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

FORM 10-Q

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

For the quarterly period ended July 31, 2004

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.

|X| Yes |_| No

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

|X| Yes |_| No

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares of Common Stock, par value $0.001 per share,
outstanding as of September 3, 2004 was 30,940,342.

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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,” “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 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)

ASSETS	January 31, 2004*	July 31, 2004 (Unaudited)
CURRENT ASSETS:		
Cash and cash equivalents	$ 200,716	$ 181,403
Short-term investments	27,997	39,228
Accounts receivable, net	33,654	41,459
Inventories	15,833	13,953
Prepaid expenses and other current assets	6,007	6,198
TOTAL CURRENT ASSETS	284,207	282,241
PROPERTY AND EQUIPMENT, net	14,129	16,043
INTANGIBLE ASSETS	2,051	10,769
GOODWILL	14,364	39,383
OTHER ASSETS	13,955	13,338
TOTAL ASSETS	$ 328,706	$ 361,774

LIABILITIES AND STOCKHOLDERS’ EQUITY

CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 50,301	$ 61,422
Advance payments from customers	26,701	34,389
Convertible note	2,200	—
Current maturities of long-term bank loan	441	319
TOTAL CURRENT LIABILITIES	79,643	96,130
LONG-TERM LIABILITIES	4,395	4,980
TOTAL LIABILITIES	84,038	101,110
STOCKHOLDERS' EQUITY:		
Common stock, $0.001 par value – authorized, 120,000,000 shares; issued and outstanding, 30,098,732 and 30,905,463 shares	30	31
Additional paid-in capital	262,472	271,402
Unearned stock compensation	(1,615)	(1,407)
Accumulated deficit	(16,917)	(9,732)
Accumulated other comprehensive income	698	370
TOTAL STOCKHOLDERS' EQUITY	244,668	260,664
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 328,706	$ 361,774

*The Condensed Consolidated Balance Sheet as of January 31, 2004 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)

	Six months ended July 31,		Three months ended July 31,	
	2003	**2004**	**2003**	**2004**
Sales	$ 91,307	$ 116,805	$ 46,892	$ 60,167
Cost of sales	42,678	52,863	21,766	27,106
Gross profit	48,629	63,942	25,126	33,061
Operating expenses:				
Research and development, net	11,027	14,680	5,692	7,889
Selling, general and administrative	29,970	38,414	15,301	19,820
In-process research and development	—	3,154	—	—
Write-down of capitalized software	—	1,481	—	—
Income from operations	7,632	6,213	4,133	5,352
Interest and other income, net	935	1,447	420	865
Income before income tax provision	8,567	7,660	4,553	6,217
Income tax provision	1,078	475	576	546
Net income	$ 7,489	$ 7,185	$ 3,977	$ 5,671
Earnings per share:				
Basic	$ 0.29	$ 0.24	$ 0.15	$ 0.18

Diluted	$ 0.28	$ 0.22	$ 0.14	$ 0.17

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)

	Six months ended July 31, 2003	Six months ended July 31, 2004
Cash flows from operating activities:		
Net cash from operations after adjustment for non-cash items	$ 12,785	$ 17,619
Changes in operating assets and liabilities:		
Accounts receivable	(7,054)	(7,606)
Inventories	(48)	1,880
Prepaid expenses and other current assets	(470)	(191)
Accounts payable and accrued expenses	7,244	8,638
Advance payments from customers	(1,410)	7,688
Other, net	374	(585)
Net cash provided by operating activities	11,421	27,443
Cash flows from investing activities:		
Cash paid for a business combination	(6,115)	(36,107)
Purchases of property and equipment	(3,049)	(3,740)
Capitalization of software development costs	(2,170)	(2,040)
Purchase of short-term securities, net	—	(11,351)
Net cash used in investing activities	(11,334)	(53,238)
Cash flows from financing activities:		
Net repayments of bank loans	(42,557)	(227)
Proceeds from issuance of common stock	125,248	6,709
Net cash provided by financing activities	82,691	6,482
Net increase (decrease) in cash and cash equivalents	82,778	(19,313)
Cash and cash equivalents, beginning of period	133,933	200,716
Cash and cash equivalents, end of period	$ 216,711	$ 181,403

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, digital video security and surveillance, and enterprise business intelligence. The Company is a majority-owned subsidiary of Comverse Technology, Inc. (“Comverse Technology”).

The accompanying financial information should be read in conjunction with the audited financial statements, including the notes thereto, for the annual period ended January 31, 2004. The condensed financial information included herein is unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of the Company’s management, necessary for a fair statement of the results for the interim periods presented herein. The Company’s results of operations for the three month and six month periods ended July 31, 2004 are not necessarily indicative of the Company’s results to be expected for the full year. The condensed consolidated balance sheet as of January 31, 2004 has been summarized from the Company’s audited consolidated balance sheet as of that date. Certain amounts in prior periods have been reclassified to conform to the manner of presentation in the current periods.

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 to account for its stock-based employee compensation. Accordingly, 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. Any resulting stock-based employee compensation cost 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 $13,000 and $26,000, during the three month and six month periods ended July 31, 2003, respectively, and $11,000 and $22,000, during the three month and six month periods ended July 31, 2004, respectively, relating to certain employee stock options granted with exercise prices below the fair market value at the date of grant. As of July 31, 2004, 35,913 employee stock options were outstanding with exercise prices below the fair market value at the date of the grant and all other employee stock options have been granted at exercise prices equal to fair market value on the date of grant. Accordingly, no compensation expense has been recognized by the Company related to these options in the accompanying condensed consolidated statement of income.

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:

	Six months ended July 31, 2003	Six months ended July 31, 2004	Three months ended July 31, 2003	Three months ended July 31, 2004
	(In thousands, except per share data)		(In thousands, except per share data)	
Net income, as reported	$ 7,489	$ 7,185	$ 3,977	$ 5,671
Less: Stock-based employee compensation cost determined under the fair value method, net of related tax effects	2,448	3,758	1,358	2,018
Pro forma net income	$ 5,041	$ 3,427	$ 2,619	$ 3,653
Earnings per share:				
Basic – as reported	$ 0.29	$ 0.24	$ 0.15	$ 0.18
Basic – pro forma	$ 0.20	$ 0.11	$ 0.10	$ 0.12
Diluted – as reported	$ 0.28	$ 0.22	$ 0.14	$ 0.17
Diluted – pro forma	$ 0.19	$ 0.11	$ 0.09	$ 0.11

3. **Inventories**

The composition of inventories at January 31, 2004 and July 31, 2004 is as follows:

	January 31, 2004	July 31, 2004
	(In thousands)	
Raw materials	$ 7,169	$ 5,744
Work in process	2,186	1,482
Finished goods	6,478	6,727
	$ 15,833	$ 13,953

4. **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. In addition, under the terms of the applicable funding agreements, products resulting from projects funded by the OCS may not be manufactured outside of Israel without government approval. Reimbursements from the OCS amounted to approximately $1.0 million and $2.2 million in the three month and six month periods ended July 31, 2003, respectively, and $0.7 million and $1.6 million in the three month and six month periods ended July 31, 2004, respectively. The Company also benefited from other reimbursements of research and development expenses amounting to $0.1 million for both the three month and six month periods ended July 31, 2003, and $0.4 million and $0.6 million for the three month and six month periods ended July 31, 2004, respectively.

5. **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 and six month periods ended July 31, 2003 and 2004, respectively, was as follows:

	Three Months ended					
	July 31, 2003			**July 31, 2004**		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(In thousands, except per share data)					
Basic EPS						
Net Income	$ 3,977	27,067	$ 0.15	$ 5,671	30,732	$ 0.18
Effect of Dilutive Securities						
Stock Options		1,803			1,725	
Convertible Note		137			—	
Diluted EPS	$ 3,977	29,007	$ 0.14	$ 5,671	32,457	$ 0.17

	Six Months ended					
	July 31, 2003			**July 31, 2004**		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(In thousands, except per share data)					
Basic EPS						
Net Income	$ 7,489	25,408	$ 0.29	$ 7,185	30,567	$ 0.24
Effect of Dilutive Securities						
Stock Options		1,612			1,764	
Convertible Note		137			—	
Diluted EPS	$ 7,489	27,157	$ 0.28	$ 7,185	32,331	$ 0.22

6. **Comprehensive Income**

Total comprehensive income was approximately $3,451,000 and $5,846,000 for the three month periods ended July 31, 2003 and 2004, respectively, and $7,331,000 and $6,857,000 for the six month periods ended July 31, 2003 and 2004, respectively. The elements of comprehensive income include net income, unrealized losses on available for sale securities and foreign currency translation adjustments.

7. **Related Party Transactions and Balances**

Corporate Services Agreement –The Company recorded expenses of approximately $144,000 and $156,000 for the three month periods ended July 31, 2003 and 2004, respectively, and $288,000 and $313,000 for the six month periods ended July 31, 2003 and 2004, respectively, 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 $25,000 and $43,000 for the three month periods ended July 31, 2003 and 2004, respectively, and $50,000 and $95,000 for the six month periods ended July 31, 2003 and 2004, 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 $439,000 and $832,000 for the three month periods ended July 31, 2003 and 2004, respectively, and $861,000 and $1,475,000 for the six month periods ended July 31, 2003 and 2004, 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 $1,523,000 and $22,000, during the three month periods ended July 31, 2003 and 2004, respectively, and $3,172,000 and $752,000, during the six month periods ended July 31, 2003 and 2004, respectively. In addition, the Company was charged with installation, support, marketing and office service fees by that affiliate amounting to approximately $128,000 and $153,000 for the three month periods ended July 31, 2003 and 2004, respectively, and $330,000 and $304,000 for the six month periods ended July 31, 2003 and 2004, 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 $32,000 and $21,000 for the three month periods ended July 31, 2003 and 2004, respectively, and $65,000 and $42,000 for the six month periods ended July 31, 2003 and 2004, respectively.

Related Party Balances – Related party balances included in the condensed consolidated balance sheets are as follows (in thousands):

	January 31, 2004	July 31, 2004
Included in accounts receivable, net	$ 1,824	$ 745
Included in accounts payable and accrued expenses	$ 1,178	$ 1,256

8. **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.

9. **Acquisition**

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 by an independent valuation 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 summary unaudited pro forma condensed consolidated results of operations for the three month period ended July 31, 2003, assuming the acquisition had occurred at the beginning of the periods, would have reflected consolidated revenues of approximately $51,559,000, net income of approximately $3,512,000, basic earnings per share of $0.13 and diluted earnings per share of $0.12. The summary unaudited pro forma condensed consolidated results of operations for the six month periods ended July 31, 2003 and 2004 would have reflected revenues of approximately $101,192,000 and $116,834,000, net income of approximately $7,948,000 and $5,256,000, basic earning per share of $0.31 and $0.17 and diluted earnings per share of $0.29 and $0.16, respectively. These pro forma results are not necessarily indicative of what would have occurred if the acquisition 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.

10. **Issuance of Stock**

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

11. **Intangible Assets**

The composition of intangible assets at January 31, 2004 and July 31, 2004 is as follows:

	Useful Life	January 31, 2004	July 31, 2004
		(In thousands)	
Sales backlog	Up to 3 years	$ 557	$ 1,409
Acquired technology	5 years	1,345	6,649
Customer relationships	5 years	302	1,682
Non-competition agreements	3 to 10 years	1,105	3,322
Trade names	3 years	198	198
		3,507	13,260
Accumulated amortization		(1,456)	(2,491)
		$ 2,051	$ 10,769

Amortization of intangible assets was $362,000 and $727,000 for the three months ended July 31, 2003 and 2004, respectively, and $431,000 and $1,041,000 for the six months ended July 31, 2003 and 2004, respectively.

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

Year Ending January 31,	(In thousands)
2005	$2,760
2006	$2,240
2007	$1,962
2008	$1,752
2009	$1,601

12. **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	Other	Reconciling Items	Consolidated Totals
Three months ended July 31, 2003:				(In thousands)			
Sales	$ 22,622	$ 20,945	$ 6,076	$ 2,671	$ 2,355	$ (7,777)	$ 46,892
Costs and expenses	(20,509)	(17,348)	(7,267)	(2,331)	(3,130)	7,826	(42,759)
Operating income (loss)	$ 2,113	$ 3,597	$ (1,191)	$ 340	$ (775)	$ 49	$ 4,133
Three months ended July 31, 2004:							
Sales	$ 29,543	$ 24,253	$ 7,560	$ 5,536	$ 2,543	$ (9,268)	$ 60,167
Costs and expenses	(26,183)	(22,486)	(7,577)	(3,816)	(3,175)	8,422	(54,815)
Operating income (loss)	$ 3,360	$ 1,767	$ (17)	$ 1,720	$ (632)	$ (846)	$ 5,352

	United States	Israel	United Kingdom	Canada	Other	Reconciling Items	Consolidated Totals
Six months ended July 31, 2003:				(In thousands)			
Sales	$ 43,794	$ 41,198	$ 12,140	$ 2,671	$ 4,582	$ (13,078)	$ 91,307
Costs and expenses	(39,927)	(34,385)	(13,043)	(2,331)	(6,040)	12,051	(83,675)
Operating income (loss)	$ 3,867	$ 6,813	$ (903)	$ 340	$ (1,458)	$ (1,027)	$ 7,632
Six months ended July 31, 2004:							
Sales	$ 55,494	$ 45,864	$ 15,071	$ 10,254	$ 5,898	$ (15,776)	$ 116,805
Costs and expenses	(50,041)	(46,437)	(15,226)	(7,192)	(6,749)	15,053	(110,592)
Operating income (loss)	$ 5,453	$ (573)	$ (155)	$ 3,062	$ (851)	$ (723)	$ 6,213

Total assets by country of domicile consist of:

	January 31, 2004	July 31, 2004
	(In thousands)	
United States	$ 221,823	$ 241,407
Israel	98,867	110,320
United Kingdom	10,501	13,501
Canada	14,189	15,653
Other	10,229	8,682
Reconciling items	(26,903)	(27,789)
	$ 328,706	$ 361,774

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.

13. **Employee Restricted Stock**

In December 2003, the Company granted 72,700 shares of restricted stock to certain key employees of the Company. Unearned stock compensation of approximately $1,672,000, or $23.00 per share, was recorded based on the fair market value of the Company's common stock at the date of grant. 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 $208,000 for the three and six month periods ended July 31, 2004, respectively, and is 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 July 31, 2004, all 72,700 shares were subject to restriction.

14. **Subsequent Events**

On September 2, 2004, the Company, through a subsidiary, acquired all of the outstanding stock of RP Sicherheitssysteme GmbH ("RP"), 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. In addition, the shareholders of RP will be entitled to receive earn-out payments over three years based on the Company's worldwide sales, profitability and backlog of mobile video products in the transportation market during that period.

On August 20, 2004, the Company entered into a lease agreement for the lease of approximately 125,000 square feet of office and storage space for manufacturing, development, support and sales facilities in the Tel-Aviv area, Israel. Under the lease agreement, occupancy of the new building and rent payments are expected to commence in October 2005, for a minimum of six years. Annual rent payments are expected to be approximately $2.3 million. The new lease agreement replaces the lease agreement for the Company's existing buildings in Israel.

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, 2004 are those that depend most heavily on these judgments and estimates. As of July 31, 2004, 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 six month periods ended July 31, 2003 and 2004 were as follows:

	Three months ended July 31, 2003	% of Sales	Three months ended July 31, 2004	% of Sales
Sales	$ 46,892	100.0%	$ 60,167	100.0%
Cost of sales	21,766	46.4%	27,106	45.1%
Gross profit	25,126	53.6%	33,061	54.9%
Operating expenses:				
Research and development, net	5,692	12.1%	7,889	13.1%
Selling, general and administrative	15,301	32.6%	19,820	32.9%
Income from operations	4,133	8.8%	5,352	8.9%
Interest and other income, net	420	0.9%	865	1.4%
Income before income tax provision	4,553	9.7%	6,217	10.3%
Income tax provision	576	1.2%	546	0.9%
Net income	$ 3,977	8.5%	$ 5,671	9.4%

	Six months ended July 31, 2003	% of Sales	Six months ended July 31, 2004	% of Sales
Sales	$ 91,307	100.0%	$ 116,805	100.0%
Cost of sales	42,678	46.7%	52,863	45.3%
Gross profit	48,629	53.3%	63,942	54.7%
Operating expenses:				
Research and development, net	11,027	12.1%	14,680	12.6%
Selling, general and administrative	29,970	32.8%	38,414	32.9%
In-process research and development	—	—	3,154	2.7%
Write-down of capitalized software	—	—	1,481	1.2%
Income from operations	7,632	8.4%	6,213	5.3%
Interest and other income, net	935	1.0%	1,447	1.3%
Income before income tax provision	8,567	9.4%	7,660	6.6%
Income tax provision	1,078	1.2%	475	0.4%
Net income	$ 7,489	8.2%	$ 7,185	6.2%

Six Month and Three Month Periods Ended July 31, 2004
Compared to Six Month and Three Month Periods Ended July 31, 2003

Sales. Sales for the six month and three month periods ended July 31, 2004 increased by approximately $25.5 million, or 28%, and $ 13.3 million, or 28%, respectively, as compared to the six month and three month periods ended July 31, 2003. This increase was attributable to higher sales volume of both products and services for both the Company's security and business intelligence solutions. Sales to international customers represented approximately 52% and 51% of sales for the six month and three month periods ended July 31, 2004, respectively, as compared to approximately 53% and 52% for the six month and three month periods ended July 31, 2003, respectively.

Cost of Sales. Cost of sales for the six month and three month periods ended July 31, 2004 increased by approximately $10.2 million, or 24%, and $5.3 million, or 25%, respectively, as compared to the six month and three month periods ended July 31, 2003. The increase in the six month and three month periods ended July 31, 2004 was mainly attributable to an increase in material costs and overhead expenses of approximately $6.2 million and $3.2 million, respectively, due to higher sales volumes, an increase in salaries and fringe benefits of approximately $2.4 million and $1.4 million, respectively, primarily as a result of increased service department headcount to support the increased level of sales, and an increase in other expenses of approximately $1.6 million and $0.7 million, respectively, mainly due to increased royalties, amortization and travel expenses. Gross margins increased to 54.7% and 54.9% in the six month and three month periods ended July 31, 2004, respectively, from approximately 53.3% and 53.6% in the six month and three month period ended July 31, 2003, respectively.

Research and Development Expenses, net. Research and development expenses, net, for the six month and three month periods ended July 31, 2004 increased by approximately $3.7 million, or 33%, and $2.2 million, or 39%, respectively, as compared to the six month and three month periods ended July 31, 2003. The increase was attributable to an increase in salaries and fringe benefits of approximately $2.4 million and $1.1 million, respectively, mainly due to increased headcount to support the increased level of sales, an increase in subcontracting expenses of approximately $1.0 million for both periods, and an increase in other research and development expenses of approximately $0.3 million and $0.1 million, respectively. Capitalization of software development costs amounted to approximately $2.2 million and $1.1 million for the six month and three month periods ended July 31, 2003, respectively, and approximately $2.0 million and $0.9 million for the six month and three month periods ended July 31, 2004, respectively. Reimbursement of research and development expenses amounted to approximately $2.3 million and $1.1 million for the six month and three month periods ended July 31, 2003, respectively, and approximately $2.2 million and $1.1 million for the six month and three month periods ended July 31, 2004, respectively. Research and development expenses, net, as a percentage of sales, increased to 12.6% and 13.1%, respectively, for the six month and three month periods ended July 31, 2004, from 12.1% for both the six month and three month periods ended July 31, 2003.

Selling, General and Administrative Expenses. Selling, general and administrative expenses for the six month and three month periods ended July 31, 2004 increased by approximately $8.4 million, or 28%, and approximately $4.5 million, or 30% , respectively, as compared to the six month and three month periods ended July 31, 2003. This increase was attributable to an increase in compensation and benefits for existing personnel and increase in headcount to support the increased level of sales of approximately $4.8 million, and $2.6 million, respectively, an increase in travel expenses of approximately $0.5 million, and $0.2 million, respectively, an increase in depreciation and amortization expenses of approximately $0.3 million and $0.1 million, respectively, an increase in subcontracting expenses of approximately $0.6 million and $0.4 million, respectively, an increase in professional service fees of approximately $0.6 million and $0.4 million, respectively, an increase in rent and utility expenses of approximately $0.5 million and $0.3 million, respectively, an increase in marketing service expenses of approximately $0.4 million and $0.4 million, respectively, and an increase in other expenses of approximately $0.7 million and $0.1 million, respectively. Selling, general and administrative expenses as a percentage of sales increased to 32.9% for the six month and three month periods ended July 31, 2004, from 32.8% and 32.6%, respectively, for the six month and three month periods ended July 31, 2003.

In-Process Research and Development. In the six month period ended July 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 acquisition (see also Note 9).

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 April 2004.

Interest and Other Income, net. Net interest and other income for the six month and three month periods ended July 31, 2004 increased by approximately $0.5 million and $0.4 million, respectively, as compared to the six month and three month periods ended July 31, 2003. This increase was attributable to increased interest income of approximately $0.6 million and $0.3 million, respectively, due to an increase in interest rates and an increase in interest bearing cash balances, and a decrease in other expenses of $0.2 million and $0 million, respectively. These increases were partially offset by decreased gains from the Company's share in the profits of an affiliate of approximately $0.3 million in the six month period ended July 31, 2004, as compared to the six month period ended July 31, 2003. Gains from the Company's share in the profits of an affiliate increased by $0.1 million in the three month period ended July 31, 2004, as compared to the three month period ended July 31, 2003.

Income Tax Provision. Income tax provision for the six month and three month periods ended July 31, 2004 decreased by approximately $0.6 million and $0 million, respectively, as compared to the six month and three month periods ended July 31, 2003. The decrease was attributable to lower taxable income, due to one-time charges recorded in the three month period ended April 30, 2004 as a result of the purchase of ECtel's government surveillance business. The overall effective tax rate decreased to 6.2% and 8.8% for the six month and three month periods ended July 31, 2004, respectively, as compared to an effective tax rate of 12.6% and 12.7% for the six month and three month periods ended July 31, 2003, respectively. The lower effective tax rate reflects the one-time charges and the use of net operating losses carry forwards in certain tax jurisdictions. The Company also benefits from preferential tax rates in Israel. 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. If and when the Company ceases to have net operating loss carry forwards available to it in any such tax jurisdiction, its effective tax rate would increase correspondingly in that jurisdiction.

Net Income. Net income for the six month and three month periods ended July 31, 2004 increased (decreased) by approximately $(0.3) million, or (4)%, and $1.7 million, or 43%, respectively, as compared to the six month and three month periods ended July 31, 2003. As a percentage of sales, net income was approximately 6.2% and 9.4%, in the six month and three month periods ended July 31, 2004, respectively, as compared to approximately 8.2%

and 8.5% in the six month and three month periods ended July 31, 2003, respectively. The change resulted primarily from the factors described above.

LIQUIDITY AND CAPITAL RESOURCES

As of July 31, 2004, the Company had cash and cash equivalents of approximately $181.4 million, short-term investments of $39.2 million and working capital of approximately $186.1 million. As of January 31, 2004, the Company had cash and cash equivalents of approximately $200.7 million, short-term investments of $28.0 million and working capital of approximately $204.6 million. The decrease in the balances described above from January 31, 2004 as compared to July 31, 2004, resulted primarily from cash used to purchase ECtel's government surveillance business.

Operating activities for the six month periods ended July 31, 2003 and 2004, after adjustment for non-cash items, provided cash of approximately $12.8 million and $17.7 million, respectively. Other changes in operating assets and liabilities provided (used) cash of approximately $(1.4) million and $9.8 million for the six month periods ended July 31, 2003 and 2004, respectively. This resulted in cash provided by operating activities of approximately $11.4 million and $27.4 million for the six month periods ended July 31, 2003 and 2004, respectively.

Investing activities for the six month periods ended July 31, 2003 and 2004 used cash of approximately $11.3 million and $53.2 million, respectively. For the six month period ended July 31, 2003, these amounts include cash paid for a business combination of approximately $6.1 million, purchase of property and equipment of approximately $3.0 million, and capitalization of software development costs of approximately $2.2 million. For the six month period ended July 31, 2004, these amounts include cash paid for the acquisition of ECtel's government surveillance business of approximately $36.1 million, purchase of property and equipment of approximately $3.7 million, capitalization of software development costs of approximately $2.0 million, and net purchase of short-term investments of approximately $11.4 million.

Financing activities for the six month periods ended July 31, 2003 and 2004 provided cash of approximately $82.7 million and $6.5 million, respectively. For the six month periods ended July 31, 2003 and 2004, proceeds from the issuances of common stock provided cash of approximately $125.2 million and $6.7 million, respectively. Net repayments of bank loans and other debt used cash of approximately $42.5 million and $0.2 million in the six month periods ended July 31, 2003 and 2004, respectively.

On February 1, 2002, the Company acquired the digital video recording business of Lanex. The Lanex business provides digital video recording solutions for security and surveillance applications. The purchase price consisted of $9.5 million in cash and a $2.2 million convertible note issued by the Company to Lanex. The note was non-interest bearing and matured on February 1, 2004. On February 1, 2004, the note was converted into 136,985 shares of the Company's common stock at a conversion price of $16.06 per share.

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

On 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 9).

On September 2, 2004, the Company, through a subsidiary, acquired all of the outstanding stock of RP Sicherheitssysteme GmbH ("RP"), 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. In addition, the shareholders of RP will be entitled to receive earn-out payments over three years based on the Company's worldwide sales, profitability and backlog of mobile video products in the transportation market during that period.

On August 20, 2004, the Company entered into a lease agreement for the lease of approximately 125,000 square feet of office and storage space for manufacturing, development, support and sales facilities in the Tel-Aviv area, Israel. Under the lease agreement, occupancy of the new building and rent payments are expected to commence in October 2005, for a minimum of six years. Annual rent payments are expected to be approximately $2.3 million. The new lease agreement replaces the lease agreement for the Company's existing building in Israel.

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, 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.

CERTAIN TRENDS AND UNCERTAINTIES

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

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

The Company faces aggressive competition from numerous and varied competitors in all areas of its business, and many of its customers make decisions to purchase based largely on price considerations. The Company may have to lower the prices of many of its products and services to stay competitive or increase efficiencies in the provision of services, while at the same time trying to maintain or improve revenue and gross margin. If the Company cannot proportionately decrease its cost structure on a timely basis in response to competitive price pressures, its margin and therefore its profitability could be adversely affected. Further, 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 costs 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. In addition, if the Company's pricing and other factors are not sufficiently competitive, or if there is an adverse reaction to its product decisions, it may lose market share in certain areas, which could adversely affect its revenue and prospects. 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.

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

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

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

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

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

The market for the Company's business intelligence solutions has been adversely affected by the global economic slowdown and the decline in information technology spending, which has caused many companies to reduce or, in extreme cases, entirely eliminate, information technology spending. While there exists some evidence in the market that information technology spending is increasing, the rate of this spending by its customers in the near term remains uncertain and the Company is uncertain whether it will be able to increase or maintain its revenues. Although the Company was profitable for fiscal 2002 and 2003, it has incurred operating and net losses every other year since 1997. If sales do not increase as anticipated or if expenses increase at a greater pace than revenues, the Company may not be able to sustain or increase profitability on a quarterly or annual basis.

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. Continued growth in the demand for the Company's products is uncertain as, among other reasons, its existing customers and potential customers may: (i) not achieve a return on their investment in its products; (ii) experience technical difficulty in utilizing its products; or (iii) use alternative solutions to achieve their security, intelligence or business objectives. In addition, as the Company's business intelligence products are sold primarily to contact centers, slower than anticipated growth or a contraction in the number of contact centers will have a material adverse effect on the Company's ability to maintain its growth.

The markets for the Company's products are characterized by rapidly changing technology and evolving industry standards. The introduction of products embodying new technology and the emergence of new industry standards can render the Company's existing products obsolete and unmarketable and can exert price pressures on existing products. It is critical to the Company's success for it to be able to anticipate changes in technology or in industry standards and to successfully develop and introduce new, enhanced and competitive products on a timely basis. The Company cannot be assured that it will successfully develop new products or introduce new applications for existing products, that new products and applications -- such as the Company's content analytic software -- will achieve market acceptance or that the introduction of new products or technological developments by its competitors will not render its products obsolete. The Company's inability to develop products that are competitive in technology and price and meet customer needs could have a material adverse effect on its business, financial condition and results of operations.

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

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

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. If and when the Company ceases to have net operating loss carry forwards available to it in any such tax jurisdiction, its effective tax rate would increase correspondingly in that jurisdiction.

The Company's competitors may be able to develop more quickly or adapt faster to new or emerging technologies and changes in customer requirements, or devote greater resources to the development, promotion and sale of their products. 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. 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.

On March 31, 2004, the Company completed its $35 million acquisition of certain assets and liabilities of ECtel comprising its communications interception business. This business posted significant losses for fiscal 2003, as well as significant reduction in revenues from fiscal 2002 to fiscal 2003. In addition, the integration of this business into the Company's business is going to require a significant amount of management time and attention. Further, the revenues from this business are concentrated in a few customers. Additionally, this business has technologies and products which will have to be integrated with the Company's product offerings.

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

- successfully integrate this business into the Company's communications interception business, including operations, research and development, facilities and related matters

- retain and integrate employees joining the Company with the acquired business, including maintaining employee morale
- continue to successfully operate its own business while management time and attention is diverted to integrating this business
- improve upon the financial results of this business, or even perform as well, or that this business will not materially and adversely affect the Company's financial results
- integrate the technology of this business or complete the R&D programs
- 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
- ensure ECtel's performance of contractual obligations to the Company related to post-acquisition operations, which, if not performed, could detract from the benefits of the acquisition realized by the Company or have a negative impact on the Company's operations and the transitioning of ECtel's customers to Verint.

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

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

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

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

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

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

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

As the communications industry continues to evolve, governments may increasingly regulate products that monitor and record voice, video and data transmissions over public communications networks, such as the Company's solutions. 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 it sells in Europe must comply with the technical standards established by the European Telecommunications Standard 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 it is required to modify or redesign its products to accommodate these new or changing laws or regulations.

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

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

The Company's products involve sophisticated hardware and software technology that performs critical functions to highly demanding standards. The Company cannot be assured that current or future products will not develop operational problems, which could have a material adverse effect on it. The Company offers complex products that may contain undetected defects or errors, particularly when first introduced or as new versions are released. The Company may not discover such defects or 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 and these defects, errors or problems could result in future lost sales. In addition, defects or errors in the Company's products may result in product liability claims or questions regarding the integrity of the products, which could cause adverse publicity and impair their market acceptance.

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

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

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

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

The information technology industry is characterized by frequent allegations of intellectual property infringement. In the past, third parties have asserted that certain of the Company's products infringe their intellectual property and similar claims may be made in the future. Any allegation of infringement against the Company could be time consuming and expensive to defend or resolve, result in substantial diversion of management resources, cause product shipment delays, or force it to enter into royalty or license agreements rather than dispute the merits of such allegation. If patent holders or other holders of intellectual property initiate legal proceedings against the Company, it may be forced into protracted and costly litigation. The Company may not be successful in defending such litigation and it may not be able to procure any required royalty or license agreements on terms acceptable to it, or at all.

The Company generally indemnifies its customers with respect to infringement by its products of the proprietary rights of third parties. Third parties may assert infringement claims against the Company's customers. These claims may require the Company to initiate or defend protracted and costly litigation, regardless of the merits of these claims. If any of these claims succeed, the Company may be forced to pay damages or may be required to obtain licenses for the products its customers use. If the Company cannot obtain all necessary licenses on commercially reasonable terms, its customers may be forced to stop using, or, in the case of value added resellers, selling, its products.

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

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. 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.

The Company accounts for employee stock options in accordance with Accounting Principles Board Opinion No. 25 and related Interpretations, which provide that any compensation expense relative to employee stock options be measured based on the intrinsic value of the stock options. As a result, when options are priced at or above the fair market value of the underlying stock on the date of grant, as is the Company's practice, the Company incurs no compensation expense. However, the Financial Accounting Standards Board has proposed in its exposure draft entitled "Share-Based Payment, an amendment of FASB Statements No. 123 and 95" new accounting requirements that, if adopted, would cause the Company to record compensation expense for all employee stock option grants. Any such expense, although it would not affect the Company's cash flows, could have a material impact on the Company's results of operations.

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

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

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

The Company receives conditional grants from the Government of Israel through the Office of the Chief Scientist of the Ministry of Industry and Trade, or the OCS, for the financing of a portion of its research and development expenditures in Israel. The terms of these conditional grants limit the Company's ability to manufacture products, and prohibit it from transferring technologies, outside of Israel if such products or technologies were developed using these grants. Even if the Company 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 on an accelerated basis to the Government of Israel, depending on the manufacturing volume that is performed outside of Israel. This restriction may impair the Company's ability to outsource manufacturing or engage in similar arrangements for those products or technologies. In addition, if the Company fails to comply with any of the conditions imposed by the OCS, it may be required to refund any grants previously received together with interest and penalties, and it may be subject to criminal charges. Further, from time to time the Government of Israel may audit the sales of products incorporating technology partially funded through OCS programs which, while not increasing the aggregate amount of royalties that may be due from the Company, may cause the Company to have to pay royalties on additional products, effectively accelerating the pace at which it pays royalties to the Government of Israel in repayment of the benefits received under such programs. In recent years, the Government of Israel has accelerated the rate of repayment of OCS grants and may further accelerate them in the future. The Company currently pays royalties of between 3% and 5% (or 6% under certain circumstances) of associated product revenues (including service and other related revenues) to the Government of Israel for repayment of benefits received under this program. Such royalty payments by the Company are currently required to be made until the government has been reimbursed the amounts received by it, linked to the U.S. dollar, plus, for amounts received under projects approved by the OCS after January 1, 1999, interest on such amounts at a rate equal to the

12-month LIBOR rate in effect on January 1 of the year in which approval is obtained. As of July 31, 2004, the Company has received approximately $54.3 million in cumulative grants and has recorded approximately $24.1 million in cumulative royalties to the OCS. Further, the Government of Israel has reduced the benefits available under these programs in recent years and these programs may be discontinued or curtailed in the future. In addition, the Company expects that OCS grants as a percentage of its consolidated research and development expenses will decrease in future periods due to an expected increase in the portion of research and development activities that will not be reimbursed by the OCS and an expected increase in research and development activities outside of Israel. The continued reduction in these benefits or the termination of the Company's eligibility to receive these benefits may materially and adversely affect the Company's business, financial condition and results of operations.

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.

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 Audit Committee, Compensation Committee or Nominating Committee, as non-controlled companies are required to have.

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

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

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

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

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

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

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

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

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk.

Refer to Item 7A in the Company's Annual Report on Form 10-K for a discussion about the Company's exposure to market risks.

ITEM 4. Controls and Procedures.

(a) 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 July 31, 2004. 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 July 31, 2004.

(b) There has been no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended July 31, 2004, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

<u>Other Information</u>

ITEM 4. Submission of Matters to a Vote of Security Holders.

The 2004 Annual Meeting of the Stockholders of the Company (the "Meeting") was held on July 27, 2004. The total number of outstanding shares of Common Stock entitled to vote at the Meeting was 30,659,302 and there were present at the Meeting in person or by proxy 29,687,769 shares of the Company's Common Stock, which number constituted a quorum for the Meeting, and were entitled to vote and acted as follows with respect to the following proposals:

Approved, (1) by a vote of 23,874,080 votes cast in favor of the election of Kobi Alexander as a director, with holders of 5,813,689 shares withholding their votes on this matter; (2) by a vote of 24,233,710 votes cast in favor of the election of Dan Bodner as a director, with holders of 5,454,059 shares withholding their votes on this matter; (3) by a vote of 24,198,049 votes cast in favor of the election of Paul Baker as a director, with holders of 5,489,720 shares withholding their votes on this matter; (4) by a vote of 29,189,416 votes cast in favor of the election of

Victor DeMarines as a director, with holders of 498,353 shares withholding their votes on this matter; (5) by a vote of 23,874,080 votes cast in favor of the election of David Kreinberg as a director, with holders of 5,813,689 shares withholding their votes on this matter; (6) by a vote of 23,962,414 votes cast in favor of the election of David Ledwell as a director, with holders of 5,725,355 shares withholding their votes on this matter; (7) by a vote of 29,189,416 votes cast in favor of the election of Kenneth Minihan as a director, and holders of 498,353 shares withholding their votes on this matter; (8) by a vote of 29,189,416 votes cast in favor of the election of Larry Myers as a director, with holders of 498,353 shares withholding their votes on this matter; (9) by a vote of 23,838,423 votes cast in favor of the election of Igal Nissim as a director, with holders of 5,849,346 shares withholding their votes on this matter; (10) by a vote of 24,235,610 votes cast in favor of the election of Harris Oliner as a director, with 5,452,159 shares withholding their votes on this matter; (11) by a vote of 24,235,610 votes cast in favor of the election of Paul Robinson as a director, with holders of 5,452,159 shares withholding their votes on this matter; (12) by a vote of 29,189,416 votes cast in favor of the election of Howard Safir as a director, with holders of 498,353 shares withholding their votes on this matter; and (13) by a vote of 23,985,780 votes cast in favor of the election of William Sorin as a director, with holders of 5,701,989 shares withholding their votes on this matter.

Approved, by a vote of 25,304,462 votes cast in favor of the ratification of the Company's 2004 Stock Incentive Compensation Plan, with 3,197,613 votes cast against, holders of 4,627 shares indicated that they abstained from voting on this matter and holders of 1,181,067 shares indicated no-vote on this item.

Approved, by a vote of 29,617,787 votes cast in favor of the ratification of Deloitte & Touche LLP as the Company's independent auditors for the fiscal year ending January 31, 2005, with 67,771 votes cast against, holders of 2,211 shares indicated that they abstained from voting on this matter and holders of 0 shares indicated no-vote on this item.

ITEM 6. Exhibits and Reports on Form 8-K.

(a) Exhibit Index.

10.18 Verint Systems Inc. 2004 Stock Incentive Compensation Plan

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

(b) Reports on Form 8-K.

On June 2, 2004, the Company furnished a report on Form 8-K reporting under Items 7 and 12 that on June 2, 2004 the Company issued a press release announcing its financial results for the first quarter of 2004. The Company furnished (not filed) such press release under Item 7.

On June 8, 2004, the Company filed a Form 8-K/A to supplement the Form 8-K filed by the Company on March 31, 2004 pursuant to which the Company reported under Items 5 and 7 the completion of its acquisition of the Government Surveillance Business of ECtel Ltd. for $35 million in cash. In connection with the filing of the Form 8-K/A, the Company filed, pursuant to Item 7 of Form 8-K, all required pro forma financial statements.

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: September 8, 2004

By: /s/ Dan Bodner

Dan Bodner
President and Chief Executive Officer
Principal Executive Officer

Dated: September 8, 2004

By: /s/ Igal Nissim

Igal Nissim

Vice President and Chief Financial Officer
Principal Financial Officer

VERINT SYSTEMS INC.
2004 STOCK INCENTIVE COMPENSATION PLAN

1. Purposes of the Plan.

The purposes of the Plan are to assist the Company, its Subsidiaries and Affiliates in attracting and retaining valued Directors, Employees and Consultants, to align their respective interests with stockholders' interests through equity-based compensation and to permit the granting of awards that is intended to constitute performance-based compensation for certain executive officers under Section 162(m) of the Code.

2. Definitions.

2.1 "Affiliate" means any entity other than the Subsidiaries in which the Company has a substantial direct or indirect equity interest, as determined by the Board.

2.2 "Award" means an award of Deferred Stock, Restricted Stock, Options or SARs under the Plan.

2.3 "Board" means the Board of Directors of the Company.

2.4 "Change in Control" means (i) the Board (or, if approval of the Board is not required as a matter of law, the stockholders of the Company) shall approve (a) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of Common Stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (b) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, the assets of the Company or (c) the adoption of any plan or proposal for the liquidation or dissolution of the Company; (ii) any person (as such term is defined in Section 13(d) of the 1934 Act), corporation or other entity other than the Company shall make a tender offer or exchange offer to acquire any Common Stock (or securities convertible into Common Stock) for cash, securities or any other consideration, provided that (a) at least a portion of such securities sought pursuant to the offer in question is acquired and (b) after consummation of such offer, the person, corporation or other entity in question is the "beneficial owner" (as such term is defined in Rule 13d-3 under the 1934 Act), directly or indirectly, of 20% or more of the outstanding shares of Common Stock (calculated as provided in paragraph (d) of such Rule 13d-3 in the case of rights to acquire Common Stock); (iii) during any period of two consecutive years, individuals who at the beginning of such period constituted the entire Board ceased for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period; or (iv) the occurrence of any other event the Committee determines shall constitute a "Change in Control" hereunder.

2.5 "Code" means the Internal Revenue Code of 1986, as amended.

2.6 "Committee" means the Board or the committee designated by the Board to administer the Plan under Section 4.

2.7 "Common Stock" means the common stock of the Company, par value $.001 per share, or such other class or kind of shares or other securities resulting from the application of Section 10.

2.8 "Company" means Verint Systems Inc., a Delaware corporation, or any successor corporation.

2.9 "Consultant" means any person (other than an Employee or a Director) who is engaged by the Company, a Subsidiary or an Affiliate to render consulting or advisory services to the Company or such Subsidiary or Affiliate.

2.10 "Continuous Service" means that the provision of services to the Company or a Subsidiary or Affiliate in any capacity of Employee, Director or Consultant is not interrupted or terminated. In jurisdictions requiring notice in advance of an effective termination as an Employee, Director or Consultant, Continuous Service shall be deemed terminated upon the actual cessation of providing services to the Company or a Subsidiary or Affiliate notwithstanding any required notice period that must be fulfilled before a termination as an Employee, Director or Consultant can be effective under applicable labor laws. Continuous Service shall not be considered interrupted in the case of (i) any approved leave of absence, (ii) transfers among the Company, any Subsidiary or Affiliate, or any successor, in any capacity of Employee, Director or Consultant, or (iii) any change in status as long as the individual remains in the service of the Company or a Subsidiary or Affiliate in any capacity of Employee, Director or Consultant (except as otherwise provided in the Award agreement). An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave. For purposes of each Incentive Stock Option granted under the Plan, if such leave exceeds ninety (90) days, and reemployment upon expiration of such leave is not guaranteed by statute or contract, then the Incentive Stock Option shall be treated as a Non-Qualified Option on the day three (3) months and one (1) day following the expiration of such ninety (90) day period.

2.11 “Deferral Period” means the period during which the receipt of a Deferred Stock Award under Section 6 of the Plan will be deferred.

2.12 “Deferred Stock” means an Award made under Section 6 of the Plan to receive Common Stock at the end of a specified Deferral Period.

2.13 “Director” means each member of the Board who is not an Employee, who does not receive compensation from the Company or any Subsidiary in any capacity other than as a Director and whose membership on the Board is not attributable to any contract between the Company and such Director or any other entity with which such Director is affiliated.

2.14 “Employee” means an officer or other employee of the Company, a Subsidiary or an Affiliate, including a director who is such an employee.

2.15 “Fair Market Value” means, as of any date, the value of Common Stock determined as follows:

(a) If the Common Stock is listed on one or more established stock exchanges or national market systems, including without limitation The Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on the principal exchange or system on which the Common Stock is listed (as determined by the Committee) on the date of determination (or, if no closing sales price or closing bid was reported on that date, as applicable, on the last trading date such closing sales price or closing bid was reported), as reported in The Wall Street Journal or such other source as the Committee deems reliable;

(b) If the Common Stock is regularly quoted on an automated quotation system (including the OTC Bulletin Board) or by a recognized securities dealer, its Fair Market Value shall be the closing sales price for such stock as quoted on such system or by such securities dealer on the date of determination, but if selling prices are not reported, the Fair Market Value of a share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock on the date of determination (or, if no such prices were reported on that date, on the last date such prices were reported), as reported in The Wall Street Journal or such other source as the Committee deems reliable; or

(c) In the absence of an established market for the Common Stock of the type described in (a) and (b), above, the Fair Market Value thereof shall be determined by the Committee in good faith.

2.16 “Holder” means an individual to whom an Award is made.

2.17 “Hostile Change in Control” means any Change in Control described in Section 2.4(ii) that is not approved or recommended by the Board.

2.18 “Incentive Stock Option” means an Option intended to meet the requirements of an incentive stock option as defined in Section 422 of the Code and designated as an Incentive Stock Option.

2.19 “1934 Act” means the Securities Exchange Act of 1934, as amended.

2.20 “Non-Employee Director” means a person defined in Rule 16b-3(b)(3) promulgated by the Securities and Exchange Commission under the 1934 Act, or any successor definition adopted by the Securities and Exchange Commission.

2.21 “Non-Qualified Option” means an Option not intended to be an Incentive Stock Option, and designated as a Non-Qualified Option.

2.22 “Option” means any stock option granted from time to time under Section 8 of the Plan.

2.23 “Outside Director” means a member of the Board who is an “outside director” within the meaning of Section 162(m) of the Code and the regulations promulgated thereunder.

2.24 “Plan” means the Verint Systems Inc. 2004 Stock Incentive Compensation Plan herein set forth, as amended from time to time.

2.25 “Restricted Stock” means Common Stock awarded under Section 7 of the Plan.

2.26 “Restriction Period” means the period during which Restricted Stock awarded under Section 7 of the Plan is subject to forfeiture.

2.27 “Retirement” means retirement from Continuous Service pursuant to the relevant provisions of the applicable pension plan of the applicable entity or as otherwise determined by the Committee.

2.28 “SAR” means a stock appreciation right awarded under Section 9 of the Plan.

2.29 “Subsidiary” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company (or any subsequent parent of the Company) if each of the corporations other than the last corporation in the unbroken chain owns stock possession 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

2.30 "Ten Percent Stockholder" means a person who on any given date owns, either directly or indirectly (taking into account the attribution rules contained in Section 424(d) of the Code), stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or a Subsidiary.

3. Eligibility.

Any Director, Employee or Consultant is eligible to receive an Award.

4. Administration and Implementation of Plan.

4.1 The Plan shall be administered by the Committee, which shall have full power to interpret and administer the Plan and full authority to act in selecting the Employees and Consultants to whom Awards will be granted, in determining the type and amount of Awards to be granted to each such Employee or Consultant, the terms and conditions of Awards granted under the Plan and the terms of agreements which will be entered into with Holders.

4.2 With respect to grants of Awards to Directors or Employees who are also officers or Directors of the Company, the Plan shall be administered by (a) the Board or (b) a Committee designated by the Board, which Committee shall be composed of Non-Employee Directors and constituted in such a manner as to satisfy the applicable laws and to permit such grants and related transactions under the Plan to be exempt from Section 16(b) of the 1934 Act in accordance with Rule 16b-3.

4.3 Grants of Awards to any "covered employee" within the meaning of Section 162(m)(3) of the Code and intended to qualify as performance-based compensation under Section 162(m) of the Code shall be made only by a Committee (or subcommittee of a Committee) which is comprised solely of two or more Outside Directors.

4.4 The Committee's powers shall include, but not be limited to: determining whether, to what extent and under what circumstances an Option may be exchanged for cash, Common Stock, Restricted Stock, Deferred Stock or some combination thereof; determining whether, to what extent and under what circumstances an Award is made and operates in tandem with other Awards made hereunder; determining whether, to what extent and under what circumstances Common Stock or cash payable with respect to an Award shall be deferred, either automatically or at the election of the Holder (including the power to add deemed earnings to any such deferral); and granting Awards (other than Incentive Stock Options) that are transferable by the Holder.

4.5 The Committee shall have the power to adopt regulations for carrying out the Plan and to make changes in such regulations, as it shall, from time to time, deem advisable. Any interpretation by the Committee of the terms and provisions of the Plan and the administration thereof, and all action taken by the Committee, shall be final and binding on all Holders.

EXHIBIT 10.18

4.6 The Committee may condition the grant of any Award or the lapse of any Deferral or Restriction Period (or any combination thereof) upon the Holder's achievement of a Performance Goal that is established by the Committee before the grant of the Award. For this purpose, a "Performance Goal" shall mean a goal that must be met by the end of a period specified by the Committee (but that is substantially uncertain to be met before the grant of the Award) based upon: (i) the price of Common Stock, (ii) the market share of the Company, its Subsidiaries or Affiliates (or any business unit thereof), (iii) sales by the Company, its Subsidiaries or Affiliates (or any business unit thereof), (iv) earnings per share of Common Stock, (v) pre-tax or net income of the Company, its Subsidiaries or Affiliates (or any business unit thereof), (vi) net revenue, operating income, or cash flow of the Company, its Subsidiaries, or Affiliates (or any business unit thereof), (vii) return on assets, investments or stockholder equity of the Company, or (viii) costs of the Company, its Subsidiaries or Affiliates (or any business unit thereof). An Award that is subject to the achievement of a Performance Goal shall, for the purposes of the Plan, be referred to as a "Performance Based Award." The Committee shall have discretion to determine the specific targets with respect to each of these categories of Performance Goals. Before granting an Award or permitting the lapse of any Deferral or Restriction Period subject to this Section, the Committee shall certify that an individual has satisfied the applicable Performance Goal. In its discretion, the Committee may reduce the amount available to vest, become exercisable or be delivered or paid under any Performance Based Award based on factors it determines appropriate.

5. Shares of Stock Subject to the Plan.

5.1 Subject to adjustment as provided in Section 10, the total number of shares of Common Stock available for Awards under the Plan (including Incentive Stock Options) shall be 3,000,000 shares. In addition, the total number of shares of Common Stock available for Awards under the Plan (including Incentive Stock Options) shall be increased by any shares of Common Stock (up to a maximum of 1,000,000 shares) that are represented by awards under the Company's Stock Incentive Compensation Plan that are forfeited, expire or are cancelled without delivery of the shares or which result in forfeiture of the shares back to the Company on or after July 28, 2004.

5.2 The maximum number of shares of Common Stock subject to all Awards that may be awarded to any Director, Employee, or Consultant shall not exceed 1,000,000 during any calendar year (the "Individual Limit"). Notwithstanding the foregoing, the Individual Limit may be adjusted to reflect the effect on shares of Common Stock of any transaction or event described in Section 10.

5.3 Any shares issued by the Company through the assumption or substitution of outstanding grants from an acquired company shall not (i) reduce the shares available for Awards under the Plan, or (ii) be counted against the Individual Limit. Any shares issued hereunder may consist, in whole or in part, of authorized and unissued shares or treasury shares. If any shares subject to any Award granted hereunder are forfeited or such Award otherwise terminates without the issuance of such shares or the payment of other consideration in lieu of such shares, the shares subject to such Award, to the extent of any such forfeiture or termination, shall again be available for Awards under the Plan.

6. Deferred Stock.

An Award of Deferred Stock is an agreement by the Company to deliver to the recipient a specified number of shares of Common Stock at the end of a specified deferral period or periods. Such an Award shall be subject to the following terms and conditions.

6.1 Deferred Stock Awards shall be evidenced by Deferred Stock agreements. Such agreements shall conform to the requirements of the Plan and may contain such other provisions, as the Committee shall deem advisable.

6.2 Upon determination of the number of shares of Deferred Stock to be awarded to a Holder, the Committee shall direct that the same be credited to the Holder's account on the books of the Company but that issuance and delivery of the same shall be deferred until the date or dates provided in Section 6.5 hereof. Prior to issuance and delivery hereunder the Holder shall have no rights as a stockholder with respect to any shares of Deferred Stock credited to the Holder's account.

6.3 Amounts equal to any dividends declared during the Deferral Period with respect to the number of shares covered by a Deferred Stock Award may or may not be paid to the Holder currently, or may or may not be deferred and deemed to be reinvested in additional Deferred Stock, or otherwise reinvested on such terms as are determined at the time of the Award by the Committee, in its sole discretion, and specified in the Deferred Stock agreement.

6.4 The Committee may condition the grant of an Award of Deferred Stock or the expiration of the Deferral Period upon the Holder's achievement of one or more Performance Goal(s) specified in the Deferred Stock agreement. If the Employee or Consultant fails to achieve the specified Performance Goal(s), either the Committee shall not grant the Deferred Stock Award to such Employee or Consultant or the Holder shall forfeit the Award and no Common Stock shall be transferred to him pursuant to the Deferred Stock Award. Unless otherwise determined by the Committee at the time of an Award, dividends paid during the Deferral Period on Deferred Stock subject to a Performance Goal shall be reinvested in additional Deferred Stock and the lapse of the Deferral Period for such Deferred Stock shall be subject to the Performance Goal(s) previously established by the Committee. The Deferral Period shall provide a three-year minimum period before a Deferred Stock award shall be fully delivered.

6.5 The Deferred Stock agreement shall specify the duration of the Deferral Period taking into account the cause of the termination of a Holder's Continuous Service (such as death, disability or Retirement). The Deferral Period may consist of one or more installments. The Deferral Period shall be determined at the discretion of the Committee. At the end of the Deferral Period or any installment thereof (unless the Holder elects a longer period for distribution, if permitted by the Committee) the shares of Deferred Stock applicable to such installment credited to the account of a Holder shall be issued and delivered to the Holder (or, where appropriate, the Holder's legal representative) in accordance with the terms of the Deferred Stock agreement. The Committee may, in its sole discretion, accelerate the delivery of all or any part of a Deferred Stock Award or waive the deferral limitations for all or any part of a Deferred Stock Award in certain circumstances including, among others, a Holder's death, disability or a Change in Control.

7. Restricted Stock.

An Award of Restricted Stock is a grant by the Company of a specified number of shares of Common Stock to the Employee or Consultant, which shares are subject to forfeiture upon the happening of specified events. Such an Award shall be subject to the following terms and conditions:

7.1 Restricted Stock shall be evidenced by Restricted Stock agreements. Such agreements shall conform to the requirements of the Plan and may contain such other provisions, as the Committee shall deem advisable.

7.2 Upon determination of the number of shares of Restricted Stock to be granted to the Holder, the Committee shall direct that a certificate or certificates representing the number of shares of Common

Stock be issued to the Holder with the Holder designated as the registered owner. The certificate(s) representing such shares shall be legended as to sale, transfer, assignment, pledge or other encumbrances during the Restriction Period and deposited by the Holder, together with a stock power endorsed in blank, with the Company, to be held in escrow during the Restriction Period.

7.3 Unless otherwise determined by the Committee at the time of an Award, during the Restriction Period the Holder shall have the right to receive dividends from and to vote the shares of Restricted Stock.

7.4 The Committee may condition the grant of an Award of Restricted Stock or the expiration of the Restriction Period upon the Employee or Consultant's achievement of one or more Performance Goal(s) specified in the Restricted Stock agreement. If the Employee or Consultant fails to achieve the specified Performance Goal(s), either the Committee shall not grant the Restricted Stock to such Employee or Consultant or the Holder shall forfeit the Award of Restricted Stock and the Common Stock shall be forfeited to the Company. The Restriction Period shall provide a three-year minimum period before a Restricted Stock award shall fully vest.

7.5 The Restricted Stock agreement shall specify the duration of the Restriction Period and the performance, employment or other conditions (including the termination of a Holder's Continuous Service whether due to death, disability, Retirement or other cause) under which the Restricted Stock may be forfeited to the Company. The Restriction Period shall be determined at the discretion of the Committee. At the end of the Restriction Period (unless the Holder elects a longer period for distribution, if permitted by the Committee) the restrictions imposed hereunder shall lapse with respect to the number of shares of Restricted Stock as determined by the Committee, and the legend shall be removed and such number of shares delivered to the Holder (or, where appropriate, the Holder's legal representative). The Committee may, in its sole discretion, modify or accelerate the vesting and delivery of shares of Restricted Stock in certain circumstances including, among others, a Holder's death, disability or a Change in Control.

8. <u>Options.</u>

Options give an Employee, Consultant or Director the right to purchase a specified number of shares of Common Stock, Deferred Stock or Restricted Stock (as selected by the Committee) from the Company for a specified time period at a fixed price. Options granted to Employees may be either Incentive Stock Options or Non-Qualified Options. Option granted to Directors and Consultants shall be Non-Qualified Options. The grant of Options shall be subject to the following terms and conditions:

8.1 Options shall be evidenced by Option agreements. Such agreements shall conform to the requirements of the Plan, and may contain such other provisions, as the Committee shall deem advisable.

8.2 The price per share at which Common Stock may be purchased upon exercise of an Option shall be determined by the Committee, but, in the case of grants of Incentive Stock Options, shall be not less than the Fair Market Value of a share of Common Stock on the date of grant. In the case of any Incentive Stock Option granted to a Ten Percent Stockholder, the option price per share shall not be less than 110% of the Fair Market Value of a share of Common Stock on the date of grant. The option price per share for Non-Qualified Options may be less than the Fair Market Value of a share of Common Stock on the date of grant only if granted expressly in lieu of cash compensation, and the option price may be set at a discount of not more than a 15% from the Fair Market Value of a share of Common Stock on the date of grant.

8.3 The Option agreements shall specify when an Option may be exercised and the terms and conditions applicable thereto. The term of an Option shall in no event be greater than ten years (five years in the case of an Incentive Stock Option granted to a Ten Percent Stockholder).

8.4 Each provision of the Plan and each Option agreement relating to an Incentive Stock Option shall be construed so that each Incentive Stock Option shall be an incentive stock option as defined in Section 422 of the Code, and any provisions of the Option agreement thereof that cannot be so construed shall be disregarded. Incentive Stock Options may not be granted to employees of Affiliates.

8.5 No Incentive Stock Option shall be transferable otherwise than by will or the laws of descent and distribution and, during the lifetime of the Holder, shall be exercisable only by the Holder. Upon the death of a Holder, the person to whom the rights have passed by will or by the laws of descent and distribution may exercise an Incentive Stock Option only in accordance with this Section 8. Notwithstanding the foregoing, the Holder may designate a beneficiary of the Holder's Incentive Stock Option in the event of the Holder's death on a beneficiary designation form if such a form is provided by the Committee.

8.6 Except as provided in an Option agreement, the option price of the shares of Common Stock upon the exercise of an Option shall be paid in full at the time of the exercise in cash, in shares of Common

Stock valued at Fair Market Value on the date of exercise or a combination of cash and such shares of Common Stock, or through a cashless exercise method; provided, however that shares used for payment must be shares of Common Stock held by the Holder for a period of more than six (6) months. To facilitate the foregoing, the Company may enter into agreements for coordinated procedures with one or more brokerage firms. With the consent of the Committee, payment upon the exercise of a Non-Qualified Option may be made in whole or in part by Restricted Stock (based on the fair market value of the Restricted Stock on the date the Option is exercised, as determined by the Committee). In such case the Common Stock to which the Option relates shall be subject to the same forfeiture restrictions originally imposed on the Restricted Stock exchanged therefor. The Committee may prescribe any other method of payment that it determines to be consistent with applicable law and the purpose of the Plan.

8.7 With the Holder's consent, the Committee may amend any outstanding Option to deliver shares of Deferred Stock or Restricted Stock instead of Common Stock.

8.8 If a Holder's Continuous Service terminates by reason of death, any unexercised Option granted to the Holder shall become immediately exercisable and may thereafter be exercised by the Holder's transferee or legal representative, until one (1) year after such termination of Continuous Service.

8.9 Except as provided in an Option agreement, if a Holder's Continuous Service terminates by reason of disability (as determined by the Committee), any unexercised Option granted to the Holder shall become immediately exercisable and may thereafter be exercised by the Holder (or, where appropriate, the Holder's transferee or legal representative), until the earlier of the date specified in the applicable Option Agreement or 90 days after such termination of Continuous Service.

8.10 If a Holder's Continuous Service terminates for any reason other than death or disability, all unexercised Options awarded to the Holder shall terminate on the date specified in the applicable Option agreement or, if none is so specified, 90 days after such termination of Continuous Service, except that if a Director's Continuous Service terminates for any reason other than death or disability, all unexercised Options awarded to the Holder shall terminate on the date specified in the applicable Option agreement or, if none is so specified, three years after such termination of Continuous Service.

8.11 The Committee or the Board may in their discretion extend the period during which an Option held by a Director, Employee or Consultant may be exercised to such period, not to exceed three years following the termination of a Director's, Employee's or Consultant's Continuous Service, as the Committee or the Board may determine to be appropriate in any particular instance. The Committee may, in its sole discretion, modify or accelerate the vesting and delivery of Options in certain circumstances including, among others, a Holder's death, disability or a Change in Control.

9. <u>Stock Appreciation Rights.</u>

SARs are rights to receive a payment in cash, Common Stock, Restricted Stock or Deferred Stock (as selected by the Committee) equal to the increase in the Fair Market Value of a specified number of shares of Common Stock from the date of grant of the SAR to the date of exercise. The grant of SARs shall be subject to the following terms and conditions:

9.1 SARs shall be evidenced by SAR agreements. Such agreements shall conform to the requirements of the Plan and may contain such other provisions, as the Committee shall deem advisable. A SAR may be granted in tandem with all or a portion of a related Option under the Plan ("Tandem SAR"), or may be granted separately ("Freestanding SAR"). A Tandem SAR may be granted either at the time of the grant of the Option or at any time thereafter during the term of the Option and shall be exercisable only to the extent that the related Option is exercisable. In no event shall any SAR be exercisable within the first six months of its grant.

9.2 The base price of a Tandem SAR shall be the option price under the related Option. The base price of a Freestanding SAR shall be not less than 85% of the Fair Market Value of the Common Stock, as determined by the Committee, on the date of grant of the Freestanding SAR.

9.3 A SAR shall entitle the Holder to receive a payment equal to the excess of the Fair Market Value of the shares of Common Stock covered by the SAR on the date of exercise over the base price of the SAR. Such payment may be in cash, in shares of Common Stock, in shares of Deferred Stock, in shares of Restricted Stock or any combination, as the Committee shall determine. Upon exercise of a Tandem SAR as to some or all of the shares of Common Stock covered by the grant, the related Option shall be canceled automatically to the extent of the number of shares of Common Stock covered by such exercise, and such shares shall no longer be available for purchase under the Option pursuant to Section 8. Conversely, if the related Option is exercised as to some or all of the shares of Common Stock covered by the Award, the related Tandem SAR, if any, shall be canceled automatically to the extent of the number of shares of Common Stock covered by the Option exercise.

9.4 SARs shall be subject to the same terms and conditions applicable to Options as stated in Sections 8.3, 8.5, 8.7, 8.8, 8.9, 8.10, and 8.11.

10. <u>Adjustments Upon Changes in Capitalization.</u>

In the event of a reorganization, recapitalization, stock split, spin-off, split-off, split-up, stock dividend, issuance of stock rights, combination of shares, merger, consolidation or any other change in the corporate structure of the Company affecting Common Stock, or any distribution to stockholders other than a regular cash dividend, the Board shall make appropriate adjustment in the number and kind of shares authorized by the Plan, the Individual Limit set forth in Section 5.2, and any adjustments to outstanding Awards as it determines appropriate. No fractional shares of Common Stock shall be issued pursuant to such an adjustment. The Committee may determine to pay the Fair Market Value of any fractional shares resulting from adjustments pursuant to this Section in cash to the Holder.

11. Adjustments Upon a Change in Control.

Except as otherwise provided in an applicable agreement, upon the occurrence of a Change in Control (other than a Hostile Change in Control), the Committee may elect to provide that all outstanding Options and SARs shall immediately vest and become exercisable, each Deferral Period and Restriction Period shall immediately lapse or all shares of Deferred Stock subject to outstanding Awards shall be issued and delivered to the Holder. In the event of a Hostile Change in Control, each of the foregoing actions shall occur automatically upon the occurrence of such Hostile Change in Control. At any time before a Change in Control, the Committee may, without the consent of any Holder of an Option or SAR, (i) require the entity effecting the Change in Control or a parent or subsidiary of such entity to assume each outstanding Option and SAR or substitute an equivalent option or stock appreciation right therefor or (ii) terminate and cancel all outstanding Options and SARs upon the Change in Control. In connection with any such termination and cancellation of outstanding Options and SARs upon a Change in Control, the Committee may cause the payment to the Holder of each such Option or SAR, cash equal to the product of (x) the difference between the Fair Market Value of Common Stock on the date of the Change in Control and the exercise price (or base price) of such Option or SAR and (y) the number of vested (and, at the discretion of the Committee, unvested) shares of Common Stock subject to such Option or SAR. For the purposes of this Section, an Option or SAR shall be considered assumed if, following the closing of the Change in Control transaction, the Option or SAR confers the right to purchase (or determines appreciation), for each share of Common Stock subject to the Option or SAR immediately prior to the closing of such transaction, the consideration (whether stock, cash, or other securities or property) received in such transaction by holders of Common Stock for each share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Common Stock); provided, however, that if such consideration received in such Change in Control transaction was not solely common stock of the successor corporation or its parent, the Committee may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or SAR, for each share of Common Stock subject to the Option or SAR, to be solely (or to be based solely on) common stock of the successor corporation or its parent equal in fair market value to the per share consideration received by holders of Common Stock in such transaction.

12. Effective Date, Termination and Amendment.

The Plan shall become effective upon approval of the Plan by the stockholders of the Company and shall remain in full force and effect until the earlier of July 27, 2014 or the date it is terminated by the Board. The Board shall have the power to amend, suspend or terminate the Plan at any time, provided that no such amendment shall be made without stockholder approval which shall:

12.1 Increase (except as provided in Section 10) the total number of shares available for issuance pursuant to the Plan;

12.2 Reduce the exercise or base prices of outstanding Options or SARs or cancel or amend outstanding Options or SARs for the purpose of repricing, replacing, or regranting such Options or SARs with an exercise price that is less than the exercise or base price of such Options or SARs immediately preceding such cancellation or amendment;

12.3 Increase the Individual Limit (except as provided Section 10);

12.4 Change the class of individuals eligible to receive an Award; or

12.5 Materially change the provisions of this Section 12.

Termination of the Plan pursuant to this Section 12 shall not affect Awards outstanding under the Plan at the time of termination.

13. Transferability.

Except as provided below, Awards may not be pledged, assigned or transferred for any reason during the Holder's lifetime, and any attempt to do so shall be void. The Committee may grant Awards (except Incentive Stock Options) that are transferable by the Holder during such Holder's lifetime, but such Awards shall be transferable only to the extent specifically provided in the agreement entered into with the Holder. The transferee of the Holder shall, in all cases, be subject to the provisions of the agreement between the Company and the Holder.

14. <u>General Provisions.</u>

14.1 Nothing contained in the Plan, or any Award granted pursuant to the Plan, shall confer upon any Holder any right with respect to Continuous Service, nor interfere in any way with the right of the Company, a Subsidiary or Affiliate to terminate the Continuous Service of any Holder at any time.

14.2 In connection with the transfer of shares of Common Stock as a result of the exercise or vesting of an Award or upon any other event that would subject the Holder to taxation, the Company shall have the right (a) (1) to require the Holder to pay an amount in cash or (2) to retain or sell without notice, or to demand surrender of, shares of Common Stock in value sufficient to cover the minimum amount of any tax, including any Federal, state or local income tax, required by any governmental entity to be withheld or otherwise deducted and paid with respect to such transfer ("Withholding Tax"), and (b) to make payment (or to reimburse itself for payment made) to the appropriate taxing authority of an amount in cash equal to the amount of such Withholding Tax, remitting any balance to the employee. For purposes of this Section 14.2, the value of shares of Common Stock so retained or surrendered shall be the Fair Market Value on the date that the amount of the Withholding Tax is to be determined (the "Tax Date"), and the value of shares of Common Stock so sold shall be the actual net sale price per share (after deduction of commissions) received by the Company. Notwithstanding the foregoing, the Holder shall be entitled to satisfy the obligation to pay any Withholding Tax, in whole or in part, by providing the Company with funds sufficient to enable the Company to pay such Withholding Tax or by requiring the Company to retain or to accept upon delivery thereof shares of Common Stock (other than unvested Restricted Stock) sufficient in value (determined in accordance with the preceding sentence) to cover the amount of such Withholding Tax. Each election by a Holder to have shares retained or to deliver shares for this purpose shall be subject to the following restrictions: (i) the election must be in writing and made on or prior to the Tax Date; and (ii) the election shall be subject to the disapproval of the Committee.

14.3 With respect to Holders subject to Section 16 of the 1934 Act, transactions under the Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the 1934 Act. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

14.4 To the extent that Federal laws (such as the 1934 Act, the Code or the Employee Retirement Income Security Act of 1974) do not otherwise control, the Plan and all determinations made and actions taken pursuant hereto shall be governed by the law of New York and construed accordingly.

EXHIBIT 31.1

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)) 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) 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

c) 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: September 8, 2004

By: /s/ Dan Bodner

Dan Bodner
President and Chief Executive Officer
Principal Executive Officer

EXHIBIT 31.2

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)) 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) 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

c) 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: September 8, 2004

By: /s/ Igal Nissim

Igal Nissim
Vice President and Chief Executive Officer
Principal Financial Officer

EXHIBIT 32.1

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 July 31, 2004 (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: September 8, 2004

/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.

EXHIBIT 32.2

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 July 31, 2004 (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: September 8, 2004

/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.