbitrators be constituted as expeditiously as possible following the submission of the dispute to arbitration.

10.4 Entire Agreement; Amendments and Waivers. This Agreement (including the schedules and exhibits hereto), the Seller Documents and the Purchaser Documents represent the entire understanding and agreement between the parties hereto with respect to the subject matter hereof and can be amended, supplemented or changed, and any provision hereof can be waived, only by written instrument making specific reference to this Agreement signed by the party against whom enforcement of any such amendment, supplement, modification or waiver is sought; provided that that the foregoing shall not exclude liability for fraud or fraudulent misrepresentation. No action taken pursuant to this Agreement, including any investigation by or on behalf of any party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representation, warranty, covenant or agreement contained herein. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a further or continuing waiver of such breach or as a waiver of any other or subsequent breach. No failure on the part of any party to exercise, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of such right, power or remedy by such party preclude any other or further exercise thereof or the exercise of any other right, power or remedy. All remedies hereunder are cumulative and are not exclusive of any other remedies provided by law.

10.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of England and Wales.

10.6 Notices. All notices and other communications under this Agreement shall be in writing and shall be deemed given (i) when delivered personally by hand (with written confirmation of receipt), (ii) when sent by facsimile (with written confirmation of transmission) or (iii) one (1) Business Day following the day sent by overnight courier (with written confirmation of receipt), in each case at the following addresses and facsimile numbers (or to such other address or facsimile number as a party may have specified by notice given to the other party pursuant to this provision):

If to Seller:

MultiVision Intelligent
Surveillance Limited
26/F Aitken Vanson Centre
61 Hoi Yuen Road
Kwun Tong, Kowloon
Hong Kong
Facsimile: +852 2797 5679
Attn: Chief Financial Officer

If to Purchaser:

Verint Systems Inc.
330 South Service Road
Melville, New York 11747
Facsimile: (631) 962-9300
Attn: Peter Fante, General Counsel

If to Seller:

If to Purchaser:

With a copy to:

With a copy to:

Lee & Lee
Advocates & Solicitors
5 Shenton Way
Level 19 UIC Building
Singapore 068808
Facsimile: +65 6 2250438
Attn: Adrian Chan Pengee
(if sent prior to October 1, 2005)
or:

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, NY 10016
Facsimile: (212) 310-8007
Attn: Dennis Barsky, Esq.

Lee & Lee
Advocates & Solicitors
168 Robinson Road #25-01
Capital Tower
Singapore 068912
Facsimile: +65 6 2250438
Attn: Adrian Chan Pengee
(if sent on or after October 1, 2005)

10.7 Severability. If any term or other provision of this Agreement is invalid, illegal, or incapable of being enforced by any law or public policy, all other terms or provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal, or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

10.8 Binding Effect; Assignment. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. Nothing in this Agreement shall create or be deemed to create any third party beneficiary rights in any Person not a party to this Agreement except as provided below. Except as explicitly provided herein, the parties do not intend that any Person who is not a signatory to this Agreement shall acquire any right under this Agreement (whether or not pursuant to the U.K. Contracts (Rights of Third Parties) Act 1999) nor that the consent of or any notice to any Person who is not a signatory to this Agreement shall be required for the variation, rescission or termination of this Agreement. No assignment of this Agreement or of any rights hereunder may be made by either Seller or Purchaser (by operation of law or otherwise) without the prior written consent

of the other parties hereto and any attempted assignment without the required consents shall be null and void; provided, however, that Purchaser may assign this Agreement and any or all of its rights or obligations hereunder (including Purchaser's rights to purchase the Shares and Purchaser's rights to seek indemnification hereunder) to any Affiliate of Purchaser or any Person to which Purchaser or any of its Affiliates proposes to sell all or substantially all of its assets. Upon any such permitted assignment, the references in this Agreement to Purchaser shall also apply to any such assignee unless the context otherwise requires.

10.9 Non-Recourse. No past, present or future director, officer, employee, incorporator, member, partner, shareholder, Affiliate, agent, attorney or representative of Purchaser shall have any liability for any obligations or liabilities of Purchaser under this Agreement or for any claim based on, in respect of, or by reason of, the transactions contemplated hereby.

10.10 Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement.

** REMAINDER OF PAGE INTENTIONALLY LEFT BLANK**

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first written above.

VERINT SYSTEMS INC.

By: /s/ Dan Bodner

Name: Dan Bodner
Title: President and Chief
Executive Officer

MULTIVISION HOLDINGS LIMITED

By: /s/ Louis Mak Fuk Sang

Name: Louis Mak Fuk Sang
Title: Director

MULTIVISION INTELLIGENT
SURVEILLANCE LIMITED

By: /s/ Dennis Li Kin Keung

Name: Dennis Li Kin Keung
Title: Director

CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Dan Bodner, President and Chief Executive Officer of Verint Systems Inc.,
certify that:

1. I have reviewed this quarterly report on Form 10-Q of Verint Systems Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: December 12, 2005

By: /s/ Dan Bodner

Dan Bodner
President and Chief Executive Officer
Principal Executive Officer

CERTIFICATION BY THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Igal Nissim, Vice President and Chief Financial Officer of Verint Systems Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Verint Systems Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: December 12, 2005

By: /s/ Igal Nissim

Igal Nissim
Vice President and Chief Financial Officer
Principal Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Verint Systems Inc. (the "Company") on Form 10-Q for the period ended October 31, 2005 (the "Report"), I, Dan Bodner, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 12, 2005

/s/ Dan Bodner

Dan Bodner
President and Chief Executive Officer
Principal Executive Officer

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

CERTIFICATION REQUIRED BY 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Verint Systems Inc. (the "Company") on Form 10-Q for the period ended October 31, 2005 (the "Report"), I, Igal Nissim, Vice President and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 12, 2005

/s/ Igal Nissim

Igal Nissim
Vice President and Chief Financial Officer
Principal Financial Officer

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.