

June 10, 2002
Technology Research

Verint Systems, Inc.

VRNT: A LEADER IN ACTIONABLE INTELLIGENCE

Investment Conclusion: *We are initiating coverage of Verint with a Buy rating. Verint is a pure play on the accelerating spending on national, personal, and information defense, in our view. Many of its solutions are now mandated purchases, especially here in the US, where its NISP security clearance assures it solid market share. We believe VRNT could demonstrate upside surprises to our forecasts from: (1) incremental margin expansion; or (2) a rebound in its enterprise call center business if IT spending recovers late 02/03.*

Key Points

- VERINT LEVERAGES TWO TECHNOLOGIES (WIRETAPPING AND VIDEO SURVEILLANCE) ACROSS 2 MARKET SEGMENTS (SECURITY AND BUSINESS INTELLIGENCE).** Verint^{a,b} provides end-to-end management of security and business data collection, storage, analysis, and distribution. Verint's DSS business includes lawful interception for government agencies and telecom providers as well as security solutions for public buildings, airports, and corporations. The EBI business includes solutions for monitoring and analyzing business operations in customer service centers, retail stores, and casinos. These technologies can be applied across diversified end markets such that Verint benefits from spending across multiple enterprise, government, and telecom verticals.
- GROWTH IS ACCELERATING TODAY WITH THE RISE IN BOTH GOVERNMENT-MANDATED AND CORPORATE DRIVEN SPENDING ON SAFETY.** As a leader in wiretapping and digital video surveillance, Verint is a pure play on the rise in national, personal, and information defense. Government security regulations are being more strictly enforced and revised wiretapping laws are being written and enforced in the U.S., Europe, and abroad. With communications technology to support lawful interception (wiretapping), and digital technology for video surveillance, Verint is well positioned to take advantage of the rising spending in personal security, in our view. The government sector has historically been 20-30% of VRNT's revenues. Because it has already met NISP security clearance standards for the US Department of Defense and also maintains relationships with several other government agencies here and abroad, we expect the company to continue to succeed in this market as homeland security budgets increase.

VRNT: \$10.15 Rating: Buy

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Change In...	Yes/No	Was	Is
Rating:	New		BUY
EPS F2002E:	New		\$0.36
EPS F2003E:	New		\$0.50
Rev F2002E:	New		\$153.8
Rev F2003E:	New		\$175.3
12-Month Price Target:	New		NA
52-Week Range			\$16.28-10.15
FD Shares Outstanding			20.5 MM
Market Cap			\$208.1 MM
Avg Daily Volume (000)			190
Book Value/Share 4/01			\$1.00
5yr Hist. EPS Growth Rate			NM
5yr Proj. EPS Growth Rate			20%
ROA 2002E:			NA
Dividend/Yield			NONE/ NA
Net Cash 4/01:			\$(0.8 MM)
Operating Margin 4/01:			3.0%
Net Cash 7/01E :			\$71.4MM
Debt/Cap 7/01E :			32.0%
Book Val 7/01E :			\$92.4 MM

FY January	F2001 A	F2002 E	F2003 E
EPS:			
1Q	\$(0.05)	\$0.08 A	\$0.11
2Q	\$(0.03)	\$0.08 E	\$0.12
3Q	\$(0.05)	\$0.10 E	\$0.13
4Q	\$0.03	\$0.10 E	\$0.14
Year	\$(0.10)	\$0.36	\$0.50
P/E	NM	28.2x	20.3x
CY EPS	NE	NE	NE
CY P/E	NM	NM	NM

Rev (MM):	F2001 A	F2002 E	F2003 E
1Q	\$34.6	\$36.3 A	\$41.5
2Q	\$32.0	\$37.9 E	\$42.7
3Q	\$31.0	\$39.2 E	\$44.4
4Q	\$33.6	\$40.4 E	\$46.7
Year	\$131.2	\$153.8	\$175.3
CY	NA	NA	NA
Mkt Cap/Rev	NM	1.4x	1.2x
Mkt Cap/CY Rev	NM	NM	NM

(Operating EPS excludes Extraordinary Items and Restructuring Charges. Forecasts assume a 20% tax rate for the foreseeable future.)

- **SIGNIFICANT MARGIN EXPANSION UNDERWAY AS VERINT SHIFTS TO A PURE SOFTWARE BUSINESS MODEL.** As Verint's customers shift buy their equipment directly from 3rd parties, low-margin pass-throughs cease to dilute the company's profitability. Thus, over the next few years, we see Verint as a pure provider of specialized software and services. Already we have seen gross margins rise 3 points and EBIT margins rise nearly 9 full points since troughing in October. We expect margin expansion to continue through 2003 to an estimated 9-10% EBIT margin by the end of 2003, with the company's long-term goal being 16% EBIT margins.
- **WILD CARD: ECONOMIC IMPROVEMENT SHOULD ENHANCE CALL CENTER ACTIVITIES.** While we are modeling for relatively flat EBI revenues over the next several quarters, we believe the EBI business could provide upside as IT budgets improve. The EBI solutions enable monitoring of call center interactions and retail operations for improved customer service and operational efficiency.

MARKET OVERVIEW: POISED FOR ACCELERATING GROWTH

Verint leverages 2 technologies (wiretapping and video surveillance) across 2 market segments (security and business intelligence).

\$Billions	Company Projections for 5Yr Market Opportunity
1. Lawful Interceptions (Wiretapping)	2.5
2. Digital Video Security	5.5
TOTAL DIGITAL SECURITY AND SURVEILLANCE OPPORTUNITY(DSS)	8.0
3. Contact Center Business Intelligence	4.0
4. Video Business Intelligence	<0.1
TOTAL ENTERPRISE BUSINESS INTELLIGENCE OPPORTUNITY (EBI)	4.0

Source: Company reports

1. Since September 11th, A Focus on Homeland Security is Driving Accelerating Demand for Lawful Interception Solutions (Wiretapping Segment of Verint's DSS).

(a) **CALEA ENFORCEMENT ON THE RISE.** International and domestic laws have been in place for years requiring telecommunications providers to provide adequate legal interception (wiretapping) technology to law enforcement agents. Though the **Communications Assistance for Law Enforcement Act (CALEA)** was passed in 1994 by the US Congress it was not due to take effect until a year ago (**June 2000**), the first real catalyst for telecom carriers to increase their spending to support these services. As could be expected, many service providers sought exceptions to delay spending to implement these solutions. However, in April of this year, the FCC issued an Order on Remand limiting the exceptions for which carriers can apply and establishing **June 30, 2002** as the new deadline for compliance and carriers may be fined up to \$10,000/day for non-compliance. When CALEA was passed, congress authorized \$500MM to be earmarked to help carriers implement the Act's provisions. With current emphasis on Homeland Security in Washington, we expect congress to deliver on this promise and we believe the FCC will continue to limit the exemptions granted.

(b) **USA PATRIOT ACT AN INCREMENTAL GROWTH DRIVER.** Also after September 11th, the US Congress passed the **USA PATRIOT Act (Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act)**. This Act changes online communication privacy and surveillance laws to: (a)expand wiretapping privileges; and (b)expand data permitted to be collected. The result is electronic surveillance is now a far more complex task for law enforcement officials and

telecom service providers. Thus, the USA PATRIOT Act is driving increased demand for 3rd party lawful interception solutions (wiretapping). New law enforcement agencies' wiretapping privileges allow a single warrant to be issued for the interception across multiple communication modes (i.e. cellular calls, voicemail, and e-mail). It has also made it easier to share recorded communication between law enforcement agencies. Verint's technologies are well suited to support both new technology requirements, multimodal communication and interoperability.

(c) **EUROPEAN ETSI REGULATIONS ALSO A CATALYST.** The **European Telecommunications Standards Institute (ETSI) has developed similar standards to CALEA.** Lawful interception solutions (wiretapping segment of Verint's DSS business) provide the phone company with the means to address the complexity of this regulation; these solutions monitor each node in the network, both circuit and packet, through to the delivery of the tapped transmission to the law enforcement agency.

2. Enterprises Are Adding Personal Security Measures Such as Video Security Solutions.

Digital Video Security solutions allow retail outlets, public buildings, correctional facilities, *airports and other transportation centers*, corporations, and universities to do real-time security monitoring. With Digital Video Security solutions, organizations can do **instantaneous analysis of security video**. Other advantages of digital monitoring systems over traditional analog systems (i.e., VCRs) include: more efficient data storage, faster search and retrieval, and the flexibility to use new analysis tools such as biometric identification and motion detection.

In the wake of the events of September 11th, the public has been more focused on personal security: at airports, subway stations, monuments, and office buildings the emphasis on security is evident. We believe the market for digital video security systems should grow rapidly over the next several years as corporations and public spaces put security solutions in place and upgrade old closed circuit television systems.

3. Stagnant Today, Contact Center Business Intelligence Should See Upside as IT Spending Returns and Companies Invest in Operational Efficiency and Customer Loyalty.

The Contact Center Business Intelligence (CCBI) business provides solutions to help corporations monitor call center interactions. These solutions allow customer service managers and executives an additional tool to track their performance with their customers, an incremental technology to CRM solutions. Customer call centers typically include one telephone switch connecting to several customer service representatives, computer systems, and CRM databases. Contact Center Business Intelligence captures information about all types of customer communication - via e-mail, voice, voicemail - then analyzes the data to improve the effectiveness of customer interactions. This technology can measure call flow into the call center, hold times for each customer, call length, and even the number of transfers. It not only records voice calls, but also records desktop screens, email, VoIP transmissions, and Web chats. CCBI solutions can provide tools to measure specific marketing objectives against customer service interactions by recording contact center communications. Analysis of these recordings can help an enterprise optimize contact center agent performance, improve business processes, and help to analyze reasons for customer churn rates. Other applications include helping an enterprise find ways to up-sell complementary or higher-end product to customers and identify new business opportunities.

4. Nascent, Video Business Intelligence is a Potential New Growth Area.

An as of yet nascent market, Video Business Intelligence solutions use digital video surveillance information to give an enterprise a better idea of operations and live customer service interactions. Through **digital video observation and intelligent video analysis**, an enterprise can watch flow through a retail store or a casino, for example. Applications for video business intelligence include automatic counting, categorizing, monitoring, and assessment of customers and personnel.

AS A LEADING VENDOR OF ACTIONABLE INTELLIGENCE SOLUTIONS, VERINT SHOULD ACHIEVE ACCELERATING GROWTH AS THESE MARKET SEGMENTS EXPAND

We expect Verint's top-line growth to be driven by: telco, corporate, and government investments in security solutions in response to the heightened public awareness following September 11th; international expansion; and channel and sales expansion. EPS growth should outpace revenues as margins expand due to the reduction in lower-profit hardware sold directly to customers. Further leverage should occur as volumes increase.

Summary of earnings growth drivers:

- **Margin Expansion.** Verint's gross margins should expand with a shift towards a higher software mix. Customers have begun to buy hardware systems directly, instead of through Verint. Assuming Verint was recognizing a 10% markup on hardware sales (or less), we estimate that a 10 point shift in mix to software would mean 8 more points in gross margin. The company expects to raise gross margins by 3 points by year-end and by 11 more points to 62% long-term. Verint's long-term EBIT margin target of 16% would mean 10 points of upside from April's 6% level.
- **Acceleration in Lawful Interception Market, Where Verint is a Leader.** We believe this market could grow by about 30% over the next several quarters as government use increases and new wiretapping regulations are established in the wake of September 11th.
- **Enhanced Distribution Channels Focused on International Expansion.** The company intends to expand its distribution channels to include new relationships with VARs, SIs, and distributors. VARs, SIs, and third party distributors accounted for 38% of revenues in C2001. We believe Verint's focus is an increase in its business in Europe and Asia (now 35% and 15% of revenues, respectively), especially in the wake of increased security concerns and new more relaxed wiretapping regulations around the globe. To this end, Verint signed new reseller agreements with British Telecom Ignite and Avaya in Q1. The company also plans to increase worldwide product support and may establish incremental direct sales operations in select countries.
- **Expansion into new Vertical Markets.** Verint plans to leverage existing technologies and relationships into specialized vertical market applications (financial, transport, technology) to increase its market potential and customer base. The company also has room to further penetrate existing customers with new applications, in our view. For example, FedEx uses the company's video technology for both security and business intelligence applications. It hopes to enhance the analytic capabilities of its solutions to offer new voice/video business intelligence offerings.
- **Further penetration in government agencies.** *Verint has obtained security clearance to perform its work with the government.* A Verint has a proxy agreement with the U.S. Department of Defense set up to comply with the National Industrial Security Program (NISP) security clearance standards. We believe this serves as a barrier to new start-ups looking to enter the government security market and expect Verint to leverage its current relationships with governmental agencies to expand its market share as Homeland Security spending accelerates. Government agencies currently account for 26% of Verint's revenues.

The company aims to execute on these growth drivers to achieve a 16% operating margin longer-term, a 10 point expansion from current levels.

Figure 1. Long-term Business Model

	Jan 02A	April 02A	C02E	C03E	Long-term Goal
Growth Rate	-14%	5%	17%	14%-15%	20%-30%
Gross Margin	50%	51%	53%	55%	62%
Operating Expenses	47%	45%	46%	47%	46%
EBIT Margin	3%	6%	6%	8%	16%
Net Income	2%	5%	6%	7%	14%

Source: Company Reports and Robertson Stephens Estimates.

VALUATION

Verint is trading at 28x C2002 Earnings projections of \$0.36 and a multiple to revenues of 0.9x our \$153.8MM forecasts (enterprise value to revenues). This P/E multiple represents about a 10% discount to peers such as Kroll, Drexler, Witness, and Internet Security Systems. Verint is also trading at a discount to C2003 P/E and Enterprise Value to Revenue metrics of its peer group. We believe that potential upside to VRNT should be driven by revenue momentum due to Homeland Security initiatives coupled with ongoing margin expansion as seen in the April quarter.

Figure 2. Verint is Trading at a Discount to Peers.

	TICKER	CLOSE 6/7/02	SHARES MM	MARKET VALUE \$MM	ENTERPRISE VALUE	C2002 P/E	C2002 EV/REV	C2003 P/E	C2003 EV/REV
VERINT SYSTEMS INC.	VRNT	\$10.15	20.54	\$208.50	\$137.10	28.2X	0.9X	20.7X	0.8X
Witness Systems, Inc.	WITS	\$6.01	24.36	\$146.39	\$88.57	37.6X	1.1X	19.4X	0.9X
Nice Systems Ltd.	NICE	\$12.52	12.99	\$162.68	\$66.19	nm	0.4X	25.0X	0.4X
Identix Inc.	IDNX	\$7.13	44.81	\$319.48	\$265.48	nm	3.7X	nm	3.5X
Ectel Ltd.	ECTX	\$12.48	18.78	\$234.37	\$190.17	12.4X	1.9X	10.1X	1.5X
Kroll Inc.	KROL	\$22.75	22.52	\$512.26	\$514.08	46.4X	2.2X	28.1X	1.9X
OSI Systems Inc.	OSIS	\$19.57	13.39	\$262.00	\$201.89	26.1X	1.5X	23.9X	1.3X
Visionics Corp.	VSNX	\$9.48	24.90	\$236.05	\$207.68	nm	4.9X	63.2X	4.1X
Drexler Technology Corp.	DRXR	\$18.39	10.85	\$199.48	\$182.40	37.5X	6.1X	19.4X	3.7X
Internet Security Systems Inc.	ISSX	\$15.54	47.78	\$742.56	\$574.09	30.5X	2.2X	20.7X	1.8X
Viisage Technology	VISG	\$5.40	19.82	\$107.04	\$92.23	nm	3.2X	45.0X	2.8X
<i>Average Multiple</i>						31.7X	2.7X	28.3X	2.2X

Source: First Call, Robertson Stephens Estimates

APRIL QUARTER SURPASSES ESTIMATES

Verint's April Quarter Delivered Upside on All Fronts, exceeding our \$0.05 EPS forecast by \$0.03 and beating our revenue estimates by \$1MM. Sequential improvement was evident in both the EBI and DSS business lines, with revenues up 8% q/q and margins continued to improve as the company saw hardware pass-throughs decline for another quarter. Verint generated positive operating cash flow of \$7MM in the April quarter.

DSS Continues to Drive Growth. Revenues from the DSS business accounted for 60% of total revenues and were up 13% sequentially and 26% year/year as the demand for security solutions has increased given the current

geopolitical climate. Revenues from the EBI business were up 2% sequentially but down 17% year/year due to weakness in IT spending. We expect the DSS/EBI mix to continue to increase as these trends persist over the next several quarters.

Verint announced several new and expanded partnerships. In April, Verint signed a reseller agreement with Avaya, formalizing its existing relationship. Verint has already seen an increase in activity from this channel partner. The company has also expanded its partnership with British Telecom Ignite to increase its penetration in Europe. Finally, last week at SUPERCOMM, VeriSign^(a) announced the launch of its NetDiscovery Service, an outsourced solution for CALEA compliance using Verint's STAR-GATE solution.

We believe the integration of Verint's February acquisition of the digital video recording business of Lanex, LLC is on schedule. The company acquired the business on February 1st for a purchase price of \$9.5MM in cash and \$2.2MM in a convertible note with an exercise price of \$16.06/share (Verint common). We believe this was primarily an acquisition of technology that should help Verint's efforts in the small business area.

Figure 3: Verint's April Quarter Results Were Better than Forecasts

(\$MM)	Apr-02A	Apr-02E	Variance	Jan-02A
DSS Revenues	21.790	21.100	+3.3%	19.321
EBI Revenues	14.527	14.150	+2.7%	14.300
Total Revenues	36.317	35.250	+3.0%	33.621
Gross Margin	51.0%	51.5%	-0.5%	50.1%
Op. Ex. %	45.3%	47.3%	-2.0%	46.9%
Operating Margin	5.7%	4.2%	+1.5%	3.3%
Net Income	1.707	0.994	+71.7%	-0.992
EPS	\$0.08	\$0.05	+60%	\$0.03

Source: Company Reports and Robertson Stephens estimates

COMPANY HIGHLIGHTS

Verint leverages 2 technologies (wiretapping and video surveillance) across 2 market segments (security and business intelligence).

BUSINESS SEGMENT	Wiretapping	Video
DSS	Lawful Interceptions	Digital Video Security
EBI	CCBI	Video Business Intelligence

Source: Company Reports

The Company: Verint Systems Inc. provides software for digital video security and surveillance, lawful communications interception ('wiretapping'), and enterprise business intelligence (call center analysis). Its software performs analysis in real time as data is being collected and consequently manages the collected data, stores it, and distributes it to the correct authorities. Verint's solutions collect and analyze data from voice, fax, video, e-mail, Internet and data transmissions over many communications protocols (IP, text, voice, etc). The software is installed in government facilities, airports and transportation systems, customer contact and service centers, corporations and financial institutions. As a leader in security and surveillance, Verint is a direct play on the growth in spending on personal and information security, in our view.

Customers: Verint has over 800 installations of its products in over 50 countries across several market verticals. No customer accounted for more than 5% of revenues in C2001. The company sells its solutions to vertical markets including law enforcement, federal government, transportation, communications service & equipment providers, multinational corporations, financial service providers, utilities, retail chains, and casinos.

Digital Security and Surveillance (DSS)	
Communications Interception	Cingular Wireless Ericsson ^(a) Nortel Dutch National Police Agency Toronto Police Service US Department of Justice
Digital Video Security	FedEx Mohegan Sun Casino U.S. Capitol building U.S. Department of Defense U.S. Department of the Treasury - Bureau of Engraving and Printing Washington Dulles International Airport
Enterprise Business Intelligence (EBI)	
Contact Center Business Intelligence	BlueCross BlueShield Con Edison Datek HSBC JCPenney OnStar Sprint
Video Business Intelligence	FedEx Target Tiffany & Co.

Source: Company Reports

Other Customers include government agencies in over 40 countries, airports and transit authority buildings worldwide like Calgary Airport, Australian Rail, and Port Authority of NY & NJ, multinational corporations such as Cisco, Intel, General Motors, Toshiba, and Sharp, and financial services institutions including Credit Suisse First Boston, American Express, Prudential Insurance, and Barclays Bank.

Partnerships: Verint has formed alliances with equipment providers and software solution vendors for integration with CRM, eBusiness, point of sale, business intelligence, CTI (Computer Telephony Integration), and contact center systems. Verint also has partnerships with relevant PBX (Private Branch Exchange) suppliers, telecom networks and Internet service providers. Marketing partners include: **Nortel, ADT, Avaya, BT Ignite and Siemens. Technological alliances include: Genesys, Siebel ^(a) and Visionics.** In addition, Verint has obtained security clearance to perform its work with the U.S. government and has a proxy agreement with the U.S. Department of Defense.

Related Party: Verint will continue to operate as a subsidiary of Converse Technologies ^(a)(CMVT \$10.06) . **Converse owns approximately 79% of Verint.**

Affiliations: Verint has obtained security clearance to perform its work with the government. A Verint has a proxy agreement with the U.S. Department of Defense set up to comply with the National Industrial Security Program (NISP) security clearance standards.

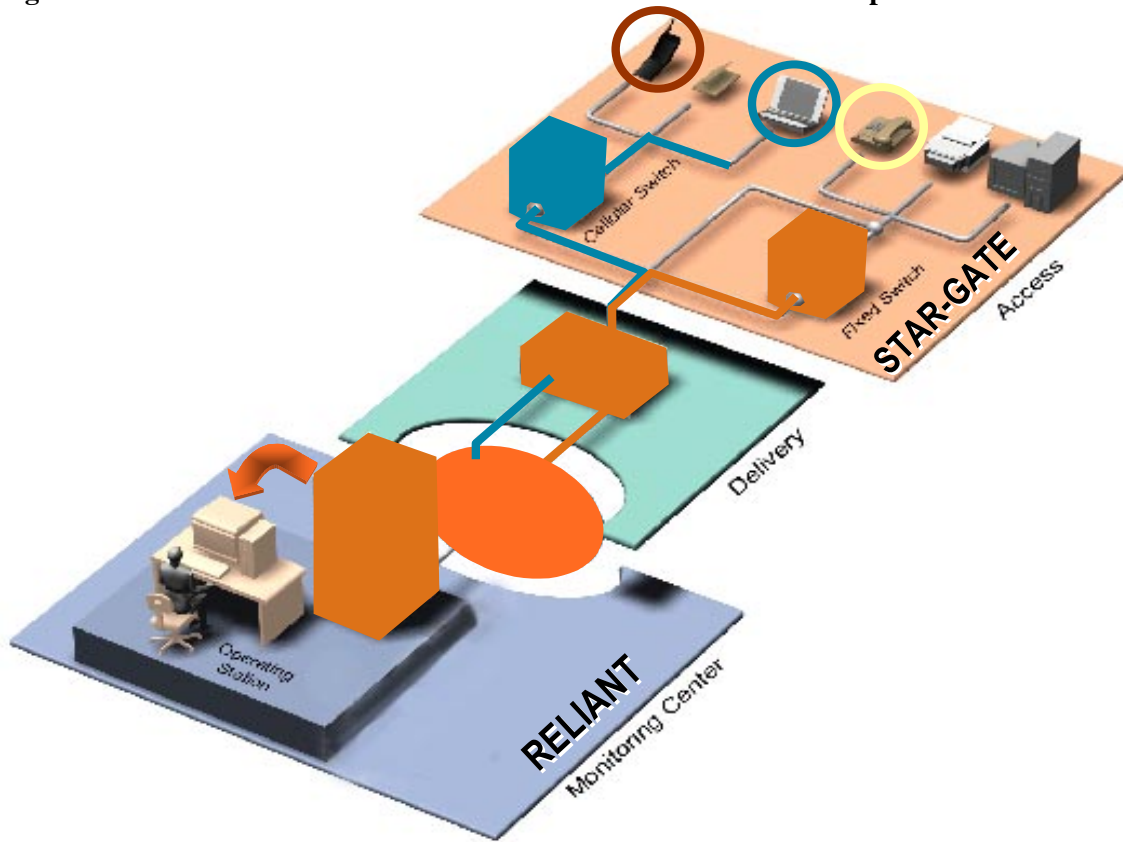
Products: Verint's products include solutions for the collection, retention, and analysis of voice, fax, video, e-mail, Internet, and data transmissions from multiple communications networks.

Digital Security & Surveillance (DSS)

DSS Product Line	Market Served	Type of Customer	Purpose/Description	Location of Product
STAR-GATE	Lawful Interception ("wire-tapping")	<ul style="list-style-type: none"> • Telecom carriers • Internet service providers • Switch manufacturers 	Access, delivery and administrative functions of lawful interception	Embedded in circuit or packet-based switch
RELIANT	Lawful Integration and Analysis	<ul style="list-style-type: none"> • Law enforcement agencies • Intelligence agencies 	Collection, delivery, storage, and analysis of data from lawful interception	Law enforcement or intelligent agency monitoring center network server
LORONIX Digital video security	Digital Video Security	<ul style="list-style-type: none"> • Government agencies • Public agencies • Transportation agencies • Public buildings 	Intelligent recording of video from CCTV camera transmissions	Attached to customer CCTV or IP camera

Source: Company Reports

Figure 4. Star-Gate + Reliant = End-to-End Communications Interception Solution



Source: Company Reports

Enterprise Business Intelligence (EBI)

EBI Product Line	Market Served	Type of Customer	Purpose/Description	Location of Product
ULTRA	Customer relationship intelligence (monitors customer communications)	<ul style="list-style-type: none"> • Enterprises • Utilities • Financial Institutions 	Monitor call center interactions for better customer service and training	Interface through customer relations management application center
LORONIX	Customer relationship intelligence (digital video)	<ul style="list-style-type: none"> • Consumer retailers • Shopping malls • Other commercial enterprises 	Recorded and live monitoring of operations to improve business processes and performance	Attached to customer CCTV or IP cameras

Source: Company Reports

Figure 5. Loronix Digital Video Security: Allows A Security Officer to View Footage Real-Time From His Squad Car on the Way to the Scene or From His P.D.A. Before Entering the Sight



Source: Company Reports

Competition:

Verint faces competition in both of the DSS and EBI markets. With homeland security and related issues in the global political forefront, as well as new regulations for wiretapping like CALEA and ETSI, we believe new entrants to the DSS market may surface both in the U.S. and in international markets. Digital Video Security competition may come from analog CCTV manufacturers, biometrics companies, or new start-ups with software solutions. The lawful interception market may see new entrants like VeriSign providing outsourcing solutions, or from other software vendors with recording solutions. In EBI, competition comes from call recording companies and their software and product suppliers.

Figure 6. Competitive Landscape

DSS	EBI
Digital Video Security Vigilant Technology/Adyoron Thales Viisage (VISG, \$5.40) Visionics (VSNX, \$9.48) Kroll Inc. (KROL, \$22.75) Drexler Technology Corp. (DRXR, \$18.39) OSI Systems (OSIS, \$19.57)	Contact Center Business Intelligence NICE Systems Witness Systems (WITS, \$6.01) ECTel (ECTX, \$12.48) Dictaphone Eyretel e-talk
Communications Interception NICE Systems (NICE, \$12.52) Dictaphone JSI Telecom Internet Security Systems Inc. ^{ab} (ISSX, \$15.54) Check Point Software ^{ab} (CHKP, \$16.75)	Video Business Intelligence Vigilant Technology/Adyoron Sensormatic/Tyco (TYC, \$10.10) OSI Systems

Source: Robertson Stephens Estimates

Barriers to Entry Include:

- Security clearance to work with government agencies is difficult to get in the United States and other countries.
- Legal interception regulations are complex and differ across municipalities, states/provinces, and nations. It takes time and resources to analyze and adapt technology.
- Many DSS and EBI providers have legacy proprietary systems, which may be difficult to upgrade to digital technology.

Management:

Name	Title	Post IPO Ownership*	Experience
Kobi Alexander	Chairman of the Board of Directors	1.8%	Founder of CMVT (1986), current CEO of CMVT
Dan Bodner	President and Chief Executive Officer and Director	<1%	CEO of Verint predecessors, manager at CMVT since 1987
Igal Nissim	Chief Financial Officer and Director	<1%	CMVT since 1986, CFO of CMVT 1993-1998, also Efrat Future Technology Ltd.
William F. Sorin	Director	<1%	Private Practice Attorney and general counsel to Comverse Technology
David Kreinberg	Director	<1%	CFO of CMVT since 1999, Other Finance positions within CMVT from 1994, previously at Deloitte & Touche LLP

*All executive officers and directors as a group (the above five people) will own 2.6% after the offering.

*Comverse Technology will own approximately 79% of Verint after the offering.

Source: Company Reports

Company Info

The Company

Verint Systems Inc. provides software for digital video security and surveillance, lawful communications interception ('wiretapping'), and enterprise business intelligence (call center analysis). Its software performs analysis in real time as data is being collected and consequently manages the collected data, stores it, and distributes it to the correct authorities. Verint's solutions collect and analyze data from voice, fax, video, e-mail, Internet and data transmissions over many communications protocols (IP, text, voice, etc). The software is installed in government facilities, airports and transportation systems, customer contact and service centers, corporations and financial institutions.

Investment Thesis

We rate Verint a Buy. As a leader in security and surveillance systems, we view Verint as a pure play on the accelerating spending on national, personal, and information defense. We believe that potential upside to VRNT should be driven by revenue momentum due to Homeland Security initiatives coupled with ongoing margin expansion.

Investment Risks

Among the risks are: (1)fluctuations in quarterly results, (2)limited operating history and a history of losses, (3)long sales cycles and volatility in the timing and size of contracts, (4)the DSS market is relatively new market and competitions from start-ups and incumbent players may be intense, (5)Government contracts have accounted for 20-30% of Verint's revenues and changes in laws and regulations may have an adverse impact on the company, and (6)Verint's parent company, Comverse Technologies, will continue to control Verint's business and affairs and its interests may not always be aligned with Verint's.

Our rating system is based upon 12-month price targets that assume a flat market.

For stocks with market cap of \$2 billion or greater:

Strong Buy describes stocks that we expect to appreciate by 25% or more.

Buy describes stocks that we expect to appreciate by 10-25%.

Market Perform describes stocks that we expect to change plus or minus 10%.

Market Underperform describes stocks that we expect to decline by more than 10%.

For stocks with market cap of less than \$2 billion:

Strong Buy describes stocks that we expect to appreciate by 50% or more.

Buy describes stocks that we expect to appreciate by 20-50%.

Market Perform describes stocks that we expect to change plus or minus 20%.

Market Underperform describes stocks that we expect to decline by more than 20%.

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Marianne, a managing director, specializes in technology solutions for the converging communications industry. Her areas of expertise include communication software and services such as wireless data and telecom operation support systems. Marianne has had a decade of buy- and sell-side research experience in the technology industry. Marianne is a Wall Street Journal All-Star Analyst and has been ranked by Greenwich Associates as a leading industry analyst. Marianne received a BA in applied mathematics from Northwestern University and an MBA in finance and economics from the University of Chicago.

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Marianne Woik 646-366-4427 Robertson Stephens		Verint Systems Inc. Quarterly Income Statement																		
		C2000A			C2001A			C2002E			C2003E									
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1A	Q2	Q3	Q4	Q1	Q2	Q3	Q4	C00	C01	C02E	C03E
	4/00	7/00	10/00	1/01	4/01	7/01	10/01	1/02	4/02	7/02	10/02	1/03	4/03	7/03	10/03	12/03				
Digital Surveillance Systems (DSS)	17,358	17,517	16,739	19,321	21,790	23,309	24,500	25,654	21,790	23,309	24,500	25,654	26,560	27,328	28,860	30,822	76,677	70,935	95,253	113,570
Electronic Business Intelligence (EBI)	17,200	14,500	14,300	14,300	14,527	14,592	14,700	14,746	14,527	14,592	14,700	14,746	14,940	15,372	15,540	15,878	65,000	60,300	58,564	61,730
Revenues	34,558	32,017	31,039	33,621	36,317	37,900	39,200	40,400	36,317	37,900	39,200	40,400	41,500	42,700	44,400	46,700	141,677	131,235	153,817	175,300
Trailing 4Q	142	146	143	131	133	139	147	154	133	139	147	154	159	164	169	175				
Sequential Growth	0%	15%	5%	5%	-11%	-7%	-3%	8%	8%	4%	3%	3%	2%	3%	2%	3%	17%	-7%	17%	14%
Cost of Revenues	16,804	23,998	19,183	20,077	17,840	16,335	16,120	16,781	17,799	18,192	18,424	18,584	18,883	19,215	19,758	20,548	79,062	67,056	72,999	78,404
Gross Profit	14,782	11,165	17,775	18,893	16,718	15,682	14,919	16,880	18,518	19,708	20,776	21,816	22,618	23,485	24,642	26,152	62,615	64,179	80,818	96,897
Gross Margin	48%	32%	48%	48%	48%	49%	48%	50%	51%	52%	53%	54%	55%	55%	56%	56%	44%	49%	53%	55%
Research and Development	3,392	3,266	3,665	3,926	4,007	3,786	3,617	3,774	3,892	4,396	4,508	4,886	4,814	4,911	5,106	5,371	14,249	15,184	17,483	20,201
Selling and Marketing	11,258	12,452	11,773	12,679	12,032	11,135	11,543	11,213	11,786	12,355	12,936	13,655	14,027	14,433	14,963	15,645	48,162	45,923	50,733	59,067
Royalties	0,672	0,660	0,691	0,708	0,719	0,697	0,670	0,765	0,765	0,758	0,763	0,768	0,830	0,854	0,888	0,934	2,731	2,851	3,054	3,506
Operating Expenses	15,322	16,378	16,129	17,313	16,758	15,618	15,830	15,752	16,443	17,510	18,207	19,110	19,671	20,197	20,957	21,949	65,142	63,958	71,269	82,774
Opex Pct of Revenues	50%	47%	44%	44%	46%	49%	51%	47%	45%	46%	46%	47%	47%	47%	47%	47%	46%	49%	46%	47%
Operating Income	-0,540	-5,213	1,646	1,560	-0,040	0,064	-0,911	1,108	2,075	2,198	2,569	2,706	2,947	3,288	3,685	4,203	-2,527	0,221	9,549	14,123
Operating Margin	-2%	-15%	4%	4%	0%	0%	-3%	3%	6%	6%	7%	7%	7%	8%	8%	9%	-2%	0%	6%	8%
Interest Income (Expense)	-0,293	-0,201	-0,230	0,227	-0,292	-0,188	0,128	-0,212	0,113	0,400	0,410	0,420	0,430	0,440	0,450	0,460	-0,497	-0,564	1,343	1,760
Other Income																				
Pretax Income	-0,833	-5,414	1,416	1,807	-0,332	-0,124	-0,783	0,896	2,188	2,598	2,979	3,126	3,377	3,728	4,135	4,663	-3,024	-0,343	10,892	15,903
Taxes	-0,007	-0,003	-0,011	-0,476	-0,560	-0,454	-0,240	-0,298	-0,481	-0,520	-0,596	-0,625	-0,675	-0,746	-0,827	-0,933	-0,497	-1,552	-2,222	-3,181
Net Income--Before Amortization	-0,840	-5,417	1,405	1,331	-0,892	-0,578	-1,023	0,598	1,707	2,079	2,383	2,501	2,701	2,982	3,308	3,730	-3,521	-1,895	8,670	12,722
Net Income--Before Extraordinary	-0,840	-5,417	1,405	1,331	-0,892	-0,578	-1,023	0,598	1,707	2,079	2,383	2,501	2,701	2,982	3,308	3,730	-3,521	-1,895	8,670	12,722
Extraordinary Items	0,000	-5,038	0,000	0,000	0,000	-1,164	0,000	-1,590	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000	-5,038	-2,754	0,000	0,000
Reported Net Income	-0,840	-10,455	1,405	1,331	-0,892	-1,742	-1,023	-0,992	1,707	2,079	2,383	2,501	2,701	2,982	3,308	3,730	-8,559	-4,649	8,670	12,722
Earnings per Share																				
Operating	(\$0.04)	(\$0.29)	\$0.08	\$0.07	(\$0.05)	(\$0.03)	(\$0.05)	\$0.03	\$0.08	\$0.08	\$0.10	\$0.10	\$0.11	\$0.12	\$0.13	\$0.14	(\$0.19)	(\$0.10)	\$0.36	\$0.50
Reported	(\$0.04)	(\$0.56)	\$0.08	\$0.07	(\$0.05)	(\$0.09)	(\$0.05)	(\$0.05)	\$0.08	\$0.08	\$0.10	\$0.10	\$0.11	\$0.12	\$0.13	\$0.14	(\$0.46)	(\$0.25)	\$0.36	\$0.49
Avg Shares Outstanding	18,704	18,704	18,704	18,704	18,800	18,800	18,800	18,900	20,542	24,500	25,000	25,500	25,700	25,900	26,100	26,300	18,704	18,767	23,865	26,000

Source: Company reports and Robertson Stephens estimates