THE SPIN-OFF REPORT

July 26, 2012

Comverse Technology Inc. (Pre-Spin)

Current Share Price (7/25/12): $5.38
Fair Value Estimate: $7.42 per share
Shares Outstanding: 219 million
Market Capitalization: $1.3 billion

Ticker: CMVT
Dividend: Nil
Yield: N/A

Comverse Technology Inc. (Post-Spin)

Fair Value Estimate: $3.74 per share
Shares Outstanding*: 219 million
Market Capitalization: $819 million

Ticker: CMVT
Dividend: Nil
Yield: N/A

Comverse Inc.

Fair Value Estimate: $3.68 per share
Shares Outstanding*: 219 million
Market Capitalization: $806 billion

Ticker: CNSI
Dividend: Nil
Yield: N/A

*Assumes an exchange ratio of 1:1.
Note: Market capitalization is based on fair value estimate for post-spin entities and current market cap for pre-spin CMVT.
N/A – Not applicable.

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Investment Thesis

On January 11, 2012, Comverse Technology Inc. (NASDAQ: CMVT) announced its intention to distribute 100% of the shares of its wholly owned subsidiary Comverse Inc. to shareholders on a pro rata basis. CMVT is a holding company that, through its subsidiary Comverse, provides a variety of value-added software and system services, including converged billing and active customer management as well as mobile internet, among others. Additionally, CMVT's majority-owned subsidiaries include 54.3% control of Verint Systems Inc. (NASDAQ: VRNT) and 66.5% control of Starhome B.V. (private). Verint provides a suite of enterprise workforce optimization applications which capture, distill, and analyze underused information sources such as voice and video. Starhome provides software-based wireless mobility solutions that direct traffic on international wireless networks when users roam outside their home network. The spin-off entity is expected to trade under the ticker "CNSI" on the NASDAQ following the transaction, which is tentatively scheduled for 3Q FY2012 (ending October 30). The distribution is subject to final approval by CMVT's Board of Directors, the SEC, and CMVT shareholders. CMVT does not expect to recognize a gain from the distribution.

Post transaction, the parent company will consist of the current VRNT and Starhome holdings, while at the same time the holding company structure will be eliminated. It is expected that post-spin CMVT will then merge with or acquire the remaining shares of VRNT in a tax-efficient manner. The spin-off entity's operations will consist entirely of CNSI.

One could argue that the spin-off should unlock value in VRNT, which appears to trade at a discount to peers based on reduced liquidity (owing to the large CMVT stake) as well as on the ongoing relationship with CMVT, which is just now fully emerging from the option backdating scandal that led the former CEO to flee to Namibia (to be discussed later in this report). One may reach a sum-of-the-parts fair value estimate of $7.42 per share for CMVT prior to the transactions. This analysis is based on the notion that the spin-off and elimination of the holding company should unlock value and that the shares could be considered for purchase. However, one may prefer to await further details as to how a merger would be consummated to determine whether the value of the VRNT stake will be truly realized. CMVT could also be viewed as an attractive arbitrage opportunity before the spin-off on a sum-of-the-parts basis by subtracting the market value of the VRNT stake and cash from the current market price, leaving a stub value of $0.24 per share, well below any comparable or arguably reasonable price-to-sales ratios for the stock.

Company Description

Comverse Technology Inc. (NASDAQ: CMVT) was formed in 1982 to focus on the development of voicemail and fax storage products and had its initial public offering on the NASDAQ in 1986. The company is based in Woodbury, NY, but a majority of its research and development is conducted in Israel. Through the 1990s, it moved into the nascent wireless voicemail software market and established a leadership position, gradually transitioning from a hardware producer to a software developer as technology evolved, while also introducing services for government intelligence agencies to record and search information from legal wiretaps.

In addition to building out its telecom customer billing software business, the company made acquisitions, including the acquisition of a company that was later renamed Ulticom, to expand market share and geographic reach and to develop new technologies. CMVT spun off a minority stake in Ulticom in the early 2000s and eventually sold it off entirely in 2010. In 2002, CMVT also spun off a minority stake in its government agency data monitoring and collection services business as Verint Systems Inc. (NASDAQ: VRNT). Verint has since expanded significantly into the workforce optimization market, utilizing its call monitoring and data search software and services to improve customer response and satisfaction rates. CMVT has sold additional shares over the last decade and currently holds 54.3% control of the company (including 41.6% of the common shares and 100% of the convertible preferred shares). Comverse Technology also controls 66.5% of Starhome B.V., a private business, which enables roaming services for wireless customers outside their home networks.

In 2006, Comverse Technology was caught up in an options backdating controversy. CEO Jacob “Kobi” Alexander fled to Namibia, where thus far he has successfully fought US efforts at extradition. Other CMVT senior management officials eventually pled guilty to charges related to the scandal and the false filing of SEC documents. CMVT was eventually delisted from the NASDAQ due to the ongoing delay in quarterly and annual filings. In late 2011, CMVT was relisted as filings were finally brought up to date. Today, Comverse Technology reports its operations in four reporting segments: Comverse BSS (Business Support Services), which offers billing and customer support software to telecoms; Comverse VAS (Value-Added Services), which provides a variety of applications including voicemail, call completion, message routing, and converged IP (internet protocol) messaging; Verint; and All Other, which largely includes the holdings in Starhome as well as Comverse Mobile Internet operations.

The spin-off entity, Comverse Inc., will include Comverse BSS and Comverse VAS, as well as Comverse Mobile Internet and its legacy Netcentrex business. The parent, which will be left with the stakes in Verint and Starhome, also intends to eliminate the holding company structure. As a result, one can assume the Verint holdings will be merged with the parent. Meanwhile, Starhome could either be sold or could remain as part of Verint in a merger into the former subsidiary. For future reference in this report, in order to avoid confusion, the post-spin parent, Comverse Technology Inc., will be referred to as CTI, while the planned spin-off entity, Comverse Inc., will be referred to as CNSI.

The spin-off entity generates revenue by providing software and services to a customer base that includes 450 wireless, wire-line and cable service providers. Revenue is initially derived from a customer for the implementation of a new technology or “solution” following a competitive bidding process. The implementation may take several quarters and profitability can be based on the level of customization, the size of the project, the level of competition in the bidding process, the level of commoditization for the particular project and any potential delays or issues implementing the technology. As technology changes, customers may return for upgrades to their systems or the entire revamping of the software. For instance, many customers utilize standalone pre-paid or post-paid customer billing software, but given the complexity of customer relationships and the increasing number of service offerings, CNSI now markets a converged billing software program, which it expects to gain traction in the market place in the next decade.

The complexity of billing management systems has expanded with the advent of smart-phones and bundling. Previously most billing was based on monthly services. Today customers may utilize pre- and post-paid services. Software must also track data usage and overages. Billing software enables real time tracking of usage as well as the ability to send personalized marketing messages to customers. As telecoms find additional ways to generate revenue from the customer base, decisions must be made as to when and to what degree more sophisticated technology is required. One the VAS side of the business, telecoms must adopt new ways to enable customers to send, monitor and track messages beyond traditional voicemail. The implementation of legacy service programs now generates lower margins and more competitive bidding. As a result, CNSI has focused on programs for visual voicemail and other services.

The spin-off also offers long-term contracts to customers to provide software updates and customer support, as well as program management. About 42% of F2012 sales came from maintenance and 58% from product sales. Verint sells its products and services through three segments: Enterprise Intelligence, Communications Intelligence and Video Intelligence. The Enterprise Intelligence segment is focused on sales to large corporations (more than 85% of Fortune 100 companies) with customer call centers. The software enables companies to track success rates of customer interactions, correct errors by call center operators and generally track interactions to develop “best practices.” Systems may record interactions for later review, track errors instantaneously based on call anomalies and send corrective measures to employees. Communications Intelligence is largely utilized by government intelligence agencies for “wiretapping” and surveillance operations. Software enables the recording of calls, as well as tracking and monitoring for certain events or irregularities.

Given the rise of terrorism concerns, over the last twelve years, VRNT has seen increasing demand from intelligence agencies worldwide. Video Intelligence is used by government agencies, as well as banks, commercial security, community and campus police. The systems offer more comprehensive tracking, monitoring and recognition of irregular activities in a coverage area than traditional “out-of-the-box” offerings. Verint provides system implementation, as well as ongoing service and support. Enterprise Intelligence accounted for about 56% of sales and 65% of segment profit in F2012. Service and support generated slightly more than 50% of revenue in F2012. The segment with the strongest revenue expansion and operating margins over the last three years has been Verint (see Exhibit 1). The business has benefited from increased demand from government agencies for surveillance and monitoring services, as well as from expanded offerings to customer call centers and other commercial enterprises. Meanwhile, Comverse VAS sales declined in the past fiscal year, partly because the strong revenue generated in FY2011 through the adoption of smartphones (and subsequent demand for messaging and value-added services in new devices) was not repeated at the same level in FY2012, and partly as a result of declining maintenance revenue from a shrinking customer base. Increased usage of alternative messaging services on smartphones (such as accessing email through Internet websites, including Google or Yahoo!, or use of Twitter or Facebook) and away from voicemail could result in a long-term secular shift from CNSI's legacy services. The higher sales for VAS in FY2012 were largely owing to changing accounting rules related to revenue recognition. The segment was adversely affected by declining demand in Europe (given economic weakness), partially offset by large projects in Asia-Pacific. The negative operating results for the "All Other" segment (which includes Starhome) are largely due to intercompany SG&A expense.

Exhibit 1 CTI: Operating Segments, FY2010 – FY2012

($ in thousands)

	Fiscal Years Ended January 31		
	2012	**2011**	**2010**
Comverse BSS			
Segment revenue	**$365,008**	**$340,502**	**$349,089**
Gross margin	45.3%	43.5%	41.7%
Income from operations	**$77,095**	**$56,354**	**$44,165**
Operating margin	21.1%	16.6%	12.7%
Comverse VAS			
Segment revenue	**$356,413**	**$460,899**	**$384,965**
Gross margin	45.3%	56.7%	50.9%
Income from operations	**$123,936**	**$175,327**	**$93,748**
Operating margin	34.8%	38.0%	24.4%
Verint			
Segment revenue	**$796,247**	**$726,799**	**$703,633**
Gross margin	66.3%	67.2%	65.9%
Income from operations	**$86,478**	**$73,105**	**$65,679**
Operating margin	10.9%	10.1%	9.3%
All Other			
Segment revenue	**$94,785**	**$98,636**	**$98,204**
Gross margin	8.8%	5.9%	6.7%
Loss from operations	**($260,565)**	**($355,934)**	**($399,631)**
Operating margin	-274.9%	-360.9%	-406.9%
% of sales			
BSS	22.6%	20.9%	22.7%
VAS	22.1%	28.3%	25.1%
Verint	49.4%	44.7%	45.8%
Other	5.9%	6.1%	6.4%
% of operating income (excl. other)			
BSS	26.8%	18.5%	21.7%
VAS	43.1%	57.5%	46.0%
Verint	30.1%	24.0%	32.3%

Source: Company reports, *The Spin-Off Report* estimates.

Outlook: CNSI

Bookings appear to be picking up in the BSS segment due to early-onset demand for new converged billing services, although VAS has yet to see any significant strengthening. One could argue that CTI may benefit from the relisting on the NASDAQ late last year as well as modest improvement in operating performance. It stands to reason that following the backdating options scandal, NASDAQ delisting and mounting operating losses, customers were nervous about placing large-scale or long-term orders with the company.

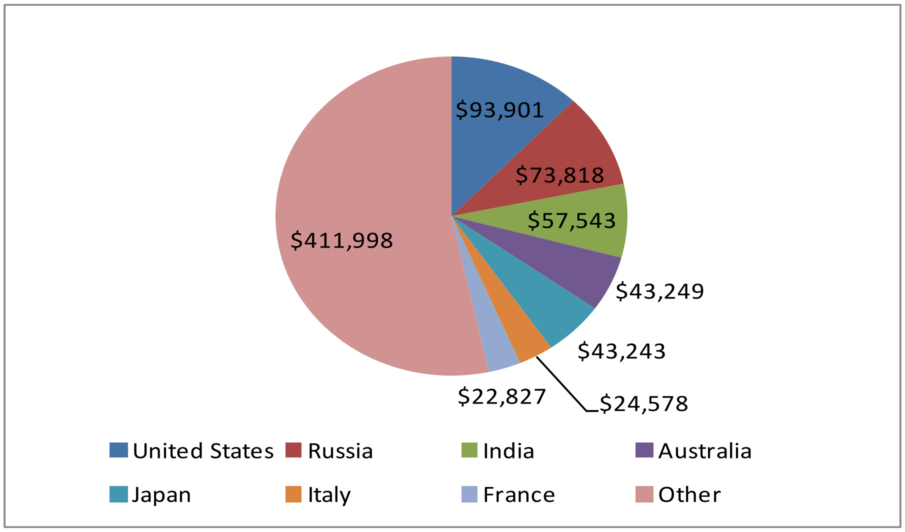
The company seems to be an orphan security for both conventional reasons as well as being on the wrong side, no doubt, of the ETF divide – functionally invisible. In fact, CTI is included in only one significant exchange-traded fund, the SPDR S&P 500 Telecom ETF.

For the next several quarters, revenue and operating margin will depend on the timing of deferred revenue related to previous revenue recognition restatements. VAS is now targeting only higher-margin projects, while BSS is shifting its emphasis from its legacy products toward its converged-billing offerings. Management has set CNSI guidance for FY2013 of $650 million in sales (including $250 million in maintenance revenue) and a 10% operating margin, with sales rising to $700 million in FY2014. The operating margin excludes the $16.5 million in annual expense expected for CNSI as a standalone company. Management also expects operating cash flow to be modestly positive in FY2013. Annual capital expenditures for pre-spin Comverse Technology have averaged about $20 million over the previous three years. However, according to the Form 10 related to the spin-off, CNSI has averaged only about $10 million in capital expenditures in each of the last three years, with cap-ex of less than $5.4 million in FY2012.

Certain market trends should favor CNSI's ability to capture new business and meet management goals in FY2013 and FY2014. Market research firm Infonetics Research is projecting increased telecom industry investment, from $301 billion in 2011 to around $345 billion annually in 2015 and 2016. Infonetics also found that CNSI is the market leader in telecom converged billing services, ahead of rivals Amdocs Ltd. (NYSE: DOX) and Ericsson (NASDAQ: ERIC). Spending on converged billing is expected to grow from a more than $1 billion market in 2011 to nearly $4 billion annually by 2016, led by Asia-Pacific telecom investment, according to Infonetics.

While European economic weakness may be a near-term concern, CNSI may be partially shielded due to its diverse customer base. No country accounted for more than 12% of revenue in FY2012 (see Exhibit 2). The two largest European markets for CNSI, France and Italy, accounted for only about 6% of total revenue in FY2012, down from 10% in FY2012 and 13% in FY2010. By contrast, revenue in Russia and India grew in each of the last two years. Japan and Australia are also top-five markets for the company. CNSI looks well positioned geographically if the bulk of growth in future years from adoption of converged billing comes from the Asia-Pacific region.

Exhibit 2 CNSI Sales by Country, FY2012
($ in thousands)

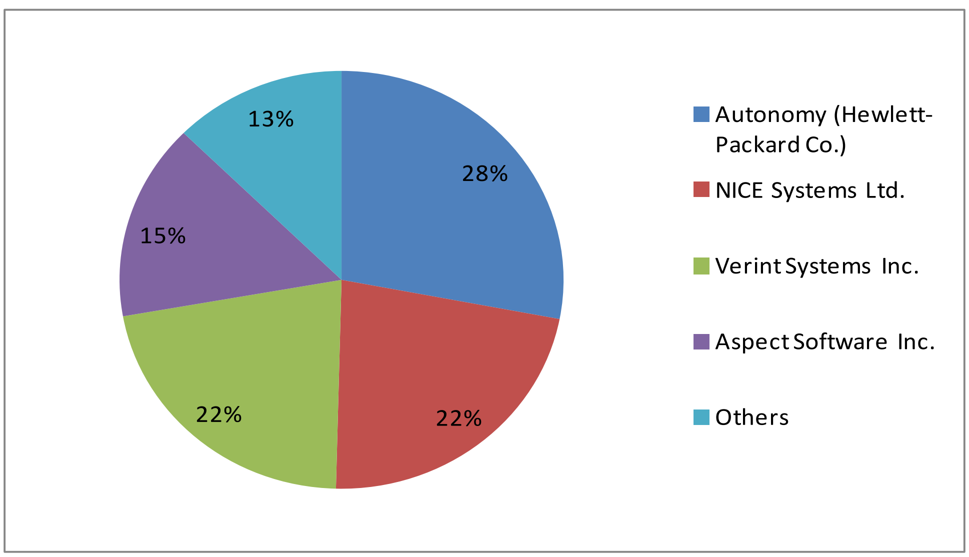


Source: Company reports.

Outlook: CTI and Verint

CTI could benefit from growing sales generated by Verint. According to research firm DMG Consulting LLC, in 2011 Verint ranked third in workforce automation software sales, behind Nice Systems Ltd. (NASDAQ: NICE) and Autonomy, which was purchased by Hewlett-Packard Co. (NYSE: HPQ) in 2011 (see Exhibit 3). HPQ management has acknowledged difficulties in integrating Autonomy, which could offer opportunities for Verint and others to gain market share.

Exhibit 3 Workforce Optimization Software Market Share, 2011



Source: DMG Consulting LLC.

Over the years Verint has expanded beyond voice monitoring and into the video surveillance business. Their products and services provide easier sharing of video recordings as well as analytics and other resources. Essentially the company is offering similar services in the video market as it has offered previously on the audio side. Growth in the video surveillance market has also been strong in recent years as a result of higher-priced equipment and increased volume. IMS Research projects that video surveillance spending will expand 12% in 2012, following growth in the high single to low double digits over the past decade. Increased investment from BRIC countries (Brazil, Russia, India, China) is forecast to more than offset continued weakness in Western Europe.

Valuation Analysis

When valuing pre-spin Comverse Technology on a sum-of-the-parts basis, one is simply accounting for the value of the company's stake in Verint and Starhome, while separately placing a value on CNSI as a standalone business. Comparable analyses of both CNSI and Verint are useful but probably do not tell the entire story. Both companies compete with small, focused software providers as well as with much larger global companies that sell a large variety of products and services. As a result, projected growth rates and capital structures vary considerably. One must also assume that as part of the transformation process, the parent is exploring the potential sale of CNSI or its stakes in Verint or Starhome prior to the spin-off transaction. Ultimately, the separation appears to offer the opportunity to unlock value in Verint, which may be trading at a discount to peers due to lack of trading liquidity and its continued relationship with the controlling stakeholder, Comverse Technology. Verint has traded on average about 150,000 shares per day over the three months through mid July 2012 for a daily dollar volume of about $4.4 million. By comparison, peer Convergys (NYSE: CVG), which has a market capitalization only 150% higher, traded nearly one million shares over the same period for an average daily dollar volume of nearly $15 million. Separately, subtracting the current market value of the Verint stake and cash, leaves a stub value for CMVT of only $0.76 per share, potentially an attractive entry point ahead of the transactions.

The capital structure of CNSI post separation has not been finalized and may affect the post-transaction valuations. (*The Spin-Off Report* will update its valuations based on share distribution and final capital structure prior to the transaction.) In addition, the elimination of the CTI holding company, which is expected to lead to a merger with Verint, has not been fully detailed. The form of this transaction could affect the fair value of CTI's stake in Verint. *The Spin-Off Report* will also update this valuation ahead of the spin-off if further details are provided prior to the transaction.

CNSI Post-Spin

CNSI competes in the billing software segment with companies such as Amdocs Ltd. (NYSE: DOX) and CSG Systems International (NASDAQ: CSGS), as well as with larger product and service provider Ericsson (NASDAQ: ERIC). In its value-added service business, competitors include Ericsson and Unisys Corp. (NYSE: UIS). Of the four comparables, Unisys is excluded from the peer group average multiple calculations because of internal company issues, which this report will not address. CSGS trades at lower multiples, likely due to lower Wall Street consensus EPS growth projections.

Exhibit 4 CNSI: Comparable Company Valuations

{$ in millions, except per share amounts)

	Comverse Technology Inc. (NASDAQ: CMVT)	Amdocs Ltd. (NYSE: DOX)	Ericsson (NASDAQ: ERIC)	CSG Systems International Inc. (NASDAQ: CSGS)
(stock prices as of 7/25/12)				
Share Price	$5.38	$29.04	$8.50	$17.15
FD Shares Out. (mn.)	219	169	3,210	32
Market Capitalization	1,178	4,900	27,285	551
Net Debt and minority interest	191	(896)	(6,700)	116
Enterprise Value	1,369	4,004	20,585	667
Recently completed FY Sales	1,594	3,178	34,992	735
Recently completed FY Net income	(59)	347	1,938	42
Net Income Margin	-3.7%	10.9%	5.5%	5.7%
Debt-equity ratio	114.0%	0.0%	19.0%	110.5%
Current FY Estimated Sales	$1,647	$3,277	$35,279	$731
EV/Current FYE Sales	0.8x	1.2x	0.6x	0.9x
Average, ex. CMVT	0.9x			
Current FYE EBITDA	$271	$681	$4,579	$169
EV/Current FYE EBITDA	5.1x	5.9x	4.5x	3.9x
Average, ex. CMVT	4.8x			
Current FYE EBITDA margin	16.5%	20.8%	13.0%	23.1%
Previous fiscal year EPS	$0.39	$2.33	$0.60	$2.25
Price/Current FYE EPS	13.8x	12.5x	14.2x	7.6x
Average, ex. CMVT	11.4x			
Current FYE EPS	$0.31	$2.66	$0.78	$1.95
P/2013E EPS	17.4x	10.9x	10.9x	8.8x
Average, ex. CMVT	10.2x			
Next FYE EPS	$0.57	$2.90	$0.92	$2.01
Price/Next FYE EPS	9.4x	10.0x	9.2x	8.5x
Average, ex. CMVT	9.3x			
2 year EPS growth	46.2%	24.5%	53.3%	-10.7%
Average, ex. CMVT	22.4%			

Source: Thomson ONE, company reports, *The Spin-Off Report* estimates.

CNSI has set operating goals for FY2013 and FY2014 (ending January 31), which may be used in establishing a fair value for the spin-off entity. Management projects revenue of about $650 million in FY2013 and $700 million in FY2014, with an operating margin of about 10%, excluding $16.5 million in expected costs related to the standalone business. Assuming a 35% tax rate (taxes may vary substantially year to year based on geography; CNSI has about $1.5 billion in gross NOLs, which are not spread evenly across its core markets) and 219 million shares (based on a 1:1 share distribution), one may reach an EPS projection of about $0.16 (see Exhibit 5).

Exhibit 5 CNSI: EPS Projection Based on Management Goals

($ in millions, except per share amounts; shares in millions)

F2014E Revenue	**$700**
Operating margin	10%
Adjusted operating income	$70
Additional SG&A costs	$16.5
EBITDA	**$74.5**
Depreciation and amortization	$21
Operating income	**$53.5**
Tax rate	35%
Net income	$34.8
Share count	219
F2014E EPS	**$0.16**

Source: Company reports, *The Spin-Off Report* estimates.

Averaging the EV/Sales, and EV/EBITDA multiples for ERIC, DOX, and CSGS and applying them to projected CNSI FY2014E operating results, generates a fair value estimate of about $3.68 per share (see Exhibit 6). This methodology assumes $305 million in net cash for CNSI post-spin. The valuation could be adjusted based on the finalized capital structure. Note the variation in the methods used.

Exhibit 6 CNSI: Valuation Based on Comparable Multiples

($ in millions, except per share amounts; shares in millions)

EV/EBITDA multiple	5.0x
Enterprise value	$373
Net debt	($305)
Market capitalization	$678
Share count	219
Fair value per share	**$3.09**
EV/sales multiple	0.9x
Enterprise value	$630
Net debt	($305)
Market capitalization	$935
Share count	219
Fair value per share	**$4.27**
Average	**$3.68**

Source: Company reports, *The Spin-Off Report* estimates.

The other close comparable to CNSI is the BSS segment formerly owned by Convergys but sold to NEC Corp. (JP: 6701) in a $449 million deal that closed in May 2012. The metrics of that transaction may be used to consider a fair value for CNSI (see Exhibit 7).

Exhibit 7 NEC Corp. Acquisition of Convergys BSS

($ in millions, except per share amounts)

Purchase price	$449
Sales	$329
2011 EBITDA	$52.1
Price/sales	1.4x
Price/EBITDA	8.6x
Total assets	$459
Price/total assets	1.0x

Source: Company reports, *The Spin-Off Report* estimates.

Utilizing the FY2014E operating results, as well as CNSI total assets (in Comverse Technology's Form 10K; see Exhibit 19 at the end of this report), one may reach a fair value estimate of $4.10 per share based on the recent acquisition (see Exhibit 8).

Exhibit 8 CNSI: Fair Value Based on Convergys Acquisition

($ in millions, except per share amounts; shares in millions)

Price/assets	**1.0x**
Fair value estimate	**$850**
Share count	219
Fair value per share	**$3.88**
Projected EBITDA	**$74.5**
EV/EBITDA multiple	**8.6x**
Enterprise value	$641
Net debt	($305)
Market capitalization	$946
Share count	219
Fair value per share	**$4.32**
Average	**$4.10**

Source: Company reports, *The Spin-Off Report* estimates.

Although one might expect that CNSI is less likely to be an acquisition candidate in the first two years following the spin-off and takeover multiples are more applicable to Verint or Starhome.

The value of the CNSI portion of CMVT might be considered undervalued prior to the separation if one subtracts the current market value of its VRNT stake from the CMVT market capitalization.

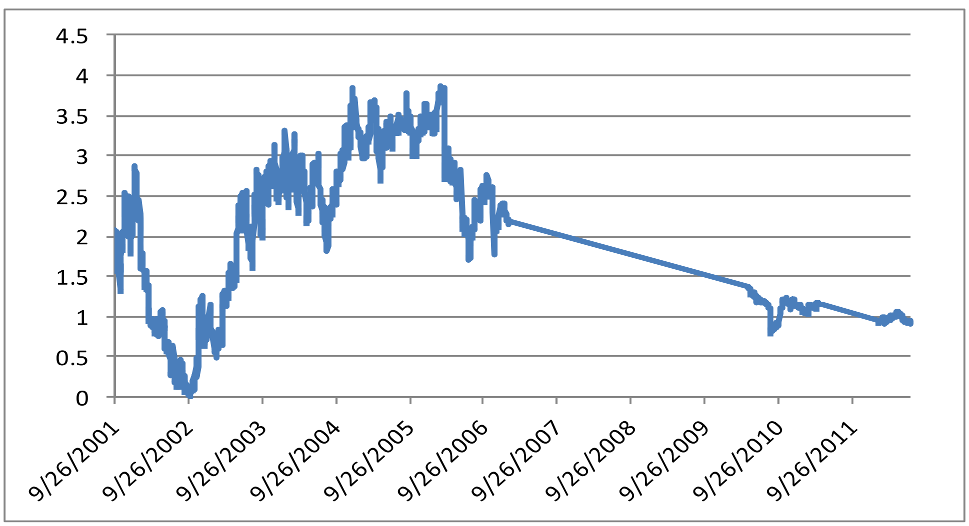
Exhibit 9 CMVT Current Market Value Ex.-VRNT Stake

(in millions, except per-share data)	
CMVT share price	$5.38
Shares outstanding (millions)	219
Market capitalization	**$1,178**
VRNT share price	$28.49
Common shares held by CMVT	16.3
Less: value held by CMVT	($464)
Fair value of CMVT's VRNT preferred	($355)
Adjusted market value, ex. VRNT	**$358**
Net cash per share ex. VRNT	**$305**
Adjusted market value ex.-cash	**$53**
Adjusted market value per share	**$1.39**
Adjusted market value per share ex.-cash	**$0.24**

Source: Company reports, Thomson Reuters.

Based on management guidance for CNSI annual F2013 sales of $650 million, this implies an EV-to-sales ratio of about 0.08x. The ratio is well below the historic trailing 12 month EV/sales ratio for CMVT dating back to 2001, excluding the period of delisting from NASDAQ (see Exhibit 10). Since mid 2010, the stock has traded about 1.1x trailing sales. One could argue a lower ratio is warranted when considering CNSI as a standalone entity. Nevertheless, it is also well below the current peer group EV/sales of about 0.9x.

Exhibit 10 CMVT Historic EV/Trailing 12-Months Sales



Source: Bloomberg.

Note: No data for period of NASDAQ delisting from 2007 through November 2011.

CTI Post-Spin

To value CTI post spin, one must essentially value the holding company's stake in Verint and Starhome, while being aware of the likely discontinuation of the current corporate structure. A merger with Verint is anticipated, while the Starhome stake could be sold or could be part of a merger. The overwhelming value in CTI post transaction undoubtedly derives from its holdings in Verint. As a result, the comparables table includes Verint and its peers (see Exhibit 11).

Exhibit 11 Verint Systems Inc.: Comparable Company Valuations

($ in millions, except per share amounts; shares in millions)

	Verint Systems Inc. (NASDAQ: VRNT)	NICE Systems Ltd. (NASDAQ: NICE)	Convergys Corp. (NYSE: CVG)	Hewlett-Packard Company (NYSE: HPQ)
(stock prices as of 7/25/12)				
Share Price	$28.49	$34.57	$14.58	$18.09
FD Shares Out. (mn.)	39	61	117	1,967
Market Capitalization	1,115	2,123	1,701	35,583
Net Debt and minority interest	696	(319)	(309)	22,175
Enterprise Value	1,811	1,804	1,392	57,758
Current FY Estimated Sales	$872	$940	$1,995	$123,248
Price/Current FYE Sales	1.3x	2.3x	0.9x	0.3x
Average, ex. VRNT	*1.6x*			
Current FYE EBITDA	$225	$208	$220	$16,142
EV/Current FYE EBITDA	8.0x	8.7x	6.3x	3.6x
Average, ex. VRNT	*7.5x*			
Current FYE EBITDA margin	25.8%	22.1%	11.0%	13.1%
Previous fiscal year EPS	$2.47	$2.10	$0.92	$4.88
	11.5x	16.5x	15.8x	3.7x
Average, ex. VRNT	*16.2x*			
Current FYE EPS	$2.62	$2.44	$0.79	$4.07
P/2013E EPS	10.9x	14.2x	18.5x	4.4x
Average, ex. VRNT	*16.3x*			
Next FYE EPS	$2.95	$2.74	$0.91	$4.42
Price/Next FYE EPS	9.7x	12.6x	16.0x	4.1x
Average, ex. VRNT	*14.3x*			
2 year EPS growth	19.4%	30.5%	-1.1%	-9.4%
Average, ex. VRNT	*14.7%*			

Source: Thomson ONE, company reports, *The Spin-Off Report* estimates.
Note: Peer group multiples exclude HPQ due to size and product mix.

The closest peer is NICE Systems Ltd. (NASDAQ: NICE), although Convergys, following the sale of its BSS segment, has some overlap. Hewlett-Packard Company (NYSE: HPQ) is included due to its 2011 acquisition of Autonomy Plc. It is worth noting that HPQ has much slower EPS growth projections and lower margins, which is why companies like Verint may remain strong takeover candidates. More deals could be expected, an example being Dell Inc.'s (NASDAQ: DELL) acquisition of Quest Software Inc. (NASDAQ: QSFT) announced in July 2012.

Verint trades at an obvious forward P/E discount to NICE and CVG. One could argue that discount is based on the lack of liquidity and general concerns about the large stake held by CTI. If one applied the NICE multiple to CTI, a much higher fair value estimate could be generated (see Exhibit 12).

Exhibit 12 Verint: Valuation Based on Peer Multiple

Verint consensus F2013E EPS	$2.62
NICE multiple	14.2x
Valuation	**$37.20**
Verint consensus F2014E EPS	$2.95
NICE multiple	12.6x
Valuation	**$37.17**
Average	**$37.19**

Source: Thomson ONE, company reports, *The Spin-Off Report* estimates.

While one can broadly argue that Verint and NICE are extremely close peers, one should not exclude the possibility that variations in the businesses (growth rates, margins, etc.), not simply CTI's stake in Verint, have resulted in the valuation differences. As a result, one might consider the value of CTI's stake in Verint based on the current share price of Verint as well as the potential valuation based on the NICE multiple.

CTI holds 16.3 million shares of VRNT and 293,000 convertible preferred shares. CTI paid $293 million for the preferred shares in 2007, and they have accumulated unpaid dividends of $62.4 million as of April 30, 2012, for a value of $355.4 million. The preferreds are convertible to 10.9 million common shares. One could value the VRNT stake using the fair value of the preferred shares or on the basis of whether conversion took place (see Exhibit 11). The left side of the matrix is based on the fair value generated from the NICE multiple, while the right side utilizes the recent VRNT stock price. The top half of the matrix is based on conversion of CTI's preferred shares to 10.9 million common shares, while the bottom half is based on the fair value of the preferreds. The VRNT stake can be valued at $3.26 per CTI share based on VRNT's current price or $4.00 per share if one assumes VRNT's value will be unlocked due to the elimination of the holding company.

Exhibit 13 Valuation Matrix for CTI's Verint Stake

($ in millions, except per share amounts; shares in millions)

Comparables methodology share price	**$37.19**	**$28.49**	**Current share price**
Shares	39.1	39.1	Shares
Market capitalization	$1,454	$1,114	Market capitalization
Additional shares if CTI converts preferred	10.9	10.9	Additional shares if CTI converts preferred
Total shares outstanding if converted	50.0	50.0	Total shares outstanding if converted
Adjusted share price	$29.08	$22.28	Adjusted share price
CTI shares	27.2	27.2	CTI shares
CTI market value of VRNT stake	$791.0	$606.0	CTI market value of VRNT stake
CTI shares	219	219	CTI shares
Market value of VRNT stake per CTI share	**$3.61**	**$2.77**	**Market value of VRNT stake per CTI share**
CTI shares without conversion	16.3	16.3	CTI shares without conversion
Value of CTI's common equity	$606.1	$464.4	Value of CTI's common equity
Fair value of CTI's preferred	$355.4	$355.4	Fair value of CTI's preferred
CTI market value of VRNT stake	$961.5	$819.8	CTI market value of VRNT stake
CTI shares	219	219	CTI shares
Market value of VRNT stake per CTI share	**$4.39**	**$3.74**	**Market value of VRNT stake per CTI share**
Average	**$4.00**	**$3.26**	
	$3.63		

Source: Company reports, Thomson ONE, *The Spin-Off Report* estimates.

The likely merger of CTI and VRNT would also seem to make the resulting entity an easier takeover candidate. Therefore, it is worth examining Hewlett-Packard's acquisition of Autonomy, a voice and data analysis software provider, for $11 billion, which was announced in August 2011. It was one of the final acts of former HPQ CEO Leo Apotheker, who was replaced in September, a month before completion of the deal. HPQ paid a more than 60% premium to Autonomy's share price at the time of the announcement. The deal was announced as HPQ was lowering guidance and pondering a spin-off of its PC division. On that date, the stock declined more than 20%, although it would be difficult to deduce how much of the decline resulted from concerns that HPQ had overpaid for Autonomy and how much of it was caused by the lowered earnings guidance, which was more likely the immediate concern of investors.

Based on acquisition metrics similar to those shown in Exhibit 11, CTI's Verint stake would be worth close to $11 per share. However, it should be noted that since that time, new CEO Meg Whitman has acknowledged problems with integrating the acquisition, while former Autonomy CEO Mike Lynch exited HPQ in May 2012. As a result, while it is worth considering the multiples paid for the software provider, they should not be viewed as implying a reasonable takeover price for Verint.

Exhibit 14 HPQ Acquisition of Autonomy
($ in millions, except per share)

Purchase price	$11,000
Sales *	$952
2011 EBITDA *	$445.4
Price/sales	11.6x
Price/EBITDA	24.7x
Total assets	$3,466
Price/total assets	3.2x

*Annualized 1H 2011 sales and EBITDA of Autonomy
Source: Thomson ONE, company reports, *The Spin-Off Report* estimates.

Starhome is grouped with the "All Other" segment in Comverse Technology's operating results. In CMVT's Form 10-K, Starhome's total assets are listed at $43 million as of January 2012 (see Exhibit 19 at the end of this report), while Starhome generated FY2011 sales of $45 million. One may choose to value Starhome at 1x sales or 1x assets, each of which provides a similar estimate for the business. These data points do not vary significantly from metrics used throughout this report for other telecom-based software providers. They should provide an approximate value for CTI's 66.5% stake in the privately held business. As noted in the CMVT 10-K, minority shareholders receive the first $20 million generated in a sale of Starhome, so this could be subtracted from the stake's fair value if one expects the business is likely to be sold. If one assumed that CTI maintained the 66.5% stake, it would add $0.02 per share to the $0.11 value generated in the Exhibit 15.

Exhibit 15 CTI Starhome Stake: Valuation

($ in millions, except per share amounts: shares in millions)

Assets	$43
Multiple	1.0x
Valuation	$43.0
2011 Sales	$45
Multiple	1.0x
Valuation	$45.0
Average	$44.0
Minority partners	$20
Value to CTI	$24.0
Share count	219
Fair value per share	$0.11

Source: Company reports, *The Spin-Off Report* estimates.

One may reach a fair value estimate for CTI post separation of $3.74 per share when considering the $0.11 share value of the Starhome stake and $3.63 per share for the VRNT stake. As a result, a sum-of-the-parts pre-spin valuation for Comverse Technology Inc. is about $7.42 per share, signifying a reasonable likelihood that the spin-off and elimination of the holding company structure should unlock value.

Exhibit 16 Sum-of-the-Parts Valuation

Comverse Inc.	$3.68
Verint Stake	$3.63
Starhome Stake	$0.11
Total	**$7.42**

Source: *The Spin-Off Report* estimates.

Efforts by management to end the complicated corporate structure appear to be well-meaning. If completed in a tax-efficient way and in a manner that is fair to both CTI and VRNT shareholders, the move could be a positive for CMVT shareholders. However, it is still necessary to see how the corporate structure of the future VRNT is ultimately configured before a final recommendation is made. In addition, the valuation is based on management's internally-set goals in F2014, which could be difficult to meet if business investment slows. The simplest way for an investor to benefit from the potential unlocking of value may be to purchase VRNT ahead of the CNSI spin-off. However, the attractive valuation of CMVT when considering the market value of the VRNT stake and the cash position could provide an interesting entry point to the stock ahead of the transactions.

Conclusion

The planned spin-off of CNSI from Comverse Technology and the ending of the holding company structure have the potential to lift value for shareholders. One may reach a sum-of-the-parts fair value of $7.42 per share for CMVT pre-spin, indicating an attractive return for investors ahead of the future expected transactions. Nevertheless, the return is partially predicated on unlocking value in Verint through a merger with post-spin CTI. As long as no details concerning a merger have been released, it remains difficult to make a firm investment recommendation. In fact, if one supposes that value in VRNT will be unlocked through the subsequent transactions, an investor may choose to purchase that stock as an alternative. However, the valuation of CMVT when excluding the VRNT stake and net cash provides a potentially attractive entry point before the transactions. Following the spin-off, one should consider fair value estimates of $3.68 per share for CNSI (assuming $305 million in net cash for the spin-off entity) and $3.74 per share for CTI. Those valuations will be updated as the final distribution rate and capital structure are determined.

Exhibit 17 CNSI: Consolidated Income Statement

fiscal year ends January 31					
(in thousands)		**F2012**		**F2011**	**F2010**
	Pro Forma	Adjustments	Historical		
Revenue					
Product Revenue	$276,459		$276,459	$300,902	$244,417
Service Revenue	$494,698		$494,698	$561,934	$550,370
Total revenue	**$771,157**		**$771,157**	**$862,836**	**$794,787**
Costs and expenses					
Product costs	$136,024		$136,024	$138,378	$117,412
Service costs	$332,843		$332,843	$335,510	$355,720
Research and development, net	$94,238		$94,238	$148,817	$175,949
SG&A	$176,084	$202	$175,882	$269,973	$341,294
Restructuring charges	$20,728		$20,728	$29,934	$15,272
Impairment of intangible assets					$3,356
Total costs and expenses	**$759,917**	**$202**	**$759,715**	**$922,612**	**$1,009,003**
Income from operations	**$11,240**	**($202)**	**$11,442**	**($59,776)**	**($214,216)**
Adjusted operating income	**$31,968**	**($202)**	**$32,170**	**($29,842)**	**($195,588)**
Interest income	$1,755		$1,755	$1,717	$3,169
Interest expense	($953)		($953)	($900)	($314)
Interest expense on note payable to CTI		$409	($409)	($19)	$4,845
Other expense, net	($7,192)		($7,192)	($3,645)	$476
Income before income tax provision	$4,850	$207	$4,643	($62,623)	($206,040)
Income tax provision	($25,291)		($25,291)	($30,118)	($15,930)
Net loss	**($20,441)**	**$207**	**($20,648)**	**($92,741)**	**($221,970)**

Source: Company reports, *The Spin-Off Report* estimates.

Exhibit 18 CNSI: Consolidated Balance Sheet

fiscal year ends January 31				
(in thousands)		**F2012**		**F2011**
Assets	Pro Forma	Adjustments	Historical	
Cash and cash equivalents	$160,726		$160,726	$191,829
Restricted cash	$28,893		$28,893	$26,111
Accounts receivable, net	$132,003		$132,003	$160,348
Inventories, net	$27,275		$27,275	$47,117
Deferred cost of revenue	$34,364		$34,364	$44,032
Deferred income taxes	$8,441		$8,441	$14,943
Other current assets	$53,074		$53,074	$56,543
Receivables from affiliates	$2,576		$2,576	$2,961
Total current assets	**$447,352**		**$447,352**	**$543,884**
PP&E, net	$46,251	$1,564	$44,687	$40,639
Goodwill	$155,517		$155,517	$155,694
Intangible assets, net	$22,034		$22,034	$39,389
Deferred cost of revenue	$107,878		$107,878	$135,975
Deferred income taxes	$10,153		$10,153	$9,664
Other assts	$66,377	$785	$65,592	$78,938
Total assets	**$855,562**	**$2,349**	**$853,213**	**$1,004,183**
Liabilities				
Accounts payable	$190,133	$2,360	$187,773	$225,589
Deferred revenue	$347,891		$347,891	$401,344
Deferred income taxes	$8,742		$8,742	$11,494
Income taxes payable	$2,647		$2,647	$5,229
Line of credit				$6,000
Total current liabilites	$549,413	$2,360	$547,053	$649,656
Deferred revenue	$201,998		$201,998	$221,042
Deferred income taxes	$40,595		$40,595	$41,359
Note payable to CTI		($8,536)	$8,536	$7,019
Other long-term liabilities	$147,438		$147,438	$156,595
Total liabilities	**$939,444**	**($6,176)**	**$945,620**	**$1,075,671**
Total equity	**($83,882)**	**$8,525**	**($92,407)**	**($71,488)**
Total liabilities and equity	**$855,562**	**$2,349**	**$853,213**	**$1,004,183**

Source: Company reports, *The Spin-Off Report* estimates.

Exhibit 19 Comverse Technology Inc.: Assets by Segment

	January 31		
in thousands	2012	2011	2010
CTI	$1,428,651	$1,562,989	$1,396,781
Comverse	$850,106	$1,016,625	$1,282,707
Verint	$1,568,196	$1,441,424	$1,461,818
Starhome	$43,009	$37,235	$27,677

Source: Company reports.
Note: Does not reflect intercompany eliminations.