

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

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

COMVERSE TECHNOLOGY, INC.,

Defendant.

**Civil Action No.
11-CV-1704-LDW**

COMPLAINT

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

SUMMARY

1. Between 2003 and 2006, Comverse Technology, Inc. (“Comverse”) violated the books and records and internal controls provisions of the Foreign Corrupt Practices Act (the “FCPA”) when its Israeli operating subsidiary, Comverse Limited (“Comverse Limited”), engaged in a scheme to make improper payments to obtain or retain business.

2. In order to facilitate and conceal the payments, Comverse Limited employed a third-party agent (the “Agent”) to establish an offshore entity in Cyprus which, in turn, funneled the improper payments to Comverse Limited’s customers. Employees of Comverse Limited made payments to the Cyprus entity and, after taking 15% off the top of these payments, the Agent paid or facilitated the payment of the remaining 85% to Comverse Limited’s customers in the form of cash bribes.

3. Comverse Limited did not accurately record these improper payments in its books and records, which, in turn, caused them to be improperly classified in Comverse’s consolidated

financial statements. Comverse failed to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions at all levels of the organization were recorded properly.

4. By engaging in the foregoing conduct, Comverse violated Sections 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B)].

JURISDICTION AND VENUE

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

6. Defendant Comverse, 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 transactions, acts, practices, and courses of business alleged herein.

7. Venue is proper in this District because Comverse was headquartered and/or maintained an office in Woodbury, New York during the relevant time period, and certain of the acts, transactions, practices, and courses of business alleged herein took place in the Eastern District of New York.

THE DEFENDANT

8. **Comverse Technology, Inc. ("Comverse")**, a New York corporation that was based in Woodbury, New York, is now headquartered in New York City. It makes software systems and provides related services for multimedia communication and information processing applications. During the relevant period, Comverse's common stock was registered with the Commission pursuant to Section 12(g) of the Exchange Act. Its stock previously traded on the NASDAQ National Market, but was delisted from NASDAQ effective June 1, 2007 because it failed to timely file its 2005 Annual Report on Form 10-K and

2006 Quarterly Reports on Forms 10-Q. Comverse's stock now is quoted on the "Pink Sheets" under the symbol "CMVT" or "CMVT.PK." On March 23, 2010, the Commission instituted an administrative proceeding against Comverse to determine whether its securities should be deregistered. On July 22, 2010, an Administrative Law Judge issued an Initial Decision revoking Comverse's registration. Comverse has petitioned for a review of the Initial Decision. Its petition is pending.

9. Comverse's main operating subsidiary is Comverse, Inc. ("CNSI"), a Delaware corporation that has its principal place of business in Wakefield, Massachusetts. Comverse Limited is a wholly-owned subsidiary of CNSI and is incorporated in Israel with a principal place of business in Tel Aviv, Israel.

OTHER RELEVANT ENTITIES

10. **Hellenic Telecommunications Organisation S.A. ("OTE")** is a telecommunications provider based in Athens, Greece, which is partially owned by the Hellenic Republic (the "Greek Government"). At all times relevant to this Complaint, the Greek Government was OTE's largest single shareholder and owned more than one-third of OTE's issued share capital. The Greek Government was also OTE's largest customer for telecommunications services.

FACTS

11. Between 2003 and 2006, Comverse Limited made improper payments to employees connected to OTE in order to obtain or retain business with OTE. The scheme originated in Comverse Limited's EMEA (Europe, Middle East, and Africa) sales division and the improper payments were inaccurately recorded on Comverse Limited's books and records, which, in turn, were consolidated with Comverse's financial results.

Establishment and Use of Fintron

12. In approximately January 2003, Comverse Limited entered into a consulting agreement with the Agent, an Israeli citizen, purportedly to facilitate sales for Comverse Limited in Greece and other countries. The Agent incorporated an entity in Cyprus called Fintron Enterprises Ltd. ("Fintron") and opened an account for Fintron at a bank in Cyprus.

13. Comverse Limited then executed an agency contract with Fintron, pursuant to which Fintron purportedly was to assist Comverse Limited in obtaining business with specific customers located outside the United States.

14. The contract between Comverse Limited and Fintron specified that Fintron was to be paid a monthly retainer fee and agent "commissions" associated with each Comverse Limited customer.

15. In reality, these agent "commissions" consisted of the amount that each specific Comverse Limited customer would be paid as a bribe in exchange for business, and a fee for Fintron.

16. Various sales executives in Comverse Limited's EMEA sales division approved the Fintron agency contract and subsequent renewals of that contract. During the relevant period, neither Comverse nor Comverse Limited had a process, formal or otherwise, for conducting due diligence of third-party agents or for the independent review of third-party agent contracts outside of the sales departments.

17. Despite the terms of the contract, Fintron played no role in developing, obtaining or retaining business for Comverse Limited. Comverse Limited employees, not Fintron, negotiated business orders with customers. Fintron merely funneled cash to the recipients of

Comverse Limited's improper payments. Comverse Limited employees directed the Agent's activities, determined his itinerary and paid for his travel arrangements.

18. The flow of cash between Comverse Limited, Fintron, and the recipients of Comverse Limited's bribes occurred as follows:

- a. When Comverse Limited's EMEA division obtained a contract from a customer, an EMEA executive instructed the Agent to have Fintron invoice Comverse Limited for the "commission" amount associated with that customer.
- b. The Agent inserted the amount communicated by Comverse Limited into the Fintron invoice, and sent the invoice to Comverse Limited for payment.
- c. Comverse Limited employees began to process the payment to Fintron even before receiving Fintron's invoice. A Comverse Limited employee notified a Comverse Limited financial analyst that Fintron would be sending an invoice and provided the analyst with the invoiced amount. The analyst then prepared and submitted the paperwork and obtained approvals to pay Fintron's invoice through an automated system at Comverse Limited.
- d. Once the invoices were received, Comverse Limited made payments to Fintron directly into Fintron's Cyprus bank account. The Agent kept 15% of the invoiced amount and withdrew the remaining 85% from Fintron's bank account, which represented the cash bribe to be paid to the Comverse Limited customer. The Agent delivered this amount either directly to the customer's employee or to a Comverse Limited employee who, in turn, made the delivery to the customer's employee.

19. Comverse Limited falsified its books and records by characterizing and recording the bribes as legitimate sales commissions, thereby failing accurately to reflect the payments and their purpose. These improper expenses, in turn, were consolidated into Comverse's financial records.

20. Employees in Comverse Limited's EMEA division tracked the "commission" payments to Fintron and tracked the bribes outside of Comverse Limited's accounting system. They created spreadsheets that contained columns labeled "bruto" (gross) and "neto" (net), representing the full invoiced amount paid to Fintron and the amount paid after the Agent's 15% deduction, which represented the cash bribe.

21. Between 2003 and 2006, Comverse Limited, using Fintron, made improper payments totaling approximately \$536,000 to individuals connected to OTE, including employees of OTE's subsidiaries Cosmote, Cosmofon, and Cosmorom to obtain or retain OTE's business. The improper payments resulted in \$1.2 million of improper benefit to Comverse Limited, which flowed through to Comverse.

Closure of Fintron

22. Comverse Limited's head of security was alerted to suspicious activity involving the Agent in December 2005. The Agent had been detained while on a same-day round-trip flight from Tel Aviv, Israel to Rome, Italy and back, and during his detention he falsely identified himself as an employee of Comverse. This led the head of security to conduct an investigation and ultimately recommend in a memorandum to a Comverse Limited Human Resources executive in Israel and to the head of Comverse Limited's EMEA sales division that Comverse Limited either terminate its relationship with the Agent or, in the short term, ensure

that the Agent had “an appropriate cover story that is grounded and backed up with documents that Comverse has no part in.”

23. Comverse and Comverse Limited did not have policies or internal controls requiring the head of security to notify senior Comverse or Comverse Limited executives of the Agent’s conduct on behalf of Comverse Limited and, thus, neither the memorandum nor its contents were shared with anyone at CNSI or Comverse.

24. By the end of 2006, Comverse Limited ceased its payments to the Agent and Fintron, prompting the Agent to close the Fintron bank account and dissolve the entity. Comverse Limited eventually terminated its relationship with the Agent by not renewing his contract for 2007.

**Comverse’s Failure to Properly Maintain
Books and Records and Adequate Internal Controls**

25. Both Comverse and Comverse Limited failed to properly record the nature of Comverse Limited’s improper payments. In the transactions described herein, Comverse Limited mischaracterized improper payments funneled through Fintron as “agent commissions.” When Comverse consolidated Comverse Limited’s operating results into its own books and records, Comverse also failed to properly record the bribes and money paid to the Agent.

26. At the time of the conduct, while Comverse did have an omnibus anti-corruption policy that prohibited improper payments to government-affiliated third parties and others, Comverse did not widely circulate this policy and provided no training on it to any employees.

27. At the time of the conduct described herein, neither Comverse, nor Comverse Limited had a process, formal or otherwise, for conducting due diligence of sales agents or for the independent review of agent contracts outside of the sales departments. Moreover, both Comverse and Comverse Limited did not have policies or internal controls requiring the head of

security to notify senior Comverse or Comverse Limited executives of the Agent's conduct on behalf of Comverse Limited.

CLAIMS

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

28. The Commission realleges and incorporates by reference each and every allegation contained in Paragraphs 1 to 27.

29. As alleged, Comverse Limited engaged in a scheme to use an agent to make improper payments to obtain or retain business. Comverse's books and records mischaracterized such payments as "agent commissions." Moreover, Comverse failed to establish internal controls to ensure that it properly recorded these transactions.

30. 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 reflect 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 are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain the accountability of assets.

31. By engaging in the conduct alleged above, defendant Comverse 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 enter a judgment:

Permanently enjoining Defendant Comverse from having FCPA-related violations with regard to its books and records and internal controls, in violation of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B)].

Ordering Defendant Comverse to disgorge ill-gotten gains, with prejudgment interest, wrongfully obtained as a result of their illegal conduct; and

Granting such further relief as the Court may deem just and appropriate.

Dated: April 6, 2011

Respectfully submitted,



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