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UNITED STATES DISTRICT COURT
DISTRICT OF NEW JERSEY

_____)	
YUNUS DADABHOY, On Behalf of Himself)	No. _____
and All Others Similarly Situated,)	
)	<u>CLASS ACTION</u>
Plaintiffs,)	
)	COMPLAINT FOR VIOLATION OF THE
vs.)	FEDERAL SECURITIES LAWS
)	
NICE SYSTEMS, LTD, BENJAMIN)	
LEVIN and YUVAL YANAI,)	
)	
Defendants.)	<u>DEMAND FOR JURY TRIAL</u>
_____)	

SUMMARY OF THE ACTION

1. This is a securities fraud class action on behalf of persons who purchased NICE Systems, Ltd. ("NICE Systems" or the "Company") American Depository Shares ("ADS's") between February 16, 2000 and February 7, 2001 (the "Class Period"), against NICE Systems and its top two officers for violations of the federal securities laws arising out of defendants' dissemination of false and misleading statements concerning the Company's financial results for fiscal 1999 and portions of fiscal 2000.

2. NICE Systems, headquartered in Ra'anana, Israel, describes itself as a worldwide leader of multimedia digital recording solutions, applications and related professional services for business interaction management. NICE products and solutions are used in contact centers, trading floors, air traffic control (ATC) sites, CCTV (closed circuit television) security installations and Government markets. NICE's

synergistic technology platform enables customers to capture, evaluate and analyze business interactions in order to improve business processes and gain competitive advantage. NICE's subsidiaries and local offices are based in the United States, Canada, Germany, United Kingdom and France. The company operates in more than 60 countries through a network of partners and distributors. NICE Systems' ordinary shares are listed on the Tel-Aviv Stock Exchange ("TASE") and its ADS's trade on the NASDAQ under the ticker symbol "NICE." The Company's U.S. headquarters are located in Secaucus, New Jersey.

3. During the Class Period, defendants caused NICE Systems to issue materially false and misleading financial statements for fiscal year 1999 and the first three quarters of fiscal 2000. Defendants improperly recognized material amounts of revenue, in violation of Generally Accepted Accounting Principles ("GAAP"), on among other things, consignment "sales" where revenue should not have been recognized.

4. Defendants "cooked" NICE Systems' books in order to report revenues, profits and growth rates, which the Company had led the market to believe would be achieved in fiscal 1999 and 2000 and to inflate the price of NICE Systems' ADS's, which were used in two acquisitions during the Class Period which were both partially funded with NICE Systems' artificially inflated ADS's.

5. On February 8, 2001, NICE Systems shocked the market when it issued a press release which stated, in part:

NICE Systems (NASDAQ:NICE - news), a worldwide leader of multimedia digital recording solutions, applications and related professional services for business interaction management, announced today that it is updating its estimate of Q4 2000 revenue and related net loss and will be restating certain prior periods based on a detailed analysis performed in the course of the yearend closing process.

This analysis included the determination of the appropriate timing of revenue recognition relating to sales to Stevens, the distributor whose assets were acquired by NICE in the fourth quarter.

Specifically, during the yearend closing process, documents came to the attention of management indicating that sales to Stevens should have been treated as "consignment" sales and the revenue recognized only upon sale to the final customer. This requires a reduction of \$6.2 million in 1999 revenue, from \$123.6 million to \$117.4 million. Of the \$6.2 million, \$4.4 million has been recognized in 2000. In turn, \$6.6 million in revenue from Stevens in 2000 cannot be recognized. The net effect on year 2000 revenue is \$2.2 million.

In addition to a complete review of revenue, the Company also implemented SAB101. As a result of all these factors, revised revenue for the first three quarters of 2000 is expected to be as follows: \$34 million instead of \$37.5 million, \$39 million instead of \$42.9 million, and \$45 million instead of \$46.6 million, respectively. Finally, NICE estimates that revenue for all of 2000 will be \$154 million and Q4 revenue will be approximately \$36 million. On December 28th, the Company announced that Q4 2000 revenue was expected to be \$39 to \$40 million.

The Company indicated that it will take some additional time to calculate the related adjustments required to each period's net income, and the revised figures will be available when final audited results for Q4 and full year 2000 are announced. NICE also announced that Benny Levin has resigned as Chairman, but remains as a director of the Company. The Board of Directors expects to name a new chairman shortly. (Emphasis added).

6. Because of defendants' fraudulent practices, NICE Systems' ADS's traded at artificially inflated prices throughout the Class Period. On February 8, 2001 when the Company announced that its financial results for fiscal year 1999 and the first three quarters of fiscal 2000 would require restatement due to the improper recognition of revenue, the price of NICE Systems' ADS's fell almost 30% in one day on heavy trading volume to \$13.10. The stock has not recovered.

JURISDICTION AND VENUE

7. The claims asserted herein arise under §§10(b) and 20(a) of the Securities Exchange Act of 1934 ("1934 Act"), 15 U.S.C. §§78j(b) and 78t(a), and Rule 10b-5. Jurisdiction is conferred by §27 of the 1934 Act, 15 U.S.C. §78aa.

8. Venue is proper here pursuant to §27 of the 1934 Act. NICE Systems, although headquartered in Israel, has its U.S. headquarters in Secaucus, New Jersey and the acts and transactions giving rise to the violations of law complained of occurred here.

THE PARTIES

9. Plaintiff Yunus Dadabhoy purchased NICE Systems' ADS's as detailed in the attached certification and was damaged thereby.

10. Defendant NICE Systems describes itself as a global provider of integrated digital recording and quality management solutions. NICE's solutions help customers improve their business by effectively recording, storing, evaluating and managing voice communications, call data, desktop screens and video. NICE serves the business needs of multiple markets, primarily financial institutions, customer contact centers, air traffic control (ATC) sites, public safety centers, and closed circuit television (CCTV) security installations. NICE also develops and provides voice recording and communications intelligence (COMINT) systems for government agencies. NICE's corporate headquarters are based in Israel with subsidiary companies and local offices in the United States, Canada, Germany, United Kingdom and France. NICE's ordinary shares are listed on the TASE and its ADS's trade on the NASDAQ under the ticker symbol "NICE".

11. (a) Defendant Benjamin Levin ("Levin") served as chairman of the board and CEO of NICE Systems from 1998 until January 2001. A co-founder and director, Levin previously served as president of the Company from its inception in 1986 to 1998. Levin did not serve as NICE Systems' President and CEO from May 1, 2000 – May 30, 2000, but resumed his CEO position and duties on May 31, 2000. Levin resigned as CEO of NICE Systems effective January 2001. On February 8, 2001, Levin

announced that he was also resigning his position as Chairman of NICE System's Board of Directors.

Defendant Levin signed NICE Systems' False Report on Form 20-F.

(b) Defendant Yuval Yanai ("Yanai") was NICE Systems' Senior Vice President and Chief Financial Officer from April 1998 until he left the Company in December 2000.

12. The parties listed in ¶11 (a) – (b) are referred to as the "Individual Defendants." They are liable for the false statements pleaded herein at ¶¶ 13, 15, 16, 18, 19, 22, 25-27, 29, 30, 32, 34, as those statements were each "group-published" information for which they were collectively responsible. The Individual Defendants, by reason of their participation in the day to day affairs of NICE Systems and stock ownership and positions were controlling persons of NICE Systems. NICE Systems controlled each of the Individual Defendants. These controlling persons are liable under §20(a) of the 1934 Act.

FALSE AND MISLEADING STATEMENTS DURING THE CLASS PERIOD

13. On February 16, 2000, NICE Systems issued a press release entitled, "NICE Systems Announces Record Fiscal Year and Fourth Quarter 1999." The press release stated, in part:

NICE Systems Ltd. (NASDAQ: NICE), a leading global provider of digital recording and quality management solutions, today reported that 1999 revenues increased 36 percent to a record \$123.6 million, compared with \$91 million in 1998. Net income for the year, excluding one-time charges, reached \$20.3 million, or \$1.65 per share (diluted), compared with net income of \$13.5 million, excluding one-time charges, or \$1.12 per share (diluted) for the previous year.

For the fourth quarter, revenues increased 56 percent to an all-time high of \$36.6 million, compared with \$23.4 million for the same quarter of 1998. Net income for the quarter, net of a one-time charge of \$5.2 million resulting from the acquisition of STS Software Ltd., reached \$7.1 million or \$0.56 per share (diluted) compared with net income of \$2.1 million or \$0.19 per share (diluted) for the fourth quarter of 1998.

The gross profit margin continued to improve, reaching 58.2 percent. Operating profit also improved, reaching 16.4 percent. Operating activities continued to generate cash, and DSO (days sales outstanding) sharply declined to 116 days.

Commenting on the record fourth quarter and 1999 results, NICE chairman, Benny Levin, said: "These results reflect the strongest quarter and best year ever for NICE. Our success in providing customers with powerful, high quality solutions has strengthened our leadership position in the fast-growing contact center market. Sales to this market have increased substantially, particularly in North America with sales to the US and Canada generating 60 percent of our overall revenues in the fourth quarter. We continue to dominate the high-end of the market, winning prestigious new reference accounts."

Levin added, "Our recent alliances with Siebel and Genesys, together with our strong partnerships with Lucent and Alcatel, will enable us to offer customers integrated solutions for capturing the total customer experience and position us as a leading provider of Customer Relationship Management-CRM solutions for the Web-enabled contact center.

"In the CCTV security market, we are seeing an increase in orders for our NICEVision digital video and audio recording solution in the mid to high-end market, in line with our expectations, and we are encouraged by the positive market response." (Emphasis added).

14. This press release was materially false and misleading. The Company has now admitted that these results overstated revenues for fiscal 1999 by *at least* \$6.2 million. The overstatement was caused by, among other things, the improper recognition of material amounts of revenue on contingent "sales" in violation of GAAP.

15. On February 23, 2000, NICE Systems issued a press release announcing its acquisition of CenterPoint Solutions, Inc., a company based in Denver, Colorado. According to the release:

NICE Systems Ltd. (Nasdaq: NICE) today announced it has signed a definitive agreement to acquire CenterPoint Solutions, Inc., an application developer of Web-enabled solutions for statistical tracking, digital recording and automated customer surveys for contact centers.

"This represents another significant step for NICE, paving the way for next-generation customer relationship management," said Benny Levin, chairman of NICE Systems. "Our customers need a unified and centralized view of the entire customer experience, and CenterPoint solutions enable NICE to deliver this.

"For us CenterPoint is a perfect fit. The "cradle-to-grave" quantitative and qualitative data provided by our integrated systems will provide a wealth of information for datamining and performance evaluation of customer relationships within a single center as well as across multiple

centers.”

* * *

Subject to the closing of the deal, NICE will acquire all the stock of CenterPoint Solutions for approximately \$3 million in cash and up to 200,000 NICE American Depositary Shares (ADSs), representing ordinary shares of NICE. The deal is expected to be closed by next month. (Emphasis added).

16. On May 3, 2000, NICE Systems issued a press release entitled, “NICE Systems 1Q2000 Revenues Up 42 Percent to \$37.5 Million, Increased Demand Across All Market Segments.” That release stated, in part:

NICE Systems Ltd. (NASDAQ: NICE) today reported first quarter 2000 revenues rose 42 percent to \$37.5 million compared with \$26.5 million for the first quarter of 1999. Net income increased by almost 100 percent to \$6.0 million compared with \$3.1 million for the same quarter of last year.

Diluted earnings per share for the quarter were up 63 percent to \$0.44 on 13.7 million weighted average number of shares outstanding, compared with \$0.27 on 11.8 million shares for the first quarter of 1999. Basic earnings per share for the quarter were \$0.51 on 12.0 million weighted average number of shares outstanding, compared with \$0.28 on 11.3 million shares for the first quarter of 1999.

NICE Systems' chairman, Benny Levin, said, "We are very pleased with these excellent results and are encouraged by the increased demand for our products across all market segments, particularly in mainland Europe, the UK, and North America. We have continued to strengthen our leadership position in the fast growing contact center market, are seeing increased demand from the financial trading sector and have secured our dominance of the air traffic control sector with important new contracts."

Levin continued, "In addition, we are delighted to report significant gains in the CCTV security market with a ramp up in orders for our NICEVision digital video recording system. With NICE winning major contracts across its key market segments, including Fortune 500 companies, correctional facilities, transportation and casinos, and the growing interest in our product offering, we are well-positioned to take advantage of these huge market opportunities."

* * *

Levin concluded, "The strong momentum generated in Q1 combined with our strengthened partnerships with Lucent Technologies and IPC Information Systems, new alliance with Philips Business Communications, new strategic relationships with Clarify and other key CRM-customer

relationship management vendors, recent acquisition of CenterPoint Solutions and the development of our Voice over IP technology and other multimedia applications, provides an excellent starting point for 2000." (Emphasis added.)

17. This press release was materially false and misleading. The Company has now admitted that these results overstated revenues for the first quarter of fiscal 2000 by *at least* \$3.5 million. The overstatement was caused by, among other things, the improper recognition of material amounts of revenue on contingent "sales" in violation of GAAP.

18. In NICE Systems' Annual Report on Form 20-F for fiscal 1999, filed with the SEC on May 26, 2000 and signed by defendant Levin, NICE represented the following with respect to its revenue recognition practices:

Revenues from NiceLog and other recording and quality management products are generally recognized upon shipment to customers when no significant vendor obligations remain. Generally, the Company does not have any significant obligations after shipment.

* * *

Revenues from COMINT systems, as well as from long-term voice recording projects, are recognized over the term of the project on a percentage of completion basis and, therefore, may fluctuate and affect sales levels in any particular quarter.

* * *

NICE's Consolidated Financial Statements are stated in dollars and prepared in accordance with U.S. GAAP. (Emphasis added).

19. In a "Letter to the Shareholders" authored by defendant Levin and Micky Golan, NICE's Chief Technology Officer, included in the Annual Report on Form 20-F, Levin stated:

We are pleased to report an excellent year. Steady increases in revenues, gross and operating margins, net income and earnings per share (EPS) were generated by high profile sales to the US contact center market, reinforced by continued success in established markets. Revenues for 1999 were \$123.6 million, as compared with \$91 million in 1998. Net income, excluding the one-time charge related to our acquisition of STS Software Systems, totaled \$20.3 million, as compared with

\$13.5 million in 1998 (net of the one-time charge in 1998 related to the acquisition of IBS and the Company's relocation to new premises). Earnings per share were \$1.65 (diluted) as compared with \$1.12 (diluted) in 1998 (both net of one-time charges).

20. As set forth in ¶14, the Company's financial results for fiscal 1999, as disclosed in the press release issued on February 16, 2000 and repeated in the Report on Form 20-F, were materially false and misleading and overstated revenues by *at least* \$6.2 million.

21. On May 31, 2000, NICE Systems announced that Moshe Rohan, who joined the Company as President and Chief Executive Officer on May 1, 2000, had resigned from the Company due to "a different view of management responsibilities." According to the press release, defendant Levin re-assumed the position of President and CEO of NICE Systems.

22. On August 2, 2000, NICE Systems issued a press release entitled, "NICE Systems 2Q00 Revenues Up 50 Percent to a Record High of \$42.9 Million, Net Income Increased 60 Percent Before One-time Charge." The press release stated, in part:

NICE Systems Ltd. (NASDAQ: NICE), a worldwide leader of multimedia recording solutions, applications and related professional services for business interaction management, today reported second quarter revenues rose 50 percent to a record high of \$42.9 million compared with \$28.5 million for the second quarter of 1999. Earnings per share for the quarter were \$0.50, before a one-time charge, compared with earnings per share of \$0.36 for the second quarter of 1999.

Net income rose 60 percent to \$6.9 million from \$4.3 million for the same quarter last year, excluding a one-time charge related to the acquisition of CenterPoint Solutions' in-process technology. Including the one-time charge of \$6.8 million, net income for the quarter was \$0.1 million.

* * *

NICE Systems' chairman and chief executive officer, Benny Levin, said, "We are pleased with our excellent top and bottom line results for the quarter. NICE's sales to the high-end contact center and financial trading markets show solid and continuous growth. Our growth continues to be driven by an increasing number of global customers who select NICE for our worldwide presence, support and professional services.

"This quarter we launched the new Customer Experience Management (CEM) initiative, where we introduced new products and solutions and announced expanded partnerships with leading industry vendors. This new CEM platform will enable companies to utilize all information captured during customer interactions to improve their businesses, gain customer loyalty, and develop a sustainable competitive advantage. We also successfully integrated our latest acquisition, CenterPoint Solutions, into our CEM division."

Levin continued, "The NICEVision sales are approaching our goal of representing close to 10 percent of corporate revenues. We won new contracts for NICEVision, our digital video recording solution, with global telecommunications providers, and continued to expand in the corporate facilities, correctional institutions, hospitals and transportation markets."

* * *

Levin concluded, "Our strong results continue to reflect the growing demand in each of our key market segments and our ability to capitalize on global customer opportunities." (Emphasis added).

23. This press release was materially false and misleading. The Company has now admitted that these results overstated revenues for the second quarter of fiscal 2000 by *at least* \$3.9 million. The overstatement was caused by, among other things, the improper recognition of material amounts of revenue on contingent "sales" in violation of GAAP.

24. On October 4, 2000, NICE Systems announced that Lauri A. Hanover would replace defendant Yanai as the Company's Senior Vice President and CFO effective December 2000.

25. On November 1, 2000, NICE Systems issued a press release entitled, "NICE Systems 3Q00 Revenues and EPS Reach a Record High." The press release stated, in part:

NICE Systems (Nasdaq: NICE), a worldwide leader of multimedia digital recording solutions, applications and related professional services for business interaction management, today reported a 46 percent increase in Q3 revenues to reach a record high of \$46.6 million compared with \$32.0 million for the third quarter of 1999. Earnings per share for the quarter were \$0.58 compared with earnings per share of \$0.46 in the third quarter of 1999.

Net income rose 42 percent to \$8.1 million from \$5.7 million for the same quarter last year. Gross margin was 58.6 percent, as compared with 57.9 percent for the same quarter of 1999. Operating income rose 56 percent to \$6.8 million from \$4.3 million for Q3 1999.

NICE Systems' chairman and chief executive officer, Benny Levin, said, 'We are pleased to announce another strong quarter. We're seeing continued progress in our CEM (Customer Experience Management) business, with sales to the contact center market increasing by approximately 15 percent from the previous quarter. We are also pleased to see an increase in sales to international markets, in particular Europe and Japan, which reflects our growing global presence. Our true competitive advantage is our comprehensive CEM platform which integrates a wide range of recording, quality management and data analysis applications with CRM (Customer Relationship Management) software, communications infrastructures and other business applications."

Levin continued, "We're also seeing strong growth in sales from our VIM (Visual Interaction Management) division which establishes NICE as one of the leading vendors driving the transition from analog to digital recording. In this quarter alone, we've signed up 33 new customers and have formed key strategic alliances with top security companies such as Dell Security Group and Security Technologies Group. The VIM business contributed approximately 10 percent to our revenues in the last nine months." (Emphasis added).

26. On November 1, 2000, NICE Systems also issued a press release announcing its intention to acquire the assets of Stevens Communications. According to the release:

NICE Systems (Nasdaq: NICE), a worldwide leader of multimedia digital recording solutions, applications and related professional services, today announced that it is expanding the customer and support services of its Customer Experience Management (CEM) division through the acquisition of certain assets and liabilities of Stevens Communications, Inc (SCI).

"This purchase represents an opportunity for NICE significantly expand our customer service organization in North America and strengthen our relationship with major customers," said Yuval Ofek, president of NICE's CEM division.

As part of the acquired assets, NICE will integrate SCI employees, specializing in NICE's products, into the company's CEM division in North America. In addition, SCI sales and service contracts with NICE customers will be assigned to NICE.

"We are pleased to add the new people to our growing organization. Stevens' people have gained significant experience selling, installing, supporting and consulting on NICE systems and applications over the last several years," Ofek added. "This additional support and consulting staff will enable us to meet the growing demand in both the US and international markets and help us deliver the high levels of support and service that our customers have come to expect."

Stevens Communications will continue to provide contact center customers with other technological

solutions and services.

Subject to the closing of the deal, NICE will acquire the above mentioned assets of Stevens Communications for approximately \$10.5 million in cash and up to 426,852 NICE American Depositary Shares (ADSs), representing ordinary shares of NICE, of which 225,839 are contingent on achieving the agreed upon objectives. The deal is expected to be closed by next month. (Emphasis added).

27. On November 1, 2000, NICE Systems also held a conference call for analysts, money and portfolio managers, institutional investors and large NICE Systems shareholders in which NICE management discussed the Company's Q3 2000 results, its business and its prospects. The Company provides an audio recording of that conference call on its website: www.nice.com.

28. The Company's November 1, 2000 earnings release and representations regarding Q3 2000 earnings were materially false and misleading. The Company has now admitted that its results for the third quarter of fiscal 2000 overstated revenues by *at least* \$1.6 million. The overstatement was caused by, among other things, the improper recognition of material amounts of revenue on contingent "sales" in violation of GAAP.

29. On December 7, 2000, NICE Systems announced that it had completed the acquisition of the assets and liabilities of Stevens Communications. According to Yuval Ofek, president of NICE's Customer Experience Management ("CEM") division:

I am delighted that we have completed the integration of Stevens Communications assets into the company. Stevens' people have extensive selling, installing, and consulting experience on NICE solutions that will enable us to meet the growing demand for our CEM (Customer Experience Management) technology platform and business strategy in North America. This acquisition represents an important step in our commitment to deliver the high levels of support and service that our customers have come to expect."

30. On December 28, 2000, NICE Systems issued a press release regarding its fourth quarter 2000 results. The release stated, in part:

NICE Systems (Nasdaq: NICE - news), a worldwide leader of multimedia digital recording solutions, applications and related professional services for business interaction management, today announced that fourth quarter 2000 revenues will be below market expectations. Revenues in the fourth quarter are expected to be approximately \$39 to \$40 million. As a result, the Company expects to report a net loss of \$0.06 to \$0.00 per share on a diluted basis, excluding charges related to the previously announced acquisition of certain assets of Stevens Communications Inc.

Benny Levin, NICE's Chairman and CEO, said, "Like many other companies, we are seeing weakness in the telecommunications and IT sectors of the market. It now appears that a number of our blue-chip customers will postpone orders, which were expected to close in the quarter, due to internal budget considerations. We are obviously disappointed with the impact of this slowdown on our Q4 results. However, we remain vigorously confident in our long-term growth opportunities."

The Company plans to report final results for the fourth quarter and fiscal year 2000 on February 21, 2001. Management is re-evaluating the outlook for 2001 and intends to provide additional details and further guidance prior to that date.

31. These representations were materially false and misleading because they failed to disclose that the Company's financial results for fiscal 1999 and the first three quarters of fiscal 2000 were overstated by material amounts due to the improper recognition of revenue on, among other things, contingent "sales." In addition, the release failed to disclose that Q400 results would be substantially less than \$39-40 million.

32. On January 10, 2001, the Jerusalem Post reported that Lior Arussy, a Senior Vice President for marketing, based in the Company U.S. headquarters in Secaucus, New Jersey represented that NICE Systems was contemplating the sale of the Company. According to Arussy,

"We owe it to the market to put a plan in place. Everything is being considered, though we don't want to sell."

* * *

"The deals were pulled literally at the last moment. We have to adjust our business model accordingly and that's part of what Haim [Shani] is doing right now by visiting our customers."

33. On this announcement, NICE Systems' ADS's rose approximately 10%.

34. On February 1, 2001, in response to the persistent market talk that the Company was a takeover target for Comverse Technology Inc., NICE Systems, announced that it was not in talks to merge with another company or be acquired. In addition, NICE Systems announced: “The company is completing at this time a global plan for 2001 that includes a reduction in the company's workforce in its offices in Israel and abroad as well as an expansion of its activities in different geographic areas.”

35. This release was materially false and misleading in that it failed to disclose that the Company's financial results for fiscal 1999 and the first three quarters of fiscal 2000 were overstated by material amounts due to the improper recognition of revenue on, among other things, contingent “sales.” In addition, the release failed to disclose that Q400 results would be substantially less than \$39-40 million as reported in the December 28, 2000 press release.

36. On February 8, 2001, NICE Systems shocked the market when it issued a press release which stated:

NICE Systems (NASDAQ:NICE - news), a worldwide leader of multimedia digital recording solutions, applications and related professional services for business interaction management, announced today that it is updating its estimate of Q4 2000 revenue and related net loss and will be restating certain prior periods based on a detailed analysis performed in the course of the yearend closing process.

This analysis included the determination of the appropriate timing of revenue recognition relating to sales to Stevens, the distributor whose assets were acquired by NICE in the fourth quarter. Specifically, during the yearend closing process, documents came to the attention of management indicating that sales to Stevens should have been treated as “consignment” sales and the revenue recognized only upon sale to the final customer. This requires a reduction of \$6.2 million in 1999 revenue, from \$123.6 million to \$117.4 million. Of the \$6.2 million, \$4.4 million has been recognized in 2000. In turn, \$6.6 million in revenue from Stevens in 2000 cannot be recognized. The net effect on year 2000 revenue is \$2.2 million.

In addition to a complete review of revenue, the Company also implemented SAB101. As a result of all these factors, revised revenue for the first three quarters of 2000 is expected to be as follows: \$34 million instead of \$37.5 million, \$39 million instead of \$42.9 million, and \$45 million instead of

\$46.6 million, respectively. Finally, NICE estimates that revenue for all of 2000 will be \$154 million and Q4 revenue will be approximately \$36 million. On December 28th, the Company announced that Q4 2000 revenue was expected to be \$39 to \$40 million.

The Company indicated that it will take some additional time to calculate the related adjustments required to each period's net income, and the revised figures will be available when final audited results for Q4 and full year 2000 are announced. NICE also announced that Benny Levin has resigned as Chairman, but remains as a director of the Company. The Board of Directors expects to name a new chairman shortly.

* * *

The company also indicated that its board of directors today ratified comprehensive operating initiatives aimed at building the infrastructure to support the company's next stage of growth and increase its operating efficiency. The initiatives include consolidation of operations, several organizational changes including a 20% net reduction in headcount from the current level of about 1,100 people, and the reallocation of resources to expand its global presence and customer support. The bulk of these changes will be implemented during the first quarter 2001. These initiatives are expected to result in annual cost savings of at least \$18 million.

NICE indicated that first quarter revenues are being severely impacted by the disruption of the reorganization and are not likely to exceed \$25 million and that it will probably report an operating loss of at least \$15 million. The Company also indicated that its goal is to report a much smaller loss in Q2 and to return to a profitable "steady state" by the end of Q4. "The initiatives announced today will enable us to capitalize on our many strengths as well as improve execution" said NICE Systems President and CEO Haim Shani. "The fundamental characteristics of NICE developed through Benny's leadership including outstanding people, leading market position, a superior product portfolio and an extensive base of top-notch customers represent a strong foundation on which to build. After a deep loss in the current quarter, our goal is to regain our momentum quickly and report revenues this year that are at least even with 2000, and to grow at least as fast as the market thereafter."

37. This stunning disclosure caused NICE Systems' stock to decline almost 30% in one day on heavy trading volume to \$13.10.

38. Each of the statements made by defendants between February 16, 2000 and February 7, 2001 were false or misleading when issued. The true facts, which were known to defendants, were:

(a) NICE Systems' reported results for fiscal 1999 and the first three quarters of fiscal 2000 were materially false and misleading;

(b) NICE Systems' revenue and EPS would fall materially short of meeting its forecasted results as a result of newly implemented accounting regulations, which defendants had known were going into affect and would impact its 1999 and 2000 results and would prevent NICE from recording revenue on product which had not sold through to end users;

(c) NICE Systems' ability to meet even the projected results, including profitability, was contingent upon its ability to improperly recognize revenue;

(d) As a result of (a)-(c) above, it was impossible for defendants to achieve projected revenues.

DEFENDANTS' FALSE FINANCIAL STATEMENTS

39. In order to inflate the price of NICE Systems' ADS's, defendants caused the Company to falsely report its results for fiscal 1999 and the first three quarters of fiscal 2000 through the use of improper revenue recognition practices. Absent the Company's improper revenue recognition, NICE Systems would have reported materially lower revenues and higher losses in fiscal 1999 and the first three quarters of fiscal 2000. The financial results for fiscal 1999 were included in the Company's Annual Report on Form 20-F filed with the SEC on May 26, 2000 and were included in press releases disseminated to the public. Ultimately, NICE Systems revealed that its results for 1999 and the first three quarters of 2000 were materially misstated, and that the Chairman of its Board of Directors had resigned.

40. As set forth above, NICE Systems restated its revenues for fiscal 1999 and the first three quarters of 2000 as follows:¹

¹The Company has not yet disclosed the net income effect of its restatement of fiscal 1999 and the first three quarters of fiscal 2000.

	Previously Reported Revenues	Restated Revenues
Fiscal 1999	\$123.6 million	\$117.4 million
Q1 2000	\$37.5 million	\$34 million
Q2 2000	\$42.9 million	\$39 million
Q3 2000	\$46.6 million	\$45 million

41. NICE Systems has now admitted that these financial results may have been materially misstated such that they were not a fair presentation of NICE Systems' results and were presented in violation of GAAP and SEC rules.

42. GAAP are those principles recognized by the accounting profession as the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. SEC Regulation S-X (17 C.F.R. §210.4-01(a)(1)) states that financial statements filed with the SEC which are not prepared in compliance with GAAP are presumed to be misleading and inaccurate, despite footnote or other disclosure. Regulation S-X requires that interim financial statements must also comply with GAAP, with the exception that interim financial statements need not include disclosure which would be duplicative of disclosures accompanying annual financial statements. 17 C.F.R. §210.10-01(a).

43. Due to the accounting improprieties described herein, the Company presented its financial results and statements in a manner which violated GAAP, including the following fundamental accounting principles:

(a) The principle that interim financial reporting should be based upon the same accounting principles and practices used to prepare annual financial statements was violated (APB No. 28, ¶10);

(b) The principle that financial reporting should provide information that is useful to

present and potential investors and creditors and other users in making rational investment, credit and similar decisions was violated (FASB Statement of Concepts No. 1, ¶34);

(c) The principle that financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and effects of transactions, events and circumstances that change resources and claims to those resources was violated (FASB Statement of Concepts No. 1, ¶40);

(d) The principle that financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it was violated. To the extent that management offers securities of the enterprise to the public, it voluntarily accepts wider responsibilities for accountability to prospective investors and to the public in general (FASB Statement of Concepts No. 1, ¶50);

(e) The principle that financial reporting should provide information about an enterprise's financial performance during a period was violated. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance (FASB Statement of Concepts No. 1, ¶42);

(f) The principle that financial reporting should be reliable in that it represents what it purports to represent was violated. That information should be reliable as well as relevant is a notion that is central to accounting (FASB Statement of Concepts No. 2, ¶¶58-59);

(g) The principle of completeness, which means that nothing is left out of the

information that may be necessary to insure that it validly represents underlying events and conditions was violated (FASB Statement of Concepts No. 2, ¶79); and

(h) The principle that conservatism be used as a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered was violated. The best way to avoid injury to investors is to try to ensure that what is reported represents what it purports to represent (FASB Statement of Concepts No. 2, ¶¶95, 97).

44. Further, the undisclosed adverse information concealed by defendants during the Class Period is the type of information which, because of SEC regulations, regulations of the national stock exchanges and customary business practice, is expected by investors and securities analysts to be disclosed and is known by corporate officials and their legal and financial advisors to be the type of information which is expected to be and must be disclosed.

SCIENTER

45. Defendants Levin and Yanai knew of or recklessly disregarded the fraud detailed herein. They knew that NICE Systems' financial statements were fraudulent and not consistent with U.S. GAAP. Because of their positions with the Company, they controlled and/or possessed the power and authority to control the contents of the financial statements, press releases and presentations to securities analysts and thereby the investing public. The defendants prepared or were provided with copies of the Company's press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected.

46. Each of the defendants is liable as a primary violator, for making materially false and misleading statements, and for participating in a fraudulent scheme that operated as a fraud or deceit on

purchasers of NICE Systems' ADS's during the Class Period. The defendants pursued a fraudulent scheme in furtherance of their common goal, i.e., inflating the price of NICE Systems' ADS's by making materially false and misleading statements and concealing material adverse information. The fraudulent scheme was designed to and did: (i) deceive the investing public, including plaintiffs and members of the class; (ii) artificially inflate the price of NICE Systems' ADS's during the Class Period; (iii) allow NICE Systems to acquire other companies using its artificially inflated ADS's as currency; and (iv) cause plaintiffs and members of the class to purchase Nice Systems' ADS's at inflated prices.

47. The defendants also possessed the motive and opportunity to commit the fraud. Defendants were motivated to artificially inflate the price of NICE Systems' ADS's in order to accomplish two acquisitions (CenterPoint and Stevens Communications) during the Class Period, in which NICE Systems' ADS's were used as partial consideration.

48. By reason of the foregoing, the defendants have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder and are liable to plaintiffs and the other members of the class for the substantial damages which they suffered in connection with their purchase of NICE Systems' ADS's during the Class Period.

CLASS ACTION ALLEGATIONS

49. This is a class action on behalf of purchasers of NICE Systems ADS's between February 16, 2000 and February 7, 2001 (the "Class"). Excluded from the Class are the defendants and officers and directors of the Company, as well as their families and the families of the defendants. Class members are so numerous that joinder of them is impracticable.

50. Common questions of law and fact predominate and include whether defendants: (i) violated the 1934 Act; (ii) omitted and/or misrepresented material facts; (iii) knew or recklessly disregarded that their statements were false; and (iv) artificially inflated NICE Systems' stock price and the extent of and appropriate measure of damages.

51. Plaintiff's claims are typical of those of the Class. Prosecution of individual actions would create a risk of inconsistent adjudications. Plaintiffs will adequately protect the interests of the Class. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

COUNT I:

For Violations Of Section 10(b) Of The Exchange Act and Rule 10b-5 Against Defendants

52. Plaintiff repeats and realleges each and every allegation contained in the above paragraphs, as if fully set forth herein. Throughout the Class Period, defendants, singly and in concert, directly or indirectly, engaged in a common plan, scheme and course of conduct described herein, pursuant to which they knowingly or recklessly engaged in acts, transactions, practices and a course of business which operated as a fraud upon plaintiff and the other members of the class; made various false statements of material facts and omitted to state material facts to make the statements made, in light of the circumstances in which they were made, not misleading; and employed manipulative or deceptive devices and contrivances in connection with the sale of NICE Systems' ADS's.

53. The purpose and effect of the defendants' plan, scheme and course of conduct was to artificially inflate and maintain the market price of NICE Systems' ADS's.

54. Defendants Levin and Yanai as senior officers and/or directors of NICE Systems, had actual knowledge of the material omissions and/or the falsity of the material statements set forth above, and

intended to deceive plaintiffs and the other members of the class, or, in the alternative, acted with reckless disregard for the truth when they failed to ascertain and disclose the true facts in the statements made by them or other NICE Systems personnel to the SEC, plaintiffs, and other members of the class.

55. As a result of the foregoing, the market price of NICE Systems' ADS's was artificially inflated during the Class Period. In ignorance of the falsity of the reports and statements, and the deceptive and manipulative devices and contrivances employed by the defendants, plaintiffs and the other members of the class relied, to their damage, on the reports and statements described above and/or the integrity of the market price of NICE Systems' ADS's during the Class Period in purchasing the ADS's at prices which were artificially inflated as a result of the defendants' false and misleading statements.

56. Had plaintiff and the other members of the class known of the material adverse information which the defendants did not disclose, they would not have purchased NICE Systems' ADS's at the artificially inflated prices that they did.

57. As a result of the wrongful conduct alleged herein, plaintiff and other members of the class have suffered damages in an amount to be established at trial.

COUNT II

For Violation Of Section 20(a) Of The Securities Exchange Act Against Defendants Levin and Yanai

58. Plaintiff repeats and realleges each and every allegation above as if fully set forth herein.

59. Defendants Levin and Yanai by virtue of their positions as officers and/or directors of NICE Systems and their specific acts, were controlling persons of NICE Systems within the meaning of Section 20(a) of the Exchange Act.

60. Each of these defendants' positions made them privy to, and provided them with actual knowledge of, the material facts which NICE Systems concealed from plaintiffs and the other members of the class during the Class Period.

61. These defendants had the power, authority and influence, and exercised the same, to cause NICE Systems to engage in the unlawful conduct and practices complained of herein by causing NICE Systems to disseminate the false and misleading information referred to above.

62. By virtue of the foregoing, defendants Levin and Yanai have violated Section 20(a) of the Exchange Act. As a direct and proximate result of these defendants' wrongful conduct, plaintiff and the other members of the class suffered damages in connection with their purchase of NICE Systems' ADS's during the Class Period.

PRAYER FOR RELIEF

WHEREFORE, plaintiff, on behalf of himself and the Class, pray for judgment as follows:

A. Declaring this action to be a class action properly maintained pursuant to Rule 23 of the Federal Rules of Civil Procedure;

B. Awarding plaintiff and other members of the Class damages together with interest thereon;

C. Awarding plaintiff and other members of the Class costs and expenses of this litigation, including reasonable attorneys' fees, accountants' fees and experts' fees and other costs and disbursements; and

D. Awarding plaintiff and other members of the Class such equitable/injunctive or other and further relief as may be just and proper under the circumstances.

JURY DEMAND

Plaintiff demands a trial by jury.

DATED: March 1, 2001

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