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Reason for Report:
Initiating Coverage

Changes	From (Previous)	To (Current)
Rating	--	Outperform
Price Tgt	--	\$18
FY03E EPS	--	\$0.35
FY04E EPS	--	\$0.53
FY03E Rev (mil)	--	\$152.1
FY04E Rev (mil)	--	\$182.7

Price:	\$11.65
52-Wk Range:	\$16.28 - \$10.01
Price Target:	\$18
(2.5x CY03E Rev of \$182.7)	
Shares Out (mil):	23.4
Market Cap (mil):	\$272.6
Avg Daily Vol (000):	300
Book Value/Share:	\$1.18
Cash Per Share:	\$2.64
LT Debt to Total Capital:	6%
Div (ann) - Yield:	Nil
Est LT EPS Growth	30%
P/E to LT Growth (CY04):	0.76x
Est Next Rep Date:	Mid-Aug. 2002
FY End:	Jan. 2003

Rev (mil)	FY2002	FY2003E	FY2004E
Apr	\$34.6	\$36.3A	\$42.5
Jul	\$32.0	\$37.7	\$45.2
Oct	\$31.0	\$38.1	\$47.1
Jan	<u>\$33.6</u>	<u>\$40.0</u>	<u>\$48.0</u>
FY	\$131.2	\$152.1	\$182.7
CY	\$131.2	\$152.1	\$182.7

FY RM	2.1x	1.8x	1.5x
CY RM	2.1x	1.8x	1.5x

EPS	FY2002	FY2003E	FY2004E
Apr	(\$0.05)	\$0.08A	\$0.11
Jul	(\$0.09)	\$0.08	\$0.13
Oct	(\$0.05)	\$0.10	\$0.14
Jan	<u>(\$0.05)</u>	<u>\$0.10</u>	<u>\$0.15</u>
FY	(\$0.25)	\$0.35	\$0.53
CY	(\$0.25)	\$0.35	\$0.53

FY P/E	NM	33.3x	22.0x
CY P/E	NM	33.3x	22.0x

Note: EPS are fully diluted.

Disclosures (see last page for details):

- (#) Market Maker
- (^) Beneficial Interest
- (>) Beneficial Interest/Pre-IPO
- (@) Underwriter
- (-) Employee/Director

Verint Systems, Inc. (VRNT – \$11.65)
Outperform **Volatility: High**

Rubber Hits The Road Security Player; Initiating Coverage With An Outperform Rating And \$18 Price Target

KEY POINTS:

- **Initiating Coverage.** We are initiating coverage of Verint Systems with an Outperform rating and a \$18 price target. Our \$18 price target reflects a 2.5x multiple on our CY03 revenue estimate of \$182.7 million, which is in line with the multiple range (approximately 1.5x to 4.0x) of Verint's comparable group.
- **Leading Share In Markets Served.** Verint holds a leading market share position in both the digital security and surveillance and enterprise business intelligence markets.
- **Growing Security Market – Somewhat Dependent On Government Action.** While we expect the market for digital security and surveillance solutions to continue to experience steady growth, the magnitude of this growth will be somewhat dependent on decisions made at the legislative and regulatory levels. We estimate that Verint will derive 25% to 28% of revenue from government contracts in 2002.
- **April Quarter Indicates Strength For Digital Security And Surveillance Solutions.** Verint reported results on June 5, 2002, that illustrated strong demand for the Company's security solutions. In particular, sales of Verint's digital security and surveillance solutions grew over 10% sequentially in the April quarter, providing comfort for our CY02 and CY03 growth assumptions.
- **Conclusion.** We expect Verint's security segment, which accounts for roughly 60% of revenue, to continue to experience significant growth (20% year over year). Our forecasts for sales of Verint's contact center solutions, roughly 40% of revenues, are more modest. We expect contact center sales to track growth in overall IT spending. We would be buyers of VRNT shares at current levels based on our forecast growth in DSS sales. Our overall estimates for Verint assume near-to intermediate-term continuation of weak IT demand and relatively modest growth in the Company's contact center division. Any significant growth in contact center sales would provide the possibility for upside to our estimates.

INVESTMENT RECOMMENDATION:

Specific sales drivers for expected growth in the Company's DSS division include legislative actions such as CALEA, ETSI, the USA Patriot act, and expected increases in security spending by large enterprises. Given the Company's increasing focus on digital security and surveillance solutions, we believe VRNT shares should trade at the high end of the trading range of the Company's comp group. With potential upside from current trading levels implied in our price target of \$18, we are initiating coverage of VRNT shares with an Outperform rating.

COMPANY DESCRIPTION:

Verint Systems, Inc. (#, @) is a provider of solutions for communications interception, digital video security and surveillance, and enterprise business intelligence. The Company's two primary markets include digital security and surveillance market and enterprise business intelligence.

Initiating Coverage. We are initiating coverage of Verint Systems, Inc. with an Outperform rating and a 12-month price target of \$18.

Company Overview. Verint is a provider of solutions for communications interception, digital video security and surveillance, and enterprise business intelligence. The Company's two primary offerings include the digital security and surveillance solutions and enterprise business intelligence products and services. Verint is positioned to benefit from several recent regulatory and legislative actions that have increased requirements for security and surveillance implementations in various settings, including public facilities like airports. Verint is also well positioned to benefit from the increased utilization of business intelligence solutions that are used in voice, email, and Internet customer contact centers. The Company has approximately 800 employees and over 800 customers in more than 50 countries.

Valuation. Our 12-month price target of \$18 is based on 2.5x our CY03 revenue estimate of \$182.7 million. Currently the stock is trading at 1.6x our CY03 revenue estimate. As Verint places increasing focus on security, we believe VRNT shares merit a valuation in line with security comps (Viisage, Visionics, and Identix).

EXHIBIT 4 – COMP GROUP

Company	Current Price	Market Cap	Price/Sales CY03	Price/Earnings CY03
Viisage	\$5.0	\$99	3.1	NA
Visionics	\$8.6	\$251	4.5	24.7
Identix	\$6.5	\$292	3.9	NA
Witness Systems (#@)	\$6.0	\$136	1.4	19.4
Mean			3.2	22.0
Verint Systems	\$11.8	\$275	1.6	21.8

Source: U.S. Bancorp Piper Jaffray

Recent Events:

- **Strong First Quarter Results.** On June 5, 2002, Verint reported April quarter results of \$0.08 EPS on revenues of \$36.6 million. The Company's digital security and surveillance segment accounted for 60% of sales, while the enterprise business intelligence segment accounted for 40% of overall business. Verint guided to sequential quarterly growth of approximately 3% to 4% for the remainder of FY03, with full year FY03 guidance of \$0.36 EPS on sales of \$153.0 million.
- **Initial Public Offering.** A subsidiary of Comverse Technology (#), Verint sold 4.5 million shares in an initial public offering on May 16, 2002. Total proceeds of the offering were \$72.0 million.
- **Avaya Reseller Agreement Announced.** On April 22, Verint announced a reseller agreement with Avaya to address commercial and government customers.
- **Senior Sales Appointments In EMEA.** In mid-February, Verint strengthened its presence in the EMEA market with the appointments of three new senior account directors and a new managing director of EMEA (Europe, Middle East, and Africa).

Product Overview:

Digital Security And Surveillance. Verint's digital security and surveillance business contains two primary segments: communications interception and digital video security. Communications interception (wiretapping) refers to the monitoring and recording of voice and data transmissions. Within the communications interception segment Verint offers two separate products: *STAR-GATE* and *RELIANT*. *STAR-GATE* is a wiretapping solution positioned for communications carriers and Internet service providers, and enables the interception of wireline, wireless, and IP network communications, allowing them to be delivered to government and law enforcement agencies. The Company's *RELIANT* solution focuses specifically on the law enforcement and government agency market, and consists of software that enables these agencies to monitor intercepted communications over various types of communication networks. Intercepted communications are then stored for immediate or later use.

The Company's digital video security product line consists of the *LORONIX* solutions, which are also marketed under the Company's enterprise business intelligence products. *LORONIX* allows for intelligent recording and analysis of video and is used primarily by government agencies and public organizations. Verint's *LORONIX* is unique for several reasons, including its proprietary digital storage and compression technology, and its ability to interface with access control, facial recognition, activity, and intrusion detection technologies.

EXHIBIT 1 – DIGITAL SECURITY AND SURVEILLANCE

<u>Product Line</u>	<u>Market Served</u>	<u>Type Of Customer</u>	<u>Purpose/Description</u>	<u>Location of Product</u>
<i>STAR-GATE</i>	Communications Interception	Communications service providers, Internet service providers, switch manufacturers	Access, delivery, and administrative functions of communications interception	Embedded in circuit or packet-based switch infrastructure
<i>RELIANT</i>	Communications Interception	Law enforcement agencies, intelligence agencies	Collection, delivery, storage, and analysis of data from communications interception	Law enforcement or intelligence agency monitoring center
<i>LORONIX</i>	Digital video security	Government agencies, public agencies, transportation agencies, public buildings	Intelligent recording of video from CCTV camera transmissions	Networked to customer CCTV or IP cameras

Source: Company Data

Enterprise Business Intelligence. Verint's enterprise business intelligence offerings encompass two separate solution sets: contact center solutions and business intelligence products and services. Marketed under the name *ULTRA*, Verint's contact center solution provides for the recording and analysis of customer calls into call centers. *ULTRA* is able to capture interactions across various types of media including telephone, email, and web or voice over IP. Based on predetermined rules, *ULTRA* analyzes call center interactions, and can interface with CRM applications to expedite the flow of information. The Company's business intelligence products encompass video solutions that allow enterprises to improve operational efficiency. While also marketed as a digital security and surveillance solution, Verint's business intelligence product is *LORONIX*, which helps businesses analyze operations with live and recorded digital video. Specific applications include retail chains and casinos.

EXHIBIT 2 – ENTERPRISE BUSINESS INTELLIGENCE

<u>Product Line</u>	<u>Market Served</u>	<u>Type Of Customer</u>	<u>Purpose/Description</u>	<u>Location of Product</u>
<i>ULTRA</i>	Contact centers	Internal contact centers of large organizations and enterprises, outsourced contact centers	Recording and analysis of customer interactions with contact center agents	Interface through customer relations management application server
<i>LORONIX</i>	Business Intelligence	Large organizations, primarily in the retail and gaming industries	Analysis of digital video to improve business processes and performance	Networked to customer CCTV or IP cameras

Source: Company Data

Overview Of Recent Legislative And Regulatory Actions Relevant To Verint’s End Markets. Several legislative and regulatory actions directly impact the Company’s operating environment. We believe the most significant of these actions is CALEA (the Communications Assistance for Law Enforcement Act), passed by the U.S. congress in 1994. CALEA, together with similar requirements for European countries undertaken by the European Telecommunications Standards Institute (ETSI), require communications service providers to follow specific standards with respect to the treatment and transmission of intercepted communications. Although enacted in 1994, full compliance with CALEA has only been required very recently, causing demand for communications interception equipment to spike in the past few months. Another act recently signed into law is the USA Patriot Act, which allows for easier access to wiretapping warrants by law enforcement bodies.

Market Overview And Outlook. Growth estimates vary widely for the various markets in which Verint operates. We believe the Company has a significant opportunity in digital video security, a market that could grow to be a \$3 to \$5 billion market over the next four years. The contact center market will likely grow to be a \$2.5 to \$4.5 billion dollar market within four years. The wiretapping market could also see significant growth due to legislative actions currently underway, we estimate that in four years this market could grow to be a \$1.5 to \$2.0 billion market. These estimates in large part depend upon continuing legislative and regulatory interest in maintaining required security levels.

Competitive Landscape. Verint plays in a highly competitive market, but has the advantage of offering a solution that spans from collection of data to distribution of data, while its competitors tend to focus on only data collection, distribution, or somewhere in between. Key competitors in the data collection and analysis segment include facial recognition companies such as Viisage (#) and Visionics. Customer experience management competitors include the likes of Witness Systems (#@) and NICE Systems. Solutions from NICE, Witness, Visionics, and Viisage also all have data analysis capabilities. Companies that offer both data collection and retention solutions include Sensormatic, Ectel (#), JSI Telecom, NICE Systems, and Witness Systems. While competitors generally focus on a subset of solutions, Verint’s offerings are unique in that they can perform data collection, retention, analysis, decision, and distribution.

EXHIBIT 3 – COMPETITIVE OVERVIEW

Solution Capabilities	Companies
Data Collection and Retention	NICE Systems, Witness Systems, Ectel, Sensormatic
Data Collection, Analysis, and Decision	Viisage, Identix, and Visionics

Source: Company Data and U.S. Bancorp Piper Jaffray

Investment Risks. We see the following risks facing the Verint story:

- **Competition** – from new or existing players in the security and contact quality management markets offering new and innovative technologies or solutions at a lower cost.
- **Valuation concerns** – investors are weary of stocks that trade at high premiums – VRNT shares trade at a discount to security comps and primarily in line with the overall comp group, which includes the contact center segment.
- **Volatility** – consistent with most newly offered stocks, VRNT shares are volatile given the market segment and the Company’s valuation.
- **Dependency on legislative actions** – many of Verint’s solutions are used by government and law enforcement agencies, the budgets of which are greatly affected by various factors not under the control of Verint.
- **Branding** – the recent change of the Company’s name from Comverse Infosys to Verint could have a minimal short-term impact on the Company’s ability to sell products.

Rating Definitions

Investment Opinion: investment opinions are based on each stock's return potential relative to the overall market*, not an absolute return.

- **Strong Buy:** Expected to significantly outperform the relevant broader market index over the next 6 to 12 months. An identifiable catalyst is present to drive appreciation.
- **Outperform:** Expected to outperform the relevant broader market index over the next 12 to 18 months.
- **Market Perform:** Expected to perform in line with the relevant broader market index over the next 6 to 12 months.
- **Underperform:** Expected to underperform the relevant broader market index over the next 6 to 12 months.

* Broader market indices = Russell 2000 and S&P 500

Volatility Rating: Our focus on growth companies implies that the stocks we recommend are typically more volatile than the overall stock market. We are not recommending the "suitability" of a particular stock for an individual investor. Rather, we are identifying the volatility of a particular stock.

- **Low:** The stock price has moved up or down by more than 10% in a month in fewer than 8 of the past 24 months.
- **Medium:** The stock price has moved up or down by more than 20% in a month in fewer than 8 of the past 24 months.
- **High:** The stock price has moved up or down by more than 20% in a month in at least 8 of the past 24 months. All IPO stocks automatically get this risk rating for the first 12 months of trading.

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