

**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

VERINT SYSTEMS INC.,

Defendant.

**Civil Action No.
10-CV-0930-LDW-WDW**

COMPLAINT

Plaintiff Securities and Exchange Commission (“Plaintiff” or “Commission”) alleges for its Complaint, as follows:

SUMMARY

1. Verint Systems Inc. (“Verint” or the “Company”) fraudulently and materially misstated its financial results through the improper establishment, maintenance, and release of excess reserves and its failure to keep accurate books and records. Excess reserves are liabilities that are recorded or maintained in excess of the amounts deemed necessary at the time.

2. The misconduct began as early as 1998, when Verint was a wholly-owned subsidiary of Comverse Technology, Inc. (“Comverse”), and continued for several years after Verint became a publicly-traded company in 2002. Verint’s financial results continued to be misstated through 2005 because of the effects of this misconduct.

3. Verint established and maintained unsupported, excess reserves from 1998 through at least January 2003 and occasionally released those excess amounts to offset expenses in subsequent periods – including expenses that were unrelated to the purpose for which the

original reserve was created. These improper accounting practices were not in conformity with generally accepted accounting principles (“GAAP”).

4. Verint misled investors in its initial public offering (“IPO”) in May 2002 and follow-on offering in June 2003, when it included in its registration statements financial statements and related disclosures that were materially false and misleading as a result of the Company’s improper accounting practices.

5. Verint has announced that it will restate its historical financial statements to correct the material misstatement of its earnings caused by its overstatement of reserves in some periods and its improper release of reserves in other periods. Verint has announced that its restatement also will include the correction of other accounting misstatements.

6. By engaging in this conduct, Verint violated the anti-fraud, reporting, books-and-records, and internal controls provisions of the federal securities laws. Specifically, Verint violated Section 17(a) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. § 77q(a)], Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B)], and Exchange Act Rules 13a-1 and 13a-13 [17 C.F.R. §§ 240.13a-1 and 240.13a-13]. An injunction is necessary to ensure that Verint will not continue to violate the foregoing provisions of the federal securities laws.

JURISDICTION AND VENUE

7. The Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Sections 21(d), 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e) and 78aa].

8. Defendant Verint, directly or indirectly, used the means and instrumentalities of interstate commerce, or of the mails, or the facilities of a national securities exchange in connection with the acts, transactions, practices and courses of business alleged herein.

9. Venue is proper in this District because, until May 2003, Verint was based in Woodbury, New York, and from May 2003 to the present, it was based in Melville, New York, and certain of the acts, transactions, practices and courses of conduct constituting violations of law alleged herein took place in the Eastern District of New York.

THE DEFENDANT

10. **Verint Systems Inc.** is a Delaware corporation based in Melville, New York. Verint acts through nineteen operating subsidiaries and provides analytic software-based solutions for the security and business intelligence markets. The Company (f/k/a Comverse Infosys, Inc.) was a wholly-owned subsidiary of Comverse until its IPO in May 2002; it has been a majority-owned subsidiary of Comverse since May 2002. Its common stock was registered with the Commission pursuant to Section 12(b) of the Exchange Act and traded on the NASDAQ Global Market. Trading in Verint stock was suspended on February 1, 2007, and the stock was eventually delisted, due to Verint's failure to file timely its fiscal 2005 annual report on Form 10-K and fiscal 2006 quarterly reports on Forms 10-Q. Currently, Verint's stock is registered with the Commission pursuant to Section 12(g) of the Exchange Act and is quoted on the "Pink Sheets" under the symbol "VRNT" or "VRNT.PK."

RELATED PARTY

11. **Comverse Technology, Inc.**, a New York corporation which at all relevant times was based in Woodbury, New York, makes software systems and provides related services for multimedia communication and information processing applications. Comverse is the parent

company and majority shareholder of Verint and, at various times relevant to this Complaint, Comverse executives and board members also served as Verint directors. Comverse owned 100% of Verint's outstanding common stock until Verint's IPO, and, since then, Comverse has owned a majority of Verint's outstanding common stock. Today, Comverse beneficially owns 64% of Verint's outstanding common stock on a fully diluted basis.

FACTS

12. From 1998 to at least January 2003, Verint improperly established, maintained and/or released reserves as necessary to meet its financial objectives. Certain former Verint executives engaged in this activity in part (i) to build a stockpile of reserves prior to becoming a public company in the event an earnings boost was needed in the future, and (ii) to ensure greater public demand and a better price for its follow-on offering in June 2003.

13. By engaging in the improper reserve practices, Verint misled prospective investors in its initial and follow-on offerings about the Company's true financial results. Verint filed materially false and misleading financial statements, including those that were incorporated into registration statements for the Company's IPO and follow-on offering, that misstated the Company's expenses, liabilities, net income, and earnings per share through at least the fiscal year ended January 31, 2005 ("Fiscal Year 2004").

A. Verint's Improper Reserves Practices

14. Beginning in at least 1999 and continuing through at least January 2003, certain former Verint executives compiled preliminary financial reporting packages from its subsidiaries in connection with its quarter- and year-end closing process. Such packages typically included a balance sheet for each subsidiary, a profit and loss statement, as well as various other schedules, including detailed information relating to each subsidiary's reserve levels.

15. Reserve information typically was transmitted from three Verint subsidiaries to certain former Verint executives in the form of an Excel spreadsheet, which listed for each reserve (i) the reserve balance (in one column) and the amount of the balance that was excess and thus available for release (in an adjacent column); or (ii) the reserve balance (in one column), the portion of the balance that reflected the subsidiary's true estimate of liability (in an adjacent column) and the excess portion (in a third column). The formats differed, but, subsidiaries typically referred to the excess amounts as "cushion," or "real reserves," or the "delta" between the reserve balance and what was "needed," or the "[Verint executive] reserve."

16. These excess reserve amounts, essentially "reserves for general contingencies" or for "[g]eneral or unspecified business risks," were not in conformity with GAAP, including Statement of Financial Accounting Standards No. 5, Accounting for Contingencies ("SFAS 5"), at ¶ 14.

17. Certain former Verint executives, or persons working under their supervision at the time, consolidated the subsidiaries' reserve data into a master spreadsheet which allowed them to view the total amount of reserves company-wide.

18. Between 1999 and January 2003, certain former Verint executives instructed employees at certain subsidiaries to make specific, unsupported adjustments to reserves or asked the subsidiaries to review their reserves with an eye to increasing or decreasing reserve balances by a specified amount. Verint's subsidiaries followed these instructions and, on occasion, also improperly used reserve balances that had been identified as excess to offset expenses unrelated to the purpose for which the reserves were created.

19. Such adjustments, for the most part, were unrelated to the underlying liability for which any reserve had initially been created and were not in conformity with GAAP, including

SFAS 5 at ¶ 8, or Accounting Principles Board Opinion No. 20, Accounting Changes (“APB 20”), at ¶¶ 13 and 36-38.

20. Verint’s improper use of reserves caused it to report materially misleading financial results in all quarterly and annual reports (and registration statements for its IPO and follow-on offering) filed with the Commission from 2002 through 2005.

1. Pre-IPO

21. Since at least 1999, and continuing through at least the fiscal year ended January 31, 2002, just before its IPO, certain former Verint executives caused the company’s subsidiaries to make improper adjustments to the reserve accounts in amounts that were not reasonably estimated, lacked support, and were not otherwise in conformity with GAAP. During the majority of this time, the company stockpiled and used excess reserves. As reflected in the contemporary internal company documents used to track Verint’s excess reserves, at the time of its IPO, Verint had approximately \$6.5 million in excess reserves on its books.

22. Verint’s misuse of reserves materially altered the financial results that the company reported in its IPO registration statement. The excess reserves, taken separately from other accounting errors, caused Verint to understate its pre-tax loss by 10.7% for the fiscal year ended January 31, 2000 (“Fiscal Year 1999”) and by 2.4% for the fiscal year ended January 31, 2002 (“Fiscal Year 2001”), and to overstate its pre-tax loss by at least 98% for the fiscal year ended January 31, 2001 (“Fiscal Year 2000”).

23. On or about May 16, 2002, Verint commenced its IPO of 4.5 million shares of common stock at a price of \$16 per share. Net proceeds from this offering totaled approximately \$65.4 million. In connection with its IPO, Verint filed a registration statement on Form S-1 and

a prospectus, which included audited financial statements for Verint’s Fiscal Years 1999 through 2001. Verint filed its first audited financial statements on February 7, 2002.

24. The Form S-1 and prospectus for Verint’s IPO reported the following materially misleading earnings and loss amounts, which had been materially altered by virtue of Verint’s historical reserve accounting practices:

Fiscal Year	Earnings/(Loss) Before Taxes
1999	\$ (10,189,000)
2000	\$ (8,062,000)
2001	\$ (3,097,000)

25. Through the actions of certain of its former executives, as detailed herein, Verint knew, or was reckless in not knowing, that the historical earnings and loss amounts reported in its Form S-1 registration statement and prospectus were materially misleading as a result of its past reserve practices.

2. Post-IPO, Pre-Follow-On Offering

26. On or about June 13, 2003, one year after becoming a public company, Verint commenced a follow-on offering for five million shares of common stock at a price of \$23 per share, which was \$7 per share higher than its IPO offering price. Net proceeds from this offering totaled approximately \$122.2 million.

27. In connection with its follow-on offering, Verint filed a registration statement on Form S-3 and a prospectus. These documents included the same materially misleading financials that Verint included in its IPO registration statements – i.e., Fiscal Years 2000 and 2001 (audited) – and it added audited financials for its fiscal year ending January 31, 2003 (“Fiscal Year 2002”). The financial statements contained within these documents reflected improper releases from certain reserve accounts into income.

28. The improper reserve releases by certain former Verint executives had an effect on the company's earnings leading up to the follow-on offering. Improperly recorded excess reserves were carried on the company's books during this period.

29. Additionally, leading up to the filing of its registration statement and prospectus, Verint issued materially false and misleading quarterly results in earnings releases and Forms 10-Q that it filed with the Commission. Those documents reported, for each quarter since Verint had become a public company, the following earnings per share amounts, which had been materially altered by Verint's improper reserve activities during the same pre-offering period:

Quarter-End	Diluted Earnings Per Share
4/30/2002	\$0.08 EPS
7/31/2002	\$0.09 EPS
10/31/2002	\$0.11 EPS
1/31/2003	\$0.14 EPS
4/30/2003	\$0.14 EPS

30. Certain former Verint executives touted these misleading quarterly results in earnings releases filed prior to the follow-on offering and in the offering prospectus itself. Specifically, Verint informed the investing public in its June 6, 2003 announcement of its first quarter 2003 results – ten days before the commencement of its follow-on offering – that it had achieved its “sixth consecutive quarter of sequential growth.” It falsely attributed its growth solely to “strong sales of [Verint’s] actionable intelligence solutions in the security market” and omitted mention of the effect that its improper reserve releases had on results for those quarters and Fiscal Year 2002. Verint’s offering prospectus, filed with the Commission on June 13, 2003, also highlighted in the “Recent Developments” section its consistent upward earnings trend, noting that Verint’s net income for first quarter 2003 was \$0.14 per diluted share in comparison to \$0.08 per diluted share for the first quarter of 2002.

31. Through the actions of certain of its former executives, as detailed herein, Verint knew, or was reckless in not knowing, that the historical earnings and loss amounts reported in its Form S-3 registration statement and prospectus, and its earnings releases and Forms 10-Q and 2002 Form 10-K, were materially misleading due to its improper reserve practices. The misconduct was intended to ensure Verint of a greater demand and higher price for Verint's follow-on offering.

3. Post-Follow-On Offering

32. Following Verint's IPO and follow-on offering, certain former Verint executives continued to engage in improper accounting practices that caused the material misstatement of its financial results in filings with the Commission and other public disclosures.

33. As a result of the reserve misconduct and failure to keep accurate books and records, Verint overstated its pre-tax income in Fiscal Years 2003 and 2004 by 4.2% and 3.5%, respectively. Without the improper reserve practices, Verint would not have met Wall Street analysts' consensus earnings estimates for Fiscal Years 2003 and 2004.

B. Effect Of Verint's Improper Reserve Practices On Its Recordkeeping And System Of Internal Controls

34. By virtue of the foregoing misconduct by certain of its former executives, Verint's books and records falsely and inaccurately reflected, among other things, the Company's liabilities, expenses, net income, and general financial condition. Also by virtue of the misconduct, Verint failed to maintain a system of internal accounting controls sufficient to provide assurances that its reserve activity was recorded as necessary to permit the proper preparation of financial statements in conformity with GAAP.

35. Verint's improper recordkeeping and failure with respect to internal controls commenced at least by 1999 and persisted into Fiscal Year 2005, even though the Company has not made any public filings since December 2005.

FIRST CLAIM
Violations of Securities Act Section 17(a)

36. The Commission realleges and incorporates by reference each and every allegation contained in Paragraphs 1 through 35 above.

37. Verint, directly or indirectly, knowingly, recklessly, or negligently, in the offer or sale of Verint securities, by use of the means or instruments of transportation or communication in interstate commerce, or by use of the mails, has: (a) employed devices, schemes or artifices to defraud; (b) obtained money or property by means of untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or (c) engaged in transactions, practices or courses of business which operated or would have operated as a fraud or deceit upon purchasers of Verint securities.

38. By engaging in the conduct alleged above, Verint violated Securities Act Section 17(a) [15 U.S.C. § 77q(a)].

SECOND CLAIM
Violations of Exchange Act Section 13(a) and
Exchange Act Rules 13a-1 and 13a-13 Thereunder

39. The Commission realleges and incorporates by reference Paragraphs 1 through 35 above.

40. Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)], and Rules 13a-1 and 13a-13 [17 C.F.R. §§ 240.13a-1 and 240.13a-13] thereunder, require issuers of registered securities to file with the Commission factually accurate annual and quarterly reports.

41. By engaging in the conduct alleged above, Verint violated Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Exchange Act Rules 13a-1 and 13a-13 [17 C.F.R. §§ 240.13a-1 and 240.13a-13].

THIRD CLAIM
Violations of Exchange Act Sections 13(b)(2)(A) and 13(b)(2)(B)

42. The Commission realleges and incorporates by reference Paragraphs 1 through 35 above.

43. Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)] requires issuers to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflected the transactions and dispositions of its assets. Section 13(b)(2)(B) of the Exchange Act [15 U.S.C. § 78m(b)(2)(B)] requires issuers to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions were recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain the accountability of assets.

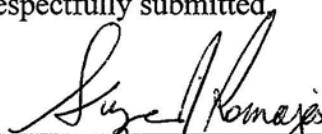
44. By engaging in the conduct alleged above, Verint violated Exchange Act Sections 13(b)(2)(A) and 13(b)(2)(B) [15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B)].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully prays that this Court permanently enjoin Verint from violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Section 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(a), 78m(b)(2)(A), and 78m(b)(2)(B)] and Exchange Act Rules 13a-1 and 13a-13 [17 C.F.R. §§ 240.13a-1 and 240.13a-13].

Dated: February 22, 2010

Respectfully submitted,



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