UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

IN RE COMVERSE TECHNOLOGY, INC. DERIVATIVE LITIGATION	**No. 06-CV-1849(NGG)(RER)**

CONSOLIDATED, AMENDED AND VERIFIED SHAREHOLDER DERIVATIVE COMPLAINT

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TABLE OF CONTENTS

Plaintiff Louisiana Municipal Police Employees' Retirement System ("LMPERS"), by and through its attorneys, derivatively on behalf of Comverse Technology, Inc. ("Comverse" or the "Company"), alleges upon personal knowledge as to itself and its own acts, and upon information and belief as to all other matters, based upon, *inter alia*, the investigation conducted by and through its attorneys, which included, among other things, a review of Securities and Exchange Commission ("SEC") filings, the Affidavit in Support of Arrest Warrants filed by the United States Attorney for the Eastern District of New York, the SEC Complaint filed against Defendant Jacob "Kobi" Alexander, David Kreinberg and William F. Sorin, news reports, press releases, and other publicly available documents regarding Comverse as follows:

NATURE OF THE ACTION

1. This is a stockholder derivative action brought on behalf of Nominal Defendant Comverse against: Jacob "Kobi" Alexander, Itsik Danziger, William F. Sorin, John H. Friedman, Sam Oolie, Ron Hiram, Raz Alon, Francis E. Girard, Shaula A. Yemini, Zvi Alexander, David Kreinberg, Dan Bodner, Zeev Bregman, Shawn K. Osborne, Carmel Vernia, Igal Nissim and Yechiam Yemini (collectively, "Defendants"), by Plaintiff LMPERS, who is now, and at all times relevant has been, a shareholder of Comverse. This action arises from Defendants' obtaining, approving, and/or acquiescing in the issuance of stock options to senior executives that were unlawfully backdated to provide the recipients with windfall compensation at the direct expense of Comverse.

2. Plaintiff, derivatively on behalf of Comverse, seeks relief for the damages sustained, and to be sustained by Comverse, as a result of Defendants' violations of federal and state law, including their violations of Section 10(b) and 14(a) of the Securities Exchange Act, 15 U.S.C. §78j(b) and 15 U.S.C. §78n(a), respectively, and

rules 10b-5 and 14a-9 promulgated thereunder, their breaches of fiduciary duties, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment, which occurred between January 1, 1994 and the present (the "Relevant Time Period" or "Relevant Period").

3. A stock option is a right to purchase a stock for a specified period of time at a fixed price, called the "exercise price" or "strike price." The shares that are subject to the option grant are assets of the company and are generally issued from the company's treasury. Stock options are typically granted as part of employee compensation packages as a means to create incentives to boost profitability and stock value. The exercise price is generally fixed to the market price of the stock on the closing date of the grant. When a stock's market price exceeds its exercise price, the option holder may purchase the stock from the company at the exercise price and resell it at the higher market price, pocketing the difference.

4. When the grant date of an option is manipulated to an earlier date on which the stock closed at a lower price, or when the grant date is manipulated to precede the release of favorable company news, the grantee pays less for the stock and the company, the counterparty to the option grant, receives less when the option is exercised. Thus, the practice of backdating option grants to lower prices represents a direct and continuing waste of valuable corporate assets.

5. Manipulating the timing of option grants is antithetical to the express purpose of employee stock option programs. Stock option compensation is intended to align the interests of managers with those of shareholders by encouraging managers to maximize shareholder value. In contrast, backdating option grants to correspond to lower

points in the stock price allows managers to benefit from declines in the price of the stock, and therefore creates an incentive for managers to engineer dips or volatile swings in stock price.

6. The practice of backdating grants of stock options raises the specter of false or misleading financial reporting under Generally Accepted Accounting Principles ("GAAP"). The difference between the exercise price and market price on the day of exercise is compensation that negatively impacts a company's earnings. Backdating option grants, therefore, creates a substantial risk that earnings have been, and will continue to be, misreported. Option backdating also masks the true level of executive compensation, thereby further misleading investors.

7. Option grants to Comverse executives during the Relevant Period preceded the announcement of favorable news, were at or near periodic lows, or preceded a run-up in share price. These facts, among others set forth below, indicate that the executives obtained their grants through either backdating or other improper means.

8. Defendants caused or allowed Comverse executives to manipulate their stock option grant dates so as to illegally maximize their stock profits. In particular, certain Comverse executives changed their respective stock option grant dates to take advantage of lower exercise prices than the price on the actual grant date. The price of Comverse shares on the reported option-grant date, therefore, was lower than the share price on the actual day options were issued – thus, providing Defendants with more favorably priced options.

9. The backdating of these stock options brought an instant paper gain to these Comverse executives because the options were priced below the stock's fair market

value when they were actually awarded. Under GAAP, this instant paper gain was equivalent to paying extra compensation and was thus a cost to Comverse. These costs were not properly recorded.

10. Comverse's officers and/or directors represented in the Company's filings with the SEC that employee stock options were granted with an exercise price that was "no less than the fair market value of a share of [Comverse] common stock on the date of the grant." Nevertheless, Comverse executives caused the Company to engage in an undisclosed and illicit scheme to backdate the grant dates of the stock options to a date on which the price of Comverse stock was lower than it was on the actual grant date, thereby increasing the value of the options to the grantees. The claimed dates of grant were untrue, and the options were actually granted on different dates and, with the benefit of hindsight, falsely ascribed to more favorable dates. Backdating stock option grants to obtain beneficial exercise prices is akin to picking lottery numbers on the day after the winning numbers are reported in the news. It is a riskless and unlawful exercise that unjustly appropriates corporate assets and benefits to no one other than the grantee. When certain of the options became worthless because their exercise price was "underwater," *i.e.*, above the then-current market price of Comverse stock, Defendants simply repriced the options by canceling them and granting themselves new options with significantly lower exercise prices so that the new options could be exercised for substantial profits.

11. This stock option backdating scheme at Comverse first came to light on March 14, 2006, when Defendants shocked the investing public or investment community by revealing previously undisclosed accounting irregularities regarding

Comverse's stock-option grants, including, but not limited to, the accuracy of the stated dates of option grants and whether all proper corporate procedures were followed, as well as the Company's internal investigation of those irregularities. This announcement caused shares of Comverse to decline by $4.30 per share, or approximately *15 percent*, from its March 13th value of $29.15 per share to close at $24.85 on March 14th.

12. On March 14, 2006, the Company also announced that it had created a Special Committee of its Board of Directors (the "Special Committee") to investigate its stock option grants, particularly, "the accuracy of the stated dates of option grants and whether all proper corporate procedures were followed." The two disclosed members of the Special Committee are Director Defendants Ron Hiram and Raz Alon. The remaining members of the Special Committee, if there are any, have not been disclosed. According to the March 14th release, the Company stated that as a result of the backdating scheme, it is likely that it will have to restate its financial results. The Company's formation of a Special Committee with undisclosed members provides no assurance that the wrongs complained of herein will be properly and satisfactorily addressed and remedied.

13. On March 14, 2006, Ulticom, Inc., ("Ulticom") a Comverse subsidiary, also announced that its Audit Committee had been reviewing matters relating to the Company's stock option awards including the accuracy of the stated dates of option awards, and whether all proper corporate procedures were followed.

14. On March 18, 2006, The Wall Street Journal published an article headlined, "*The Perfect Payday: Some CEOs Reap Millions By Landing Stock Options When They Are Most Valuable; Luck – Or Something Else?*", that analyzed stock option

grants to executives of numerous companies, including Comverse's Chairman and Chief Executive Officer, defendant Alexander. According to the article, Alexander received an "unusual pattern of grants." For example, the Company purportedly granted stock options to Alexander on July 15, 1996 that carried an exercise price of $7.9167 (adjusted for stock splits), representing the closing price of Comverse stock on that day. The article noted that the Company's selection of July 15, 1996 as the option grant date was unusual because it was priced at the bottom of a sharp one-day drop in the price of Comverse stock, which fell 13% the day of the grant and then rebounded 13% on the following day. The article identified another set of options granted to Alexander, on October 22, 2001 with an exercise price that corresponded to the ***second-lowest closing price of Comverse stock in 2001***. According to the article, the statistical probability of the Company randomly granting stock options with such favorable terms to Alexander was ***"around 1 in six billion,"*** and demonstrated that Alexander's options were most likely improperly backdated.

15. Then, on April 17, 2006, the Company confirmed what its March 14th announcement had hinted might happen – that, as a result of the improprieties relating to its stock-option grants, Comverse will need to restate its financial results for fiscal years 2001 through 2005, and the first three quarters of fiscal year 2006. In addition, the Company announced that it was delaying the filing of its Annual Report on Form 10-K for the fiscal year ended January 31, 2006. The April 17th announcement caused shares of Comverse to again drop another $.89, to close at $23.31 from a previous day's closing price of $24.20. Finally, the Company announced that its Special Committee had "***reached a preliminary conclusion that the actual dates of measurement for certain***

past stock option grants for accounting purposes differed from the recorded grant dates for such awards."

16. On April 17, 2006, Ulticom also announced that its Audit Committee had "reached a preliminary conclusion that the stated dates of certain of the Company's stock option awards, which were used in preparation of the Company's financial statements, differed from the measurement dates required to be used for accounting purposes to determine the value of such awards." Ulticom also disclosed that Comverse's Special Committee employed the same legal counsel and accounting experts as those assisting Ulticom's Audit Committee.

17. These disclosures contradicted much of the information previously published to the market by Comverse, for which Defendants were responsible, concerning its reported revenues and results and evidence that Defendants breached their respective fiduciary duties with respect to the Company's compliance with applicable accounting practices. Defendants' wrongdoing has caused Comverse to need to restate its financial results for fiscal years 2001 through 2005, and the first three quarters of fiscal year 2006, which inflated the value of the Company's stock during the Relevant Period; exposed Comverse to liability in the form of class action lawsuits and SEC investigations; and caused substantial losses to Comverse and other damages, such as to its reputation and goodwill.

18. On May 1, 2006, Comverse announced that Defendants Alexander, former Chairman and CEO of Comverse; Kreinberg, former CFO of Comverse; and Sorin, former director, Senior General Counsel and Corporate Secretary of Comverse, had

resigned. However, according to the same announcement, Alexander, Kreinberg and Sorin would remain as "advisors" to the Company.

19. On July 31, 2006, in an Affidavit In Support of Arrest Warrants (the "Criminal Complaint"), filed by the United States Attorney for the Eastern District of New York, Defendants Alexander, Kreinberg and Sorin were charged with "knowingly and willfully conspiring to (1) use and employ manipulative and deceptive devices and contrivances directly, by use of means and instrumentalities of interstate commerce and the mails, in contravention of Rule 10b-5 of the Rules and Regulations of the United States Securities and Exchange Commission (Title 17, Code of Federal Regulations, Section 240.10b-5), and directly and indirectly to (a) employ devices, schemes and artifices to defraud; (b) make untrue statements of material fact and omit to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (c) engage in acts, practices and a course of business which would and did operate as a fraud and deceit upon members of the investing public, in connection with purchases and sales of securities of Comverse Technology, Inc., in violation of Title 15, United States Code, Section 78j(b) and 78ff; and (2) devise a scheme and artifice to defraud shareholders and the investing public by means of materially false and fraudulent pretenses, representations and promises, and for the purpose of executing such scheme or artifice, and attempting to do so, (a) to cause mail matter to be delivered by the United States Postal Service according to the directions thereon, in violation of Section 1342 of Title 18 of the United States Code, and (b) to transmit and cause to be transmitted, by means of wire communication in interstate and foreign commerce, writings, signs, signals, pictures and sounds, in violation of Section

1343 of Title 18 of the United States Code." The Criminal Complaint is described further below.

20. On the same day, July 31, 2006, the SEC charged Jacob "Kobi" Alexander, David Kreinberg and William F. Sorin (the "SEC Complaint") with violating Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)], Sections 10(b), 13(b)(5), 14(a) and 16(a) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§78j(b), 78m(b)(5), 78n(a) and 78p(a)] and Exchange Act Rules 10b-5, 13b2-1, 13b2-2, 14a-9 and 16a-3 [17 C.F.R. §§240.10b-5, 240.13b2-1, 240.13b2-2, 240.14a-9 and 240.16a-3] thereunder. In addition, Alexander and Kreinberg were charged with violations of Exchange Act Rule 13a-14 [17 C.F.R. § 240.13a-14]. According to the SEC Complaint, through their conduct, each defendant aided and abetted Comverse's violations of Exchange Act Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) [15 U.S.C. §§ 78m(a), 78m(b)(2)(A) and 78 m(b)(2)(B)] and Exchange Act Rules 12b-20, 13a-1 and 13a-13 thereunder [17 C.F.R. §§240.12b-20, 240.13a-1 and 240.13a-13]. In addition, the SEC charged Kreinberg and Sorin with aiding and abetting Comverse's violations of Exchange Act Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) [15 U.S.C. §§ 78 m(a), 78m(b)(2)(A) and 78m(b)(2)(B)] and Exchange Act Rules 12b-20 and 13a-1 [17 C.F.R. §§ 240.12b-20 and 240.13a-1], and Kreinberg with aiding and abetting Comverse's violations of Exchange Act Rule 13a-13 [17 C.F.R. § 240.13a-13]. The SEC Complaint is described further below.

21. This action, brought on behalf of the Company, seeks to remedy the harms caused to Comverse by the backdating scheme and, in addition, to invalidate and nullify all executory options contracts issued pursuant to the scheme. By means of the

backdating scheme, Defendants caused the issuance of options bearing fraudulently low exercise prices to Alexander, Kreinberg, Sorin and other Comverse executives. Defendants also breached their duties as fiduciaries of the Company. Defendants owed Comverse duties of care, undivided loyalty, good faith, and truthful disclosure. The Officer Defendants and the Director Defendants (both defined below) breached these duties by obtaining, approving, and/or acquiescing in the issuance of backdated stock options to Comverse executives. The Officer Defendants were unjustly enriched by virtue of receiving fraudulently priced stock option grants. Finally, the Director Defendants – and in particular the members of the Compensation and Audit Committees – aided and abetted the Officer Defendants' breach of fiduciary duty, and, in particular, the Officer Defendants' duties of undivided loyalty to the Corporation by authorizing, approving and/or acquiescing in the issuance of backdated stock options to the Officer Defendants.

JURISDICTION AND VENUE

22. This Court has federal question jurisdiction over this action pursuant to 28 U.S.C. § 1331, because this is a civil action arising under the laws of the United States. In addition, this Court has exclusive jurisdiction over this action pursuant to Section 27 of the Securities Exchange Act, 15 U.S.C. §§ 78aa, because this action asserts claims under, *inter alia*, Sections 10(b) and 14(a) of the Exchange Act, 15 U.S.C. §78j(b) and 15 U.S.C. §78n(a), respectively, and rules 10b-5 and 14a-9 promulgated thereunder. This Court has supplemental jurisdiction over the non-federal claims asserted herein under 28 U.S.C. § 1367(a). In addition, this Court also has jurisdiction over all claims asserted herein pursuant to 28 U.S.C. §1332(a)(2), because complete diversity exists between Plaintiff and each defendant, and the amount in controversy exceeds $75,000.

23. Venue is proper in this District pursuant to 28 U.S.C. § 1391(a), because one or more of the Defendants either resides in or maintains executives offices in this District, nominal defendant Comverse is a New York corporation, and a substantial portion of the transactions and wrongs that are the subject of this Complaint, including the Defendants' primary participation in the wrongful acts detailed herein, occurred in this District. Moreover, the United States Attorney for the Eastern District of New York filed the Criminal Complaint against Defendants Alexander, Kreinberg and Sorin in this District and the SEC filed its complaint against Defendants Alexander, Kreinberg and Sorin in this District. Finally, Defendants have received substantial compensation in this District by doing business here and engaging in numerous activities that had an effect in this District. Venue is additionally proper in this district pursuant to 28 U.S.C. §1401, as the Company may properly sue defendants, and plaintiff may properly sue the Company and defendants in this district, the Company's principal place of business and state of incorporation.

THE PARTIES

The Plaintiff

24. Plaintiff Louisiana Municipal Police Employees' Retirement System ("LMPERS") is a defined-benefit pension fund for retired police officers in the State of Louisiana. LMPERS manages total assets of approximately $1.5 billion for approximately 10,000 active and retired police department workers throughout Louisiana. LMPERS is currently a shareholder of Comverse and was a shareholder of Comverse at the time of the wrongdoings which are the subject of this complaint.

The Nominal Defendant

25. Nominal Defendant Comverse is incorporated in New York and during the Relevant Period changed its principal headquarters from locations at 170 Crossways Park Drive, Woodbury, New York 11797 to One Huntington Quadrangle, Third Floor, Melville, New York 11747. Most recently, Comverse announced that it had formally changed its principal headquarters to 909 Third Avenue, New York, New York 10022.

26. Founded in 1984 and publicly-traded since 1986, Comverse and its subsidiaries engage in the design, development, manufacture, marketing, and support of software, systems, and related services for multimedia communication and information processing applications. The Company operates in three segments: Comverse Network Systems, Service Enabling Signaling Software, and Security and Business Intelligence Recording. The Company's products are used in a range of applications by wireless and wireline telecommunications network operators and service providers; call centers; and other government, public, and commercial organizations. Comverse common stock trades on the NASDAQ under the symbol "CMVT."

The Director Defendants

27. The following parties, sometimes referred to herein as the "Director Defendants," during the Relevant Period, served as members of the Board of Directors of Comverse as follows:

Jacob "Kobi" Alexander

28. Director Defendant Jacob "Kobi" Alexander is a founder of Comverse and served as Chairman of the Board of Directors from September 1986 and as Chief Executive Officer ("CEO") from April 1987, until his resignation on May 1, 2006. Alexander was also Chairman of the Executive Committee. He served as a director of the

Company since its formation in October 1984. Alexander served as President of the Company from its formation in October 1984 until January 2001. Alexander also served as Co-Managing Director of the Company's wholly-owned Israeli subsidiary, Comverse Ltd., from its formation in 1982 until October 1986. From October 1984 to September 1986, Alexander served as Co-Chairman and Co-Chief Executive Officer of the Company. Alexander is also Chairman of the Board and a director of Ulticom and Verint Systems, Inc. ("Verint"), two subsidiaries of Comverse. Alexander is also a director of Systems Management Arts, Inc. ("SMARTS"), a developer of automated network problem diagnosis software. Further, Alexander has longstanding personal and professional entanglements and relationships with other Board members which have prevented him from acting independently to fulfill the fiduciary duties owed to Comverse and its shareholders. For serving in his Comverse capacities, upon information and belief, Alexander was paid a salary, not including his stock options, of approximately $1.57M for fiscal year 2005. According to the Criminal Complaint, from 1991 through 2005, Alexander exercised options (granted from 1991 through 2003) and sold stock worth approximately $150 million, of which approximately $138 million was profit. According to the Criminal Complaint, in 2000, due to the exercise of options granted in 1994, Alexander made total profits of approximately $86 million. According to the Criminal Complaint, in 2005 and early 2006, Alexander exercised over $11 million worth of backdated options that were previously underwater until they were fraudulently repriced in 2002, and approximately $5.3 million of this amount was profit. Alexander is the brother of Director Defendant Shaula A. Yemini, the son of Director Defendant Zvi Alexander, and the former brother-in-law of Defendant Yechiam Yemini.

29. As Chairman of the Board of Directors, Alexander owed a duty to Comverse to be reasonably informed about the business, operations and finances of the Company. Moreover, as the Company's highest-level officer, Alexander also assumed important managerial responsibilities at Comverse which required him to be reasonably informed about the day-to-day operations of the Company. Rather than fulfill the important fiduciary duties Alexander owed to Comverse, he actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to Comverse by purposefully and/or severely disregarding these wrongful acts or omissions. Because of Alexander's positions, he knew the adverse non-public information about the business of Comverse, as well as its finances, markets and accounting practices, via access to internal corporate documents, conversations and connections with other corporate directors, officers, and employees, attendance at management and Board meetings, and via reports and other information provided to him in connection therewith. During the Relevant Period, Alexander participated in the issuance of false and/or misleading statements, including the approval of the false and/or misleading press releases and SEC filings. *See* ¶¶ 168(a)-(m); ¶¶ 199(a)-(g). Alexander has been indicted by the U.S. government in connection with this backdating scandal, and was considered a fugitive of law, until recently arrested in Namibia on September 27, 2006.

Itsik Danziger

30. Director Defendant Itsik Danziger ("Danziger") has served as a director of Comverse since November 1998, and is Chairman of the Board of Directors of Starhome BV, a subsidiary of the Company. Danziger served as President of Comverse from January 2001 until March 2003, as Chief Operating Officer of Comverse from January

1998, and additionally as its President from May 1999 until January 2001. From 1985, Danziger served in various management positions with the Company, including Vice President of Research and Development, and General Manager and President of the Network Systems Division. For serving in his Comverse capacities, upon information and belief, Danziger was paid a salary, not including his stock options, of approximately $160,000 for fiscal year 2005.

31. As a director, Danziger owed a duty to Comverse to be reasonably informed about the business, operations and finances of the Company. Moreover, as a high-level officer during the Relevant Period, Danziger also assumed important managerial responsibilities at Comverse which required him to be reasonably informed about the day-to-day operations of the Company. Rather than fulfill the important fiduciary duties Danziger owed to Comverse, he actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to Comverse by purposefully and/or severely disregarding these wrongful acts or omissions. Because of Danziger's positions, he knew the adverse non-public information about the business of Comverse, as well as its finances, markets and accounting practices, via access to internal corporate documents, conversations and connections with other corporate directors, officers, and employees, attendance at management and Board meetings, and via reports and other information provided to him in connection therewith. During the Relevant Period, Danziger participated in the issuance of false and/or misleading statements, including the approval of the false and/or misleading press releases and SEC filings. *See* ¶¶ 168(g)-(m); ¶¶ 199(d)-(g).

William F. Sorin

32. Director Defendant William F. Sorin ("Sorin") served as a director and Corporate Secretary of Comverse from its formation in October 1984 to his resignation on May 1, 2006. Sorin is an attorney engaged in private practice and is Senior General Counsel of the Company. Sorin is also a director of Ulticom and Verint, subsidiaries of Comverse. According to the Criminal Complaint, from 1998 to 2001, Sorin exercised options (granted from 1991 through 1999) and sold stock worth approximately $17 million. He gained approximately $14 million in profits. In addition, Sorin billed Comverse for legal services rendered during the Relevant Period. According to the Form DEF 14A filed by the Company on October 18, 1995, Sorin received $309,000 in legal fees during fiscal year 1994 from the Company. According to the Form DEF 14A filed by the Company on November 15, 1996, Sorin received $298,000 in legal fees during 1995 fiscal year from the Company. According to the Form DEF 14A filed by the Company on November 15, 1996, Sorin received $298,000 in legal fees during fiscal year 2005 from the Company. According to the Form DEF 14A filed on September 7, 1999, Sorin received $533,100 in legal fees during fiscal year 1998 from the Company. According to the Form DEF 14A filed by the Company on May 11, 2001, Sorin received $316,294 in legal fees during fiscal year 2000 from the Company. According to the Form DEF 14A filed by the Company on May 11, 2001 (for the period ended June 15, 2001) Sorin received $301,719 in legal fees in fiscal year 2001 from the Company. According to the Form DEF 14A filed by the Company on October 25, 2002, Sorin received $236,563 in legal fees between February 2001 and July 2002 from the Company. According to the Form DEF 14A filed by the Company on November 3, 2003, Sorin received $196,500 in legal fees between February 2002 and July 2003 from

the Company. According to the Form DEF 14A filed by the Company on May 3, 2004, Sorin received $84,313 in legal fees between February 2003 and January 2004 from the Company. According to the DEF 14A filed by the Company on May 9, 2005, Sorin received $16,875 in legal fees between February 2004 and January 2005 from the Company. According to the Criminal Complaint, "Comverse was Sorin's most significant client, occupying a majority of his billable time."

33. As a director, Sorin owed a duty to Comverse to be reasonably informed about the business, operations and finances of the Company. Rather than fulfill the important fiduciary duties Sorin owed to Comverse, he actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to Comverse by purposefully and/or severely disregarding these wrongful acts or omissions. Because of Sorin's positions, he knew the adverse non-public information about the business of Comverse, as well as its finances, markets and accounting practices, via access to internal corporate documents, conversations and connections with other corporate directors, officers, and employees, attendance at Board meetings, and via reports and other information provided to him in connection therewith. During the Relevant Period, Sorin participated in the issuance of false and/or misleading statements, including the approval of the false and/or misleading press releases and SEC filings. *See* ¶¶ 168(a)-(d), (g)-(m); ¶¶ 199(a)-(g). Sorin has been indicted by the U.S. government in connection with this backdating scandal.

John H. Friedman

34. Director Defendant John H. Friedman ("Friedman") has served as a director of Comverse since June 1994. Throughout the Relevant Period, Friedman has

served as Chairman of the Compensation Committee, and as a member of both the Audit Committee and the Corporate Governance and Nominating Committee. Friedman is considered a financial expert by the Company. Friedman is Managing Director of Easton Capital Corp., a private investment firm founded by Friedman in 1991. Friedman is also Managing Director of Easton Hunt Capital Partners, L.P., a $110 million Small Business Investment Company founded in 1999. Friedman is also a director of Renovis Inc. and YM BioSciences Inc. Friedman is a graduate of Yale Law School.

35. As a director, Friedman owed a duty to Comverse to be reasonably informed about the business, operations and finances of the Company. Rather than fulfill the important fiduciary duties Friedman owed to Comverse, he actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to Comverse by purposefully and/or severely disregarding these wrongful acts or omissions. Because of Friedman's positions, he knew the adverse non-public information about the business of Comverse, as well as its finances, markets and accounting practices, via access to internal corporate documents, conversations and connections with other corporate directors, officers, and employees, attendance at management and Board meetings, and via reports and other information provided to him in connection therewith. During the Relevant Period, Friedman participated in the issuance of false and/or misleading statements, including the approval of the false and/or misleading press releases and SEC filings. *See* ¶¶ 168(a)-(d), (g)-(m); ¶¶ 199(a)-(g).

Sam Oolie

36. Director Defendant Sam Oolie ("Oolie") has served as a director of Comverse since May 1986. Throughout the Relevant Period, Oolie has served as a

member of the Audit Committee, the Compensation Committee, the Corporate Governance and Nominating Committee, and the Executive Committee. Oolie is considered a financial expert by the Company. Since August 1995, Oolie has been Chairman of NoFire Technologies, Inc., a manufacturer of high performance fire retardant products. He has also been Chairman of Oolie Enterprises, an investment company, since July 1985. He also served as a director of CFC Associates, a venture capital firm, from January 1984 to December 1999. Oolie also serves as a director of NCT Group, formerly Noise Cancellation Technologies, Inc.

37. As a director, Oolie owed a duty to Comverse to be reasonably informed about the business, operations and finances of the Company. Rather than fulfill the important fiduciary duties Oolie owed to Comverse, he actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to Comverse by purposefully and/or severely disregarding these wrongful acts or omissions. Because of Oolie's positions, he knew the adverse non-public information about the business of Comverse, as well as its finances, markets and accounting practices, via access to internal corporate documents, conversations and connections with other corporate directors, officers, and employees, attendance at Board meetings and committees thereof, and via reports and other information provided to him in connection therewith. During the Relevant Period, Oolie participated in the issuance of false and/or misleading statements, including the approval of the false and/or misleading press releases and SEC filings. *See* ¶¶ 168(a)-(d), (g)-(m); ¶¶ 199(a)-(g).

Ron Hiram

38. Director Defendant Ron Hiram ("Hiram") has served as a director of Comverse since June 2001, and was also a director between 1986-1987. Throughout the Relevant Period, Hiram has served as a Chairman of both the Audit Committee and the Corporate Governance and Nominating Committee, and as a member of both the Compensation Committee and the Executive Committee. Hiram is considered a financial expert by the Company. Hiram is a Managing Partner of Eurofund 2000 L.P., a venture capital fund focused on Israeli related companies in the telecommunications, information technology and microelectronic spheres. Like Director Defendants Alexander and Sorin, Hiram is also a director of Ulticom, a subsidiary of Comverse. On May 1, 2006, Comverse named Hiram as the non-executive Chairman of the Board of Directors.

39. As a director, Hiram owed a duty to Comverse to be reasonably informed about the business, operations and finances of the Company. Rather than fulfill the important fiduciary duties Hiram owed to Comverse, he actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to Comverse by purposefully and/or severely disregarding these wrongful acts or omissions. Because of Hiram's positions, he knew the adverse non-public information about the business of Comverse, as well as its finances, markets and accounting practices, via access to internal corporate documents, conversations and connections with other corporate directors, officers, and employees, attendance at Board meetings and committees thereof, and via reports and other information provided to him in connection therewith. During the Relevant Period, Hiram participated in the issuance of false and/or misleading statements, including the

approval of the false and/or misleading press releases and SEC filings. *See* ¶¶ 168(j)-(m); ¶¶ 199(f)-(g).

Raz Alon

40. Director Defendant Raz Alon ("Alon") has served as a director of Comverse since December 2003. Since November 2000, Alon has served as Chairman of TopView Ventures LLC, an investment firm focused on special situation investments in a broad range of industries. Alon was an investment banker at Lehman Brothers, Comverse's investment banker, from 1991 through 1996. On May 1, 2006, Comverse named Alon as interim Chief Executive Officer.

41. As a director, Alon owed a duty to Comverse to be reasonably informed about the business, operations and finances of the Company. Rather than fulfill the important fiduciary duties Alon owed to Comverse, he actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to Comverse by purposefully and/or severely disregarding these wrongful acts or omissions. Because of Alon's positions, he knew the adverse non-public information about the business of Comverse, as well as its finances, markets and accounting practices, via access to internal corporate documents, conversations and connections with other corporate directors, officers, and employees, attendance at Board meetings and committees thereof, and via reports and other information provided to him in connection therewith. During the Relevant Period, Alon participated in the issuance of false and/or misleading statements, including the approval of the false and/or misleading press releases and SEC filings. *See* ¶¶ 168(l)-(m).

Francis E. Girard

42. Director Defendant Francis E. Girard ("Girard") was a director of Comverse from January 1998 until November 2003. Girard served as Vice Chairman of Comverse from January 2001 until January 2002. Girard also served as the Vice Chairman and CEO of Comverse Network Systems, a subsidiary of the Company, from January 1998 until January 2001.

43. As a director, Girard owed a duty to Comverse to be reasonably informed about the business, operations and finances of the Company. Rather than fulfill the important fiduciary duties Girard owed to Comverse, he actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to Comverse by purposefully and/or severely disregarding these wrongful acts or omissions. Because of Girard's positions, he knew the adverse non-public information about the business of Comverse, as well as its finances, markets and accounting practices, via access to internal corporate documents, conversations and connections with other corporate directors, officers, and employees, attendance at Board meetings and committees thereof, and via reports and other information provided to him in connection therewith. During the Relevant Period, Girard participated in the issuance of false and/or misleading statements, including the approval of the false and/or misleading press releases and SEC filings. *See* ¶¶ 168(d), (g)-(k); ¶¶ 199(d)-(g).

Dr. Shaula Alexander Yemini, Ph.D.

44. Director Defendant Shaula A. Yemini ("S. Yemini") was a director of Comverse from August 1997 until February 2002. She is President and Chief Executive Officer of Systems Management Arts Incorporated ("SMARTS"), a developer of

automated network problem diagnosis software, where her brother Kobi Alexander is a director. Between June 1982 and the formation of SMARTS in 1993, S. Yemini held various research and managerial positions at International Business Machines Corporation ("IBM"). Prior to that, she taught computer science at the Courant Institute of New York University. S. Yemini is the sister of Director Defendant Kobi Alexander and the daughter of Director Defendant Zvi Alexander.

45. As a director, S. Yemini owed a duty to Comverse to be reasonably informed about the business, operations and finances of the Company. Rather than fulfill the important fiduciary duties S. Yemini owed to Comverse, she actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached her fiduciary duties to Comverse by purposefully and/or severely disregarding these wrongful acts or omissions. Because of S. Yemini's positions, she knew the adverse non-public information about the business of Comverse, as well as its finances, markets and accounting practices, via access to internal corporate documents, conversations and connections with other corporate directors, officers, and employees, attendance at Board meetings and committees thereof, and via reports and other information provided to her in connection therewith. During the Relevant Period, S. Yemini participated in the issuance of false and/or misleading statements, including the approval of the false and/or misleading press releases and SEC filings. *See* ¶¶ 168(d), (g)-(j); ¶¶ 199(c)-(g).

Zvi Alexander

46. Director Defendant Zvi Alexander ("Z. Alexander") was a director of Comverse from August 1989 until February 2002. Z. Alexander is the father of Director

Defendants Alexander and S. Yemini, and the former father-in-law of Defendant Yechiam Yemini.

47. As a director, Z. Alexander owed a duty to Comverse to be reasonably informed about the business, operations and finances of the Company. Rather than fulfill the important fiduciary duties Z. Alexander owed to Comverse, he actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to Comverse by purposefully and/or severely disregarding these wrongful acts or omissions. Because of Z. Alexander's positions, he knew the adverse non-public information about the business of Comverse, as well as its finances, markets and accounting practices, via access to internal corporate documents, conversations and connections with other corporate directors, officers, and employees, attendance at Board meetings and committees thereof, and via reports and other information provided to him in connection therewith. During the Relevant Period, Z. Alexander participated in the issuance of false and/or misleading statements, including the approval of the false and/or misleading press releases and SEC filings. *See* ¶¶ 168(a)-(d), (g)-(j); ¶¶ 199(a)-(g).

Carmel Vernia

48. Director Defendant Carmel Vernia ("Vernia") was employed by the Company and its subsidiaries in various capacities, including Chief Operating Officer, Vice President, Manager of the Government Systems Division and Manager of Research and Development starting in 1984. In addition, Vernia served as Chief Executive Officer of the Company's Infosys Division. Vernia also served as a director of Comverse from August 1997 to 1999. In addition, she is the Managing Director of Efrat Future

Technology Ltd., a Comverse subsidiary now known as Comverse Network, where she has been employed since 1984 in various capacities, including Vice President, Manager of the Government Systems Division, and Manager of Research and Development.

49. As a director, Vernia owed a duty to Comverse to be reasonably informed about the business, operations and finances of the Company. Moreover, as a high-level officer during the Relevant Period, Vernia also assumed important managerial responsibilities at Comverse which required her to be reasonably informed about the day-to-day operations of the Company. Rather than fulfill the important fiduciary duties Vernia owed to Comverse, she actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached her fiduciary duties to Comverse by purposefully and/or severely disregarding these wrongful acts or omissions. Because of Vernia's positions, she knew the adverse non-public information about the business of Comverse, as well as its finances, markets and accounting practices, via access to internal corporate documents, conversations and connections with other corporate directors, officers, and employees, attendance at management and Board meetings, and via reports and other information provided to her in connection therewith. During the Relevant Period, Vernia participated in the issuance of false and/or misleading statements, including the approval of the false and/or misleading press releases and SEC filings. *See* ¶ 168(g); ¶¶ 199(a)-(d).

Igal Nissim

50. Director Defendant Igal Nissim ("Nissim") was employed by the Company starting in May 1986 and served as Chief Financial Officer of the Company from January 1993 to May 1999. In addition, he served as a director of the Company

from 1995 through 1999. He previously served as Chief Financial Officer of Efrat Future Technology Inc., a Comverse subsidiary now known as Comverse Network. In addition, since 1999, Nissim has served as Chief Financial Officer and as a director of Comverse's subsidiary, Verint Systems, Inc. Prior to joining the Company, he was employed by Gadot Industrial Enterprises Ltd. for a period of two years as deputy controller, responsible for financial and cost accounting. Nissim is a Certified Public Accountant in Israel and was employed for four years with Kesselman & Kesselman, one of the largest accounting firms in Israel.

51. As a director, Nissim had a duty to Comverse to be reasonably informed about the business, operations and finances of the Company. Moreover, as a high-level officer during the Relevant Period, Nissim also assumed important managerial responsibilities at Comverse which required him to be reasonably informed about the day-to-day operations of the Company. Rather than fulfill the important fiduciary duties Nissim owed to Comverse, he actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to Comverse by purposefully and/or severely disregarding these wrongful acts or omissions. Because of Nissim's positions, he knew the adverse non-public information about the business of Comverse, as well as its finances, markets and accounting practices, via access to internal corporate documents, conversations and connections with other corporate directors, officers, and employees, attendance at management and Board meetings, and via reports and other information provided to him in connection therewith. During the Relevant Period, Nissim participated in the issuance of false and/or misleading statements, including the approval

of the false and/or misleading press releases and SEC filings. *See* ¶¶ 168(a)-(d), (g); ¶¶ 199(a)-(c).

Yechiam Yemini

52. Director Defendant Yechiam Yemini ("Y. Yemini"), a director of the Corporation from October 1984 to May 1986, and between May 1987 and December 1997, Y. Yemini was the co-founder of Comverse along with defendant Alexander. Since the Company's formation in May 1987, Y. Yemini has also been a Chief Scientific Advisor to the Company. He has been a professor in the computer science department of Columbia University since 1980, where he is leading research projects in the areas of distributed computing and communications and network management systems. Y. Yemini is the former brother-in-law of Defendant Alexander and the former son-in-law of Defendant Z. Alexander.

53. As a director, Y. Yemini had a duty to Comverse to be reasonably informed about the business, operations and finances of the Company. Rather than fulfill the important fiduciary duties Y. Yemini owed to Comverse, he actively participated in or knowingly encouraged, sponsored or approved many of the wrongful acts or omissions complained of herein, and/or breached his fiduciary duties to Comverse by purposefully and/or severely disregarding these wrongful acts or omissions. Because of Y. Yemini's positions, he knew the adverse non-public information about the business of Comverse, as well as its finances, markets and accounting practices, via access to internal corporate documents, conversations and connections with other corporate directors, officers, and employees, attendance at management and Board meetings, and via reports and other information provided to him in connection therewith. During the Relevant Period, Y. Yemini participated in the issuance of false and/or misleading statements, including the

approval of the false and/or misleading press releases and SEC filings. *See* ¶¶ 168(a)-(c); ¶¶ 199(a)-(b).

The Officer Defendants

54. The following Defendants, sometimes referred to herein as the "Officer Defendants," in addition to Director Defendants Alexander, Danziger, Sorin, Girard and Nissim, also served in senior management positions during the Relevant Period as follows:

David Kreinberg

55. Officer Defendant David Kreinberg ("Kreinberg") served as Chief Financial Officer ("CFO") of Comverse from May 1999 and as Executive Vice President of the Company since 2002 until his resignation on May 1, 2006. Previously, Kreinberg served as the Company's Vice President of Finance and CFO from May 1999, as Vice President of Finance and Treasurer from April 1996, and as Vice President of Financial Planning from April 1994. Kreinberg is a Certified Public Accountant. Prior to joining Comverse, Kreinberg was a senior manager at Deloitte & Touche LLP, Comverse's outside auditor. Like Director Defendants Alexander and Hiram, Kreinberg also is a director of Ulticom and Verint, subsidiaries of Comverse. For serving in his Comverse capacities, upon information and belief, Kreinberg was paid a salary, not including his stock options, of approximately $774,000 for fiscal year 2005. According to the Criminal Complaint, from 1996 through 2006, Kreinberg exercised options (granted from 1994 through 2003) and sold stock worth approximately $18 million. He gained approximately $12.6 million in profits.

56. Because of Kreinberg's positions, he knew the adverse non-public information about the business of Comverse, as well as its finances, markets and

accounting practices, via access to internal corporate documents, conversations and connections with other corporate directors, officers, and employees, and via reports and other information provided to him in connection therewith. During the Relevant Period, Kreinberg participated in the issuance of false and/or misleading statements, including the approval of the false and/or misleading press releases and SEC filings. Kreinberg has been indicted by the U.S. government in connection with this backdating scandal. *See* ¶¶ 168(h)-(m); ¶¶ 199(d)-(g).

Dan Bodner

57. Officer Defendant Dan Bodner ("Bodner") has served as President and/or CEO of Verint since February 1994. Like Director Defendants Alexander, Sorin and Hiram and Officer Defendant Kreinberg, Bodner also is a director of Verint. From 1991 to 1998, Bodner also served as President and Chief Executive Officer of Comverse Government Systems Corp., a former affiliate of the Company. For serving in his Comverse capacities, upon information and belief, Bodner was paid a salary, not including his stock options, of approximately $734,000 for fiscal year 2005.

58. Because of Bodner's positions, he knew the adverse non-public information about the business of Comverse, as well as its finances, markets and accounting practices, via access to internal corporate documents, conversations and connections with other corporate directors, officers, and employees, and via reports and other information provided to him in connection therewith. During the Relevant Period, Bodner participated in the issuance of false and/or misleading statements, including the approval of the false and/or misleading press releases and SEC filings. *See* ¶¶ 199(e), (g).

Zeev Bregman

59. Officer Defendant Zeev Bregman ("Bregman") has served as CEO of Comverse, Inc., a subsidiary of the Company, since January 2001. Beginning in 1987, Bregman served in various management and marketing positions within the Company, including Vice President, EMEA Division of Comverse and Vice President, messaging Division of Comverse. For serving in his Comverse capacities, upon information and belief, Bregman was paid a salary, not including his stock options, of approximately $755,000 for fiscal year 2005.

60. Because of Bregman's positions, he knew the adverse non-public information about the business of Comverse, as well as its finances, markets and accounting practices, via access to internal corporate documents, conversations and connections with other corporate directors, officers, and employees, and via reports and other information provided to him in connection therewith. During the Relevant Period, Bregman participated in the issuance of false and/or misleading statements, including the approval of the false and/or misleading press releases and SEC filings. *See* ¶¶ 199(f)-(g).

Shawn K. Osborne

61. Officer Defendant Shawn K. Osborne ("Osborne") has served as President and CEO of Ulticom since September 1997. Osborne currently serves on the Board of Directors of the Telecommunications Industry Association. Like Director Defendants Alexander, Sorin and Hiram and Officer Defendant Kreinberg, Osborne also is a director of Ulticom. For serving in his Comverse capacities, upon information and belief, Osborne was paid a salary, not including his stock options, of approximately $440,000 for fiscal year 2005.

62. Because of Osborne's positions, he knew the adverse non-public information about the business of Comverse, as well as its finances, markets and accounting practices, via access to internal corporate documents, conversations and connections with other corporate directors, officers, and employees, and via reports and other information provided to him in connection therewith.

The John Doe Defendants

63. John Does 1-1000 are employees or officers of the Company who knowingly or recklessly participated in or benefited from the fraudulent scheme and deceptive conduct described herein. Various government agencies—including the SEC and the United States District Attorney for the Eastern District of New York—are currently investigating the transactions at issue here. Plaintiffs will seek to amend their complaint when the identities of the John Doe defendants and the roles they played in the scheme become known through these investigations or otherwise.

64. The Director Defendants, Officer Defendants and John Doe Defendants are sometimes collectively referred to herein as "Defendants."

OBLIGATIONS AND DUTIES OF THE DEFENDANTS

65. The Comverse Board, as constituted on April 20, 2006, consisted of the following directors: Kobi Alexander, David Sorin, Ron Hiram, Raz Alon, Itsik Danzinger, John H. Friedman and Sam Oolie.

66. Committees of the Board. The standing committees of the Comverse Board include: (i) the Audit Committee; (ii) the Compensation Committee; (iii) the Corporate Governance and Nominating Committee; and (iv) the Executive Committee.

67. By reason of their positions as directors, officers and/or fiduciaries of Comverse, and because of their ability to control the business, corporate and financial

affairs of Comverse, each of the Defendants owed Comverse the duty to exercise due care and diligence in the management and administration of the affairs of the Company, including the administration of the affairs of the Company's stock option plan, and in the use and preservation of its property and assets, and owed the duty of loyalty, including full and candid disclosure of all material facts related thereto. Further, Defendants owed a duty to Comverse to ensure that Comverse operated in compliance with all applicable federal and state laws, rules, and regulations; and that Comverse not engage in any unsafe, unsound, or illegal business practices. The conduct of Defendants complained of therein involves knowing and culpable violations of their obligations as officers and/or directors of Comverse, and the absence of good faith on their part, and a reckless disregard for their duties to the Company and its shareholders, which Defendants were aware or should have been aware posed a risk of serious injury to Comverse. The conduct of Comverse's officers and directors who engaged in the backdating of option grants was ratified by Comverse's Board by its failure to take any timely action against them.

68. To discharge these duties, Defendants were required to exercise reasonable and prudent supervision over the management, policies, practices, controls, and financial and corporate affairs of Comverse. By virtue of this obligation of ordinary care and diligence, Defendants were required, among other things, to:

a. Manage, conduct, supervise, and direct the employees, businesses and affairs of Comverse, in accordance with laws, rules and regulations, and the charter and by-laws of Comverse;

b. Manage and supervise the administration of the company's stock option plan in a manner consistent with the plan's objective; that is, to provide incentives to employees and Directors to work in

the best interests of the Company and its shareholders;

c. Neither violate nor knowingly or recklessly permit any officer, director or employee of Comverse to violate applicable laws, rules and regulations and to exercise reasonable control and supervision over such officers and employees;

d. Ensure the prudence and soundness of policies and practices undertaken or proposed to be undertaken by Comverse;

e. Remain informed as to how Comverse was, in fact, operating, and upon receiving notice or information of unsafe, imprudent or unsound practices, to make reasonable investigation in connection therewith and to take steps to correct that condition or practice, including, but not limited to, maintaining and implementing an adequate system of financial controls to gather and report information internally, to allow Defendants to perform their oversight function properly to prevent the use of non-public corporate information for personal profit;

f. Supervise the preparation, filing and/or dissemination of any SEC filing, press releases, audits, reports or other information disseminated by Comverse and to examine and evaluate any reports of examinations or investigations concerning the practices, products or conduct of officers of Comverse and to make full and accurate disclosure of all material facts, concerning, *inter alia*, each of the subjects and duties set forth above; and

g. Preserve and enhance Comverse's reputation as befits a public corporation and to maintain public trust and confidence in Comverse's as a prudently managed institution fully capable of meeting its duties and obligations.

69. The Defendants, particularly the members of the Audit Committee, were responsible for maintaining and establishing adequate internal accounting controls for the Company and ensuring that the Company's financial statements were based on accurate financial information. According to GAAP, to accomplish the objectives of accurately recording, processing, summarizing and reporting financial data, a corporation must

establish an internal accounting control structure. Among other things, the Defendants were required to:

a. Make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer; and

b. Devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that:

(i) Transactions are executed in accordance with management's general or specific authorization;

(ii) Transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP.

70. Comverse's Audit Committee Charter provides that the Audit Committee shall, among other things:

a. Assist the Board of Directors in fulfilling certain of its responsibilities to oversee management regarding: (i) overseeing the conduct and integrity of the Company's financial reporting process to any governmental or regulatory body, the public or other users thereof; (ii) overseeing the Company's compliance with legal and regulatory requirements, (iii) reviewing and evaluating the qualifications, engagement, compensation, independence and performance of the Company's independent auditors, their conduct of the annual audit, and their engagement for any other services; (iv) reviewing the performance of the Company's internal audit function, if applicable, and its systems of internal accounting and financial and disclosure controls, (v) reviewing and authorizing related-party transactions (as defined in the relevant NASDAQ requirements), (vi) overseeing the Company's code of business conduct and ethics as established by the Board, and (vii) preparing the Committee report required to be included in the Company's annual proxy statement.

b. At least annually, obtain and review a report by the independent auditors describing: (i) the firm's internal quality-control procedures; (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, regarding one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (iii) all relationships between the independent auditors and the Company.

c. Consider and review with the independent auditors and management: (i) the adequacy of the Company's disclosure controls and procedures and internal controls, including computerized information system disclosure controls and procedures and security; (ii) all changes in the Company's internal control over financial reporting which could materially affect the Company's ability to record, process, summarize and report financial data; (iii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting; and (iv) the related findings and recommendations of the independent auditors together with management's responses.

d. Review the Company's financial statements, including prior to public release, reviewing the Company's annual and quarterly financial statements to be filed with the SEC, including (a) the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," (b) any certifications regarding the financial statements or the Company's internal accounting and financial controls and procedures and disclosure controls or procedures filed with SEC by the Company's senior executive and financial officers and (c) the matters required to be discussed with the independent auditor by Statement of Auditing Standards Nos. 61, 90 and 100.

e. Review and discuss with management and the independent auditors the Company's earnings press releases (paying particular attention to the use of any "pro forma" or "adjusted" non-GAAP

information), as well as financial information and earnings guidance provided to analysts and rating agencies.

f. Review periodically with the Company's general counsel: (i) legal and regulatory matters that may have a material impact on the Company's financial statements and (ii) the scope and effectiveness of compliance policies and programs.

g. Review any issues that arise under the Company's code of business conduct and ethics, including having the authority to approve or deny any waivers requested thereunder.

h. Report regularly to the Board of Directors following each meeting, which reports shall include any issues that arise with respect to the quality or integrity of the company's financial statements, the company's compliance with legal or regulatory requirements, the performance and independence of the company's independent auditors or the performance of the internal audit function, if any, and with respect to such other matters as are relevant to the Committee's discharge of its responsibilities. The Committee shall provide such recommendations, as the Committee may deem appropriate. The report to the Board of Directors may take the form of an oral report by the Chairman or any other member of the Committee designated by the Committee to make such report.

71. Director Defendants Friedman, Oolie and Hiram were members of the Audit Committee during the Relevant Period. Director Defendant Hiram served as Chairman of the Audit Committee during the Relevant Period. The Comverse Board of Directors determined that each of the members of its Audit Committee qualified as an "audit committee financial expert" as defined in item 401(h)(2) of Regulation S-K and pursuant to Section 407 of Sarbanes-Oxley.

72. Comverse's Compensation Committee Charter provides that the Compensation Committee shall, among other things:

a. Determine salaries and incentive compensation for the Company's executive officers;

b. Administer the issuance of awards under the Company's stock option plans and such other compensation plans as may be assigned by the Board from time to time;

c. Perform such other duties as may from time to time be assigned by the Board with respect to compensation.

73. Director Defendants Friedman, Oolie and Hiram were members of the Compensation Committee during the Relevant Period. Director Defendant Hiram served as Chairman of the Compensation Committee during the Relevant Period.

74. In addition, Comverse's Board of Directors and its committees must fulfill the roles provided in Comverse's Corporate Governance Guidelines & Principles, as stated below:

> The Company's directors recognize their obligation individually and collectively as the Board to pay careful attention and be properly informed . . . .
>
> The Board has delegated to the Compensation Committee the task of evaluating the Chief Executive Officer. The Chairman of the Compensation Committee communicates the Board's conclusions to the Chief Executive Officer.
>
> The evaluation is based on the performance of the business, compensation of chief executive officers of comparable companies, accomplishment of objectives, development of management, and other pertinent items. The evaluation is used by the Compensation Committee in determining the Chief Executive Officer's compensation.
>
> Each director is expected to act with integrity and to adhere to the policies in the company's ethics code, the code of business Conduct and Ethics. Any waiver of the requirements of the Code of Business Conduct and Ethics for any individual director must be approved by the Board and promptly disclosed on the Company's website.

75. Comverse's employees, including its officers, must also follow Comverse's Employee Code of Business Conduct and Ethics, which states in relevant part:

> The Code is designed to promote honest, ethical and lawful conduct, including . . . (iii) full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the Company with the Securities and Exchange Commission and in other public communications made by the Company; (iv) compliance with applicable governmental rules and regulations; (v) prompt internal reporting to the Company's Legal Department of any violations of this Code; and (vi) accountability for adherence to this Code . . . .
>
> Those who violate the standards in this Code, including the obligation to promptly report conflicts of interest or violations of this Code, will be subject to disciplinary action, including dismissal from the Company. If you are in a situation that you believe may involve or lead to a violation of this Code, you have an affirmative duty to disclose to, and seek guidance from a responsible supervisor, the Legal Department or other appropriate internal authority . . . .
>
> Protecting Company Assets
>
> Company Personnel have a personal responsibility to protect the assets of the Company from misuse or misappropriation. The assets of the Company include tangible assets, such as products, equipment, automobiles and facilities, as well as intangible assets, such as intellectual property, trade secrets and business information. The Company's assets may only be used for business purposes and such other purposes that are approved by the Company. Without express prior written permission, Company personnel must not remove, dispose of or destroy anything of value belonging to the Company, including both physical items and electronic information . . . .
>
> Compliance with Laws
>
> Company Personnel must comply with all applicable laws and regulations in all jurisdictions where the Company does

business. Violation of domestic or foreign laws and regulations may subject an individual, as well as the Company, to civil and/or criminal penalties. Failure to comply with these policies and procedures must be promptly brought to the attention of the Legal Department.

Legal compliance is not always intuitive. In order to comply with the law, Company Personnel must strive to know the law. Company Personnel whose day-to-day work is directly affected by particular laws have a responsibility to understand them well enough to recognize potential problem areas and to know when and where to seek advice. When there is doubt as to the lawfulness of any proposed activity, advice should be sough from the Company's Legal Department.

Company personnel have an obligation to raise concerns promptly when they are uncertain as to the proper legal course of action or they suspect that some action may violate the law. The earlier a potential problem is detected and corrected, the better of the Company will be in protecting against harm to the Company's business and reputation.

Accurate Books and Records; Accounting Practices

It is the policy of the Company to fully and fairly disclose the financial condition of the Company in compliance with the applicable accounting principles, laws, rules and regulations and to make full, fair, accurate timely and understandable disclosure in our periodic reports filed with the Securities and Exchange Commission and in other communications to securities analysts, rating agencies and investors. Honest and accurate recordings and reporting of information is critical to our ability to make responsible business decisions. The Company's accounting records are relied upon to produce reports for the Company's management, rating agencies, investors, creditors, governmental agencies and others. Our financial statements and the books and records on which they are based must accurately reflect all corporate transactions and conform to all legal and accounting requirements and our system of internal controls.

Company Personnel have a responsibility to ensure that the Company's accounting records do not contain any false or intentionally misleading entries. The Company does not

permit intentional misclassification of transactions as to accounts, departments or accounting periods and, in particular:

- All company accounting records, as well as reports produced from those records, are kept and presented in accordance with the laws of each applicable jurisdiction;
- All records fairly and accurately reflect in all material respects the transactions or occurrences to which they relate;
- All records fairly and accurately reflect in all material respects and in reasonable detail the Company's assets, liabilities, revenues and expenses;
- The Company's accounting records do not contain any intentionally false or misleading entries;
- Transactions are classified correctly in all material respects as to accounts, departments or accounting periods;
- All transactions are supported in all material respects by accurate documentation in reasonable detail and recorded in the proper account and in the proper accounting period;
- All Company accounting records comply in all material respects with generally accepted accounting principles; and
- The Company's system of internal accounting controls is required to be followed at all times.

Any effort to mislead or coerce the independent auditors or members of internal audit staff concerning issues related to audit, accounting or financial disclosure has serious consequences for the Company and is strictly prohibited.

76. Comverse's employees, including its officers, must also abide by Comverse's Insider Trading Policy, which states in part:

> This Policy Statement has been adopted both to satisfy the Company's obligation to prevent insider trading and to help Company Personnel avoid the severe consequences

> associated with violations of the insider trading laws. The Policy Statement also is intended to prevent even the appearance of improper conduct on the part of anyone employed by or associated with the Company (not just so-called insiders) . . . .
>
> It is the policy of the Company that Company Personnel who are aware of material nonpublic information relating to the company may not, directly or through family members or other persons or entities, (a) buy or sell securities (including the purchase or sale of puts, calls and options) of the Company, or engage in any other action to take personal advantage of that information, or (b) pass that information on to others outside the Company, including family and friends. . . .
>
> Material Information. Material information is any information that a reasonable investor would consider important in making a decision to buy, hold, or sell securities. Any information that could be expected to affect the Company's stock price, whether it is positive or negative, should be considered material . . . .
>
> Stock Option Exercises. The Company's insider trading policy does not apply to the exercise of an employee stock option where all exercised shares continue to be held by the option holder. The policy does apply, however, to any sale of stock as part of a broker-assisted cashless exercise of an option, or any other market sale of stock, including a sale for the purpose of generating the cash needed to pay the exercise price of an option . . . .

77. Defendants, in breach of their fiduciary duties, authorized, caused, and/or permitted Comverse to abandon valuable corporate assets through the backdating of employee stock options, which not only served no legitimate corporate purpose but was also wasteful; and permitted and/or caused Comverse to conduct its business in an unsafe, imprudent and dangerous manner by engaging in the backdating scheme that permitted certain insiders to misappropriate and misuse confidential non-public corporate information for their personal profit.

78. Defendants participated in the wrongdoing complained of herein in order to improperly benefit themselves through the option grant backdating scheme alleged herein. Such participation involved, among other things, planning and creating (or causing to be planned and created), proposing (or causing the proposal of) and authorizing, approving and acquiescing in the conduct complained of herein.

79. As officers and/or directors of Comverse, Defendants were themselves directly responsible for authorizing or permitting the authorization of, improper stock option manipulation, the practices that resulted in the misappropriation of confidential corporate information, as alleged herein. Each of them had knowledge of, and actively participated in, and approved of the wrongdoings alleged or abdicated his responsibilities with respect to these wrongdoings. The alleged acts of wrongdoing subjected Comverse to unreasonable risks without any reward to the Company or its shareholders.

80. By reason of their membership on the Comverse Board of Directors and/or positions as executive officers of the Company, the Defendants were each controlling persons of Comverse and had the power and influence to cause, and did cause, the Company to engage in and/or permit the conduct complained of herein.

81. Furthermore, Defendants Alexander, Danziger, Sorin, Girard, Kreinberg, Bodner, Bregman, Nissim, and Osborne, as officers of Comverse, had ample opportunity to discuss this material information with their fellow officers at management meetings and via internal corporate documents and reports.

82. Defendants Alexander, Danziger, Sorin, Friedman, Oolie, Alon, Girard, Hiram, S. Yemini, Vernia, Nissin, Y. Yemini and Z. Alexander, as directors of Comverse, had ample opportunity to discuss this material information with management

and their fellow directors at any of the Board meetings that occurred during the Relevant Period, as well as at meetings of committees of the Board.

83. Despite these duties, Defendants negligently, recklessly, and/or intentionally caused or allowed, by their actions or inactions, the improper statements to be disseminated by Comverse to the investing public and the Company's shareholders during the Relevant Period.

THE COMVERSE BOARD OF DIRECTORS

84. The Director Defendants, by their fiduciary duties of care, good faith and loyalty, owed to Comverse a duty to insure that the Company's financial reporting fairly presented, in all material aspects, the operations and financial condition of Comverse. In order to adequately carry out these duties, it was necessary for the Director Defendants to know and understand the material, non-public information to be disclosed or omitted from the Company's public statements. This material, non-public information included the fact that Comverse's internal controls were woefully defective and that the Company's executives were improperly backdating their stock options.

THE OPTION BACKDATING SCHEME

85. Defendants either knowingly or in bad faith participated in an options backdating scheme with the direct intent and purpose of enriching the Defendants at the expense of Comverse. Pursuant to this scheme, the Defendants received billions of dollars of option grants purportedly issued on unusually favorable and statistically improbable dates during at least the period from 1994 through 2002, resulting in hundreds of millions, if not billions, of undisclosed and illegal compensation. The stock option grants at issue here were granted at or near the stock's annual or quarterly low, and/or immediately before a substantial run-up in the stock price. Statistical analysis of

this pattern of stock option grants reveals that the pattern could not have been random or fortuitous. Rather, the only statistical explanation (consistent with Defendants' recent disclosure that "the actual dates of measurement for certain past stock option grants for accounting purposes differed from the recorded grant dates for such awards" is that these stock option grants were backdated to allow the Defendants to enjoy the largest possible returns at the expense of the Company.

86. Beginning at least as early as 1994, the grant dates of Comverse stock options issued to Company employees and officers were backdated on numerous occasions to dates on which the price of Comverse stock was lower than it was on the grant date, so as to increase the value of the stock options. According to the analysis reported by The Wall Street Journal, the probability of grant stock options with such favorable exercise prices is nearly zero. The Company has already stated that it will have to restate its financial results for each of the fiscal years ended January 31, 2005, 2004, 2003, 2002 and 2001 and for the first three quarters of the fiscal year ended January 31, 2006, to properly account for stock option expenses.

87. Typically, companies set the exercise price of an option by reference to the trading price of the underlying security on the date that the directors approve the options grant, with the exercise price keyed to the closing price of the stock that day. Accordingly, granting an option with an exercise price below the then-current market price of the underlying stock may result in false disclosures to shareholders. For instance, in the Company's SEC filings, including proxy statements, the Company falsely represented that the exercise price would be no less than the "fair market value of a share of Common stock on the date of grant." Similarly, the Company's 2000 Stock Incentive

Compensation Plan ("2000 Incentive Plan"), included in the Company's Proxy Statement, filed with the SEC on July 20, 2000, provided that Company employees and directors were eligible for stock option awards, subject to the following conditions, among others:

> Subject to Section 3.2, the price per share at which Common Stock may be purchased upon exercise of an Option shall be determined by the Committee, but, in the case of grants of Incentive Stock Options, ***shall be not less than the Fair Market Value of a share of Common Stock on the date of grant***. [Emphasis added]
>
> According to the 2000 Incentive Plan, "Fair Market Value" is defined as follows:
>
> "Fair Market Value" on any given date means the closing price of shares of Common Stock on the principal national securities exchange on which the Common Stock is listed on such date or, if Common Stock was not traded on such date, on the last preceding day on which the Common Stock was traded, or as otherwise determined by the Committee.

88. If the grant date were backdated to a time when the stock was trading lower than on the actual grant date, as happened on numerous occasions in this case, the exercise price would be lower (all other things being equal) and the option holder would then have the right to exercise the option to purchase the Company stock at a lower exercise price and sell stock for greater profits than if the correct grant date had been used. The statistical probability that the Company randomly granted stock options with such favorable exercise prices between 1994 and 2002 was, as concluded by the study reported by The Wall Street Journal, nearly impossible and leads inevitably to the conclusion that the options were backdated. This pattern of stock option grants made by the Company between 1994 and 2002 is illustrated below in ¶¶ 104-124.

89. According to the Criminal Complaint, "until approximately 1997 or 1998, Director Defendant Sorin handled the paperwork necessary for the issuance of stock option grants, with assistance from another employee (the "Assistant"). Beginning in approximately 1997 or 1998, Alexander asked the Assistant to assume the burden of most of the paperwork for the options process, in coordination with Sorin."

90. According to the Criminal Complaint, "during this later period, typically, Alexander contacted the Assistant to advise that the company would be making a grant, and that the managers of Comverse's various business units would be sending proposed lists of employees and the recommended number of options to be issued to each of them. Upon receipt of this data, the Assistant compiled a comprehensive list of proposed employees and the recommended number of options for each person (the "grantee list"). The grantee list was in constant flux as managers added, deleted, and changed employee names and option amounts."

91. According to the Criminal Complaint, once this list was completed for purposed of submission to the Compensation Committee of the Board of Directors, "either Alexander or Kreinberg instructed the Assistant to prepare packets for the Compensation Committee. At this stage, Alexander or Kreinberg gave the Assistant a prior date when the stock was trading at a lower price (the backdated date) and the strike price (the price of the stock on that backdated day) to insert into the unanimous written consent form as the effective date of the grant (an "as of" date). The Assistant then sent, typically via overnight courier, the grantee list and the unanimous written consent forms to the members of the Compensation Committee. The Assistant typically included a cover letter with instructions. The cover letters typically bore the true date of the

submission to the Compensation Committee, and attached unanimous written consents with backdated "as of" dates and prices. Sorin received contemporaneous copies of these documents."

92. According to the Criminal Complaint, "the following day, the Assistant typically received signed unanimous written consents by fax from each member of the Compensation Committee, although the receipt of these was sometimes delayed. The Assistant later received the original unanimous written consents by overnight courier."

93. According to the Criminal Complaint, "until approximately 2002, the Defendants treated the grantee list as a work in progress even after the Compensation Committee had approved it. Both the names of the employees receiving the grants and the number of options granted to individuals changed at the request of management, although the total number of options granted was not increased. Prior to 1996, Sorin managed and maintained stock option data in an Excel spreadsheet, and from 1996 to the present, the Assistant managed the option data through a software program called "Equity Edge." The Assistant used templates provided by Sorin to create the unanimous written consent forms and related option agreements."

The Comverse Stock Options Plans

94. From 1994 through 2002, Comverse granted stock options to its employees and directors and those of its various subsidiaries and affiliates, like Ulticom and Verint, pursuant to at least eight different stock option plans. The plans had been drafted by Sorin, approved by the Board of Directors and voted upon and adopted by Comverse's shareholders.

95. Options were granted on a company-wide basis under the following plans:

Plan	Effective From/To	Stock Available Under The Plan
1987 Stock Option Plan (As Amended)	1993 - 10/8/1997	33,000,000 shs.
1994 Stock Option Plan	9/16/1994–9/15/2004	950,000 shs.
1995 Stock Option Plan	10/13/1995–10/12/2005	1,000,000 shs.
1996 Stock Option Plan	10/31/1996–10/31/2006	1,000,000 shs.
1997 Stock Incentive Compensation Plan	11/21/1997–11/20/2007	2,500,000 shs.
1999 Stock Incentive Compensation Plan	5/13/1999–5/12/2009	3,500,000 shs.
2000 Stock Incentive Compensation Plan	9/15/2000-9/14/2010	9,000,000 shs.
2001 Stock Incentive Compensation Plan	6/15/2001-6/15/2011	9,700,000 shs.

96. The basic terms of the plans were unchanged during the relevant period.

97. The stated purpose of each plan was to attract and retain employees and directors at Comverse and its subsidiaries by giving those persons "a greater stake in the Company's success and a closer identity with it."

98. Each plan gave Comverse's Compensation Committee, which typically had three members during the relevant time period, full power to interpret and administer the plans and full authority (i) to select the specific employees to whom awards would be granted under the plans and (ii) to determine the type and amount of the award to be granted such employees, and the terms of the option agreements to be entered into with such employees.

99. Under the plans, the Compensation Committee was responsible for determining the exercise price of each option grant, within certain limitations. ***Incentive stock options could not have an exercise price less than the fair market value of a share of Comverse common stock "on the date of grant."***

100. The plans all defined fair market value to be the closing sale price of a share of Comverse common stock on the date of grant as published by the principal national securities exchange on which Comverse's common stock was listed.

The Comverse Bylaws

101. The bylaws of Comverse that were in effect from 1987 until March 2003, empowered Comverse's Compensation Committee to act formally on option grant proposals in two ways. The Compensation Committee could act without a formal meeting if all members of the committee consented in writing to the adoption of a resolution authorizing the action (otherwise known as a "unanimous written consent"); or, the Compensation Committee could act by holding a meeting at which a quorum of Committee members was present, if a majority of those present at the meeting approved the action. Under the bylaws, a Committee member was deemed present at a meeting only if he/she appeared in person at the meeting or participated telephonically and all participants in the meeting were able to hear each other at the same time.

102. To the extent the Compensation Committee acted on stock option grant proposals through unanimous written consents, the bylaws provided that the signature of all Compensation Committee members was needed for the consents to make a grant effective.

103. To the extent the Compensation Committee acted on stock option grant proposals through a formal meeting, the bylaws required that at least two members of the Committee be present at the meeting and to approve the grant. Under the bylaws, telephonic conferences with Committee members, with participation by less than a quorum, would not satisfy the requirements of a formal meeting.

Comverse's Backdated Company-Wide Option Grants[1]

104. Comverse granted stock options on a company-wide basis as follows:

Purported Date of Grant	Exercise Price	Total Number of Options Granted
09/22/1994	$10.00	Unknown
05/25/1995	$13.50	Unknown
07/15/1996	$23.750	459,027
05/28/1997	$44.250	7111,000
01/27/1998	$31.250	3,109,473
10/09/1998	$20.000	744,000
10/18/1999	$46.500	3,834,333
11/30/2000	$85.000	8,769,360
10/22/2001	$16.050	9,400,000

105. Each and every one of the foregoing stock option grants was dated just after a sharp drop and just before a substantial rise in Comverse's stock price:

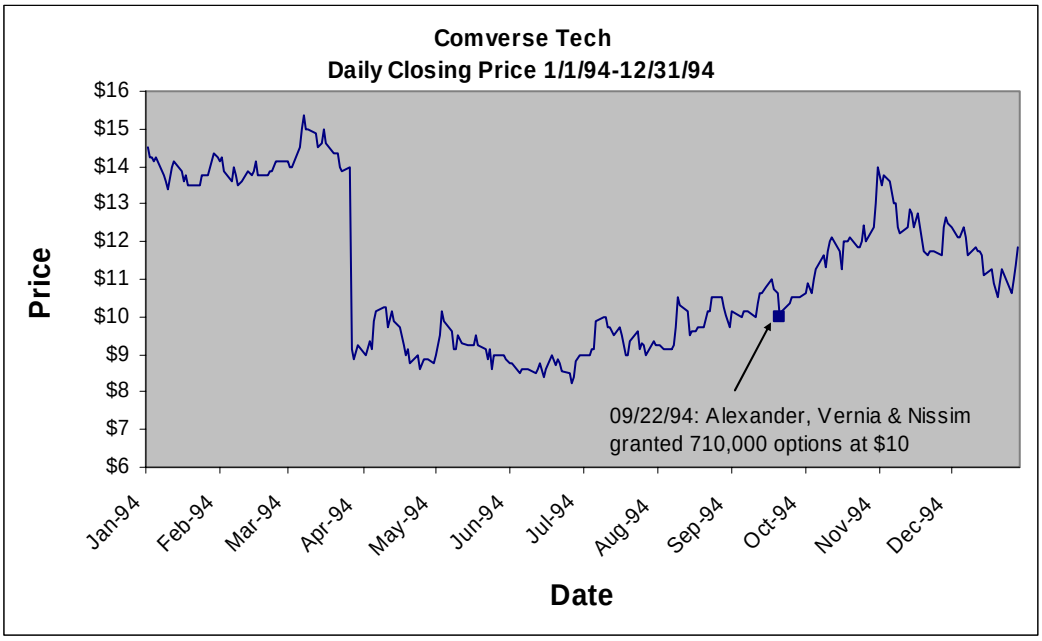
Purported Date of Grant	Market Price	Exercise Price	Stock price 17 Trading Days After Purported Grant Date	% Rise in Stock Price 17 Days After Purported Grant Date
09/22/1994	$10.00	$10.00	$11.75	18%
05/25/1995	$13.50	$13.50	$15.63	16%
07/15/1996	$23.75	$23.75	$32.00	35%
05/28/1997	$44.25	$44.25	$44.63	1%
01/27/1998	$31.25	$31.25	$45.38	45%
10/09/1998	$30.00	$20.00	$50.38	68%
10/18/1999	$46.50	$46.50	$129.25	39%
11/30/2000	$86.19	$85.00	$111.19	29%
10/22/2001	$16.05	$16.05	$24.69	54%

[1] Within this section, the numbers listed for the amount of options granted and the exercise price at which those options were granted were taken directly from the Company's proxy statements and 10-Ks. Therefore, these numbers do not necessarily reflect the Company's 3-for-2 stock split effective April 16, 1999 or the Company's 2-for-1 stock split effective April 4, 2000.

106. In 1994, Comverse granted stock options to defendants Alexander, Vernia, and Nissim and told investors the date of the grants was September 22, 1994, as follows:

Name	Grant Date	No. Options Granted	Exercise Price
Jacob "Kobi" Alexander	9/22/1994	500,000	$10.00
Carmel Vernia	9/22/1994	20,000	$10.00
Igal Nissim	9/22/1994	10,000	$10.00

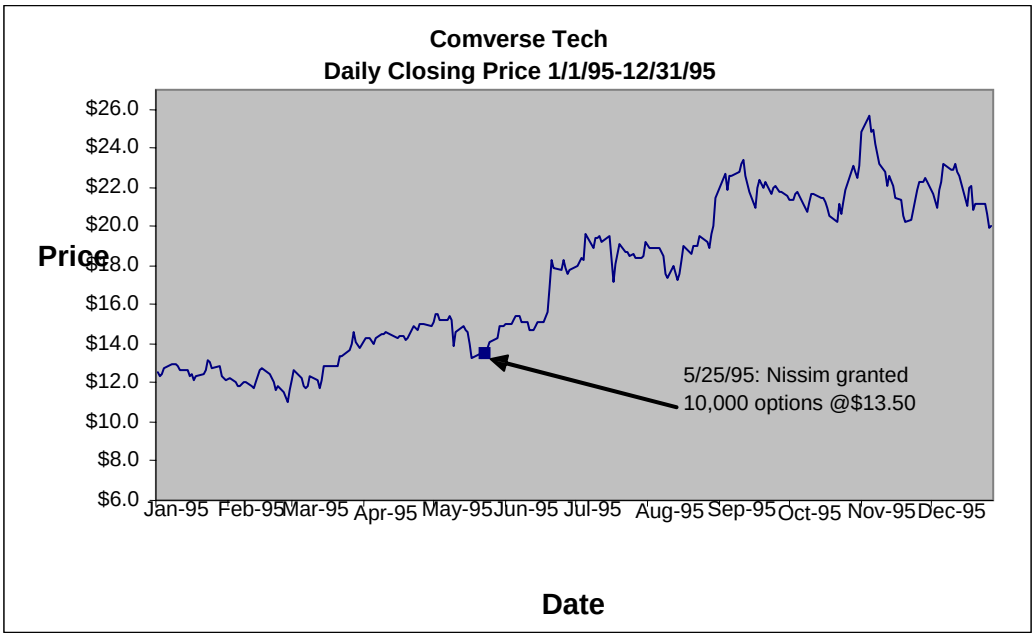
As demonstrated by the chart below, the price of Comverse stock on the purported grant date, September 22, 1994, had fallen nearly 5% from its previous day's closing price. After September 22, 1994, the price of Comverse stock steadily increased and traded as high as $14.00 per share by the end of the year. Therefore, Alexander, Vernia, and Nissim could have exercised their options to purchase Company stock at the favorable exercise price and then sold the stock at the market price for immediate substantial profits:



107. In 1995, Comverse granted 10,000 options to Igal Nissim purportedly on May 25, 1995 as follows:

Name	Grant Date	No. Options Granted	Exercise Price
Igal Nissim	5/25/1995	10,000	$13.50

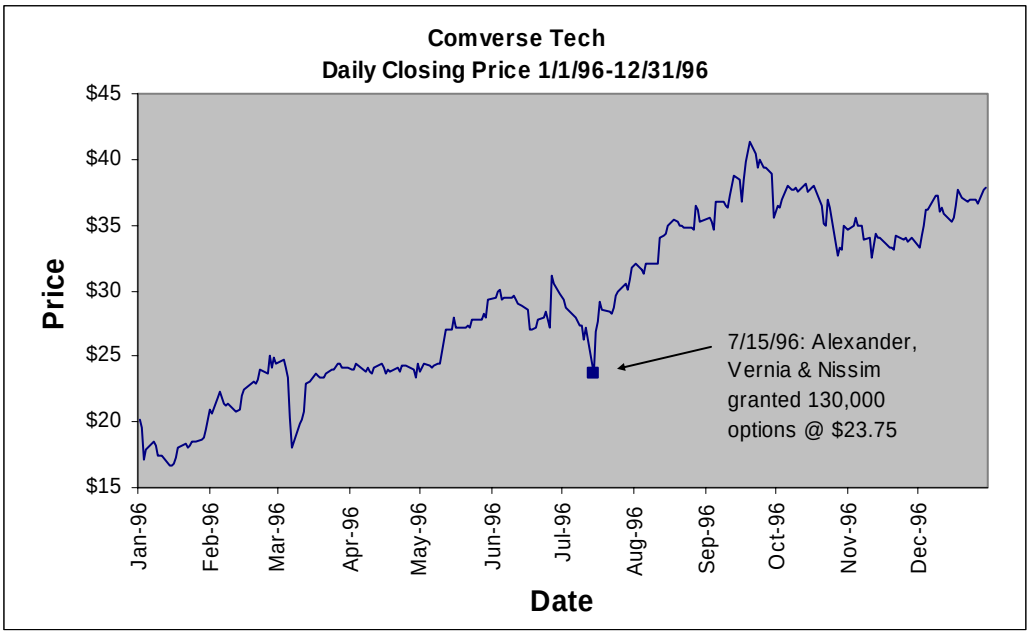
108. As demonstrated in the chart below, the price of Comverse stock on the grant date represented more than a 12% decline from its closing price approximately two weeks prior thereto. Between the grant date, May 25, 1995 and December 31, 2005, the price of Comverse stock steadily rose and traded as high as $25.69 per share.



109. In 1996, Comverse purportedly granted Alexander, Vernia, and Nissim the following options purportedly on July 15, 1996, as follows:

Name	Grant Date	No. Options Granted	Exercise Price
Jacob “Kobi” Alexander	7/15/1996	100,000	$23.75
Carmel Vernia	7/15/1996	25,000	$23.75
Igal Nissim	7/15/1996	5,000	$23.75

As demonstrated in the chart below, the price of Comverse stock had dropped significantly before July 15, 1996 and rose $12.75, or 53.68% by September 10, 1996 as demonstrated in the following chart:

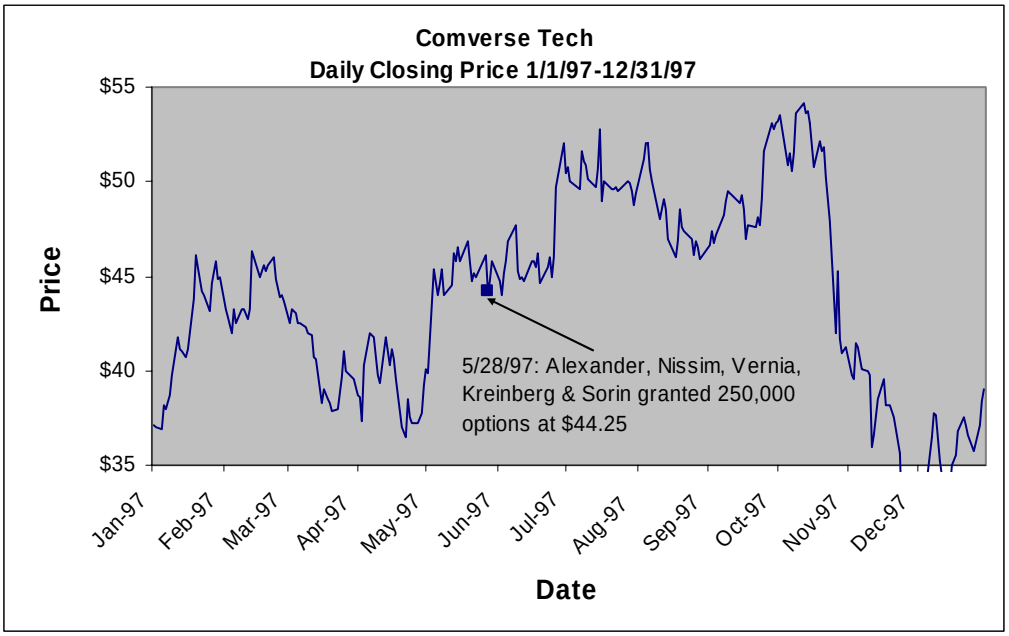


110. According to the SEC Complaint, "112 grantees received options in this grant. Alexander selected the July 15 date and price by looking back at Comverse's trading history – July 15 had the second-lowest closing price for the fiscal quarter. The Compensation Committee's approval for this grant was not sought or obtained on July 15, the date Alexander selected with hindsight, or at any time before the unanimous written consents were sent and signed. Although the Compensation Committee members' unanimous written consents making this grant do not indicate the date on which they were signed, they likely were signed on or shortly before September 10, 1996, when the Assistant began to enter grant information into Equity Edge."

111. In 1997, Comverse purportedly granted the following stock options to Alexander, Nissim, and Vernia purportedly on May 28, 1997, as follows:

Name	Grant Date	No. Options Granted	Exercise Price
Jacob "Kobi" Alexander	5/28/1997	150,000	$44.25
Igal Nissim	5/28/1997	5,000	$44.25
Carmel Vernia	5/28/1997	70,000	$44.25
David Kreinberg	5/28/1997	5,000	$44.25
William Sorin	5/28/1997	20,000	$44.25

As demonstrated by the chart below, Comverse stock price had dropped significantly before May 28, 1997 and rose $1.50 or 3.4% by June 16, 1997 and continued to rise:



112. According to the SEC Complaint, 711,000 options were awarded to 99 grantees in this grant. Alexander selected the May 28 date and price by looking back at Comverse's trading history. The May 28 closing price was a relative low for the fiscal quarter. According to the SEC Complaint, "The Compensation Committee's approval for this grant was not sought or obtained on May 28, the date Alexander selected with hindsight, or at anytime before the unanimous written consents were sent and signed. Although the Compensation Committee Members' unanimous written consents making this grant do not indicate the precise date on which they were signed, they could not have

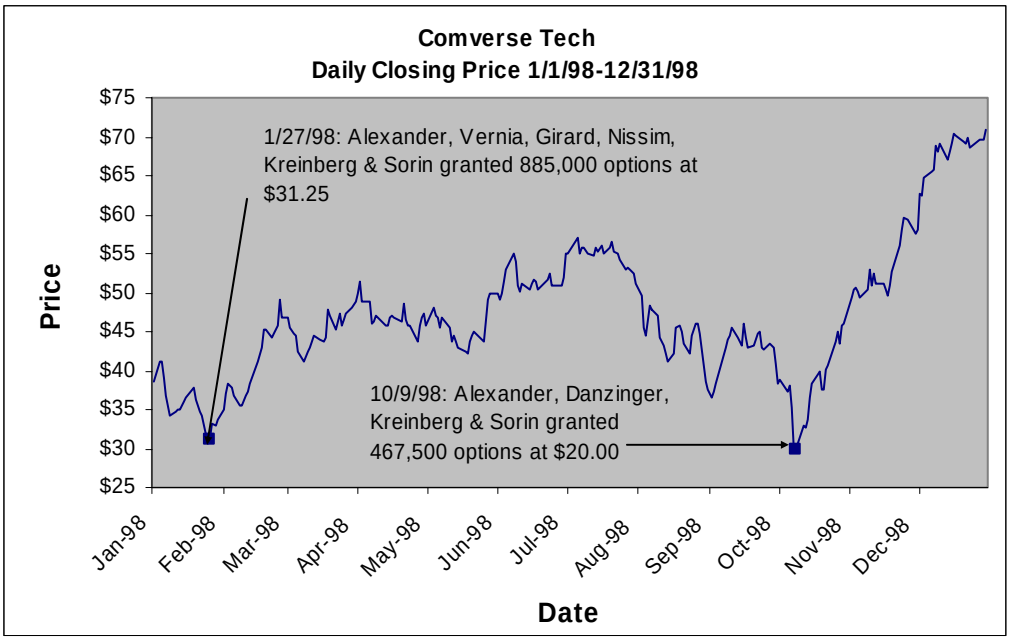
been signed prior to June 16, 1997, nearly three weeks after May 28, when Sorin sent the consents to the Compensation Committee for signature."

113. In 1998, Comverse purportedly granted the following stock options to Alexander, Danziger, Vernia, Nissim, Kreinberg, Sorin and Girard purportedly on January 27, 1998 and/or October 9, 1998, as follows:

Name	Grant Date	No. Options Granted	Exercise Price
Jacob "Kobi" Alexander	1/27/1998	500,000	$31.25
Carmel Vernia	1/27/1998	125,000	$31.25
Francis Girard	1/27/1998	150,000	$31.25
Igal Nissim	1/27/1998	25,000	$31.25
David Kreinberg	1/27/1998	35,000	$31.25
William Sorin	1/27/1998	50,000	$31.25
Jacob "Kobi" Alexander	10/9/1998	375,000	$20.00
Itsik Danziger	10/9/1998	75,000	$20.00
David Kreinberg	10/9/1998	10,000	$20.00
William Sorin	10/9/1998	7,500	$20.00

As demonstrated by the chart below, the price of Comverse stock on January 27, 1998 had fallen more than 17% from its closing price on January 20, 1997, five trading days earlier. Immediately after the purported January 27, 1998 grant date, the price of Comverse stock rose, $14.06, or 45%, by February 19, 1998, and continued to rise, closing the year at $71 on December 31, 1998.

114. In addition, the price of Comverse stock on the purported October 9, 1998 grant date had fallen 15% from its closing price just two trading days earlier, and closed at the second-lowest price of any day in 1998. On the following day, October 10, 1998, the price of Comverse stock rose approximately 10%, and by October 15, the stock price rose 21.67%. Between October 9, 1998 and October 15, 1998, the intrinsic value of each option had increased by at least $6.50 per option.



115. According to the SEC Complaint, "3,109,473 options were granted to grantees in this grant. Alexander selected the January 27 date and price by looking back at Comverse's trading history. The closing price of Comverse's common stock on January 27 was the second-lowest closing price in the first two months of 1998. The Compensation Committee's approval for this grant was not sought or obtained on January 27, the date Alexander selected with hindsight, or at any time before the unanimous written consents were sent and signed. Indeed, the Compensation Committee did not make the grant until at least February 19, 1998, more than three weeks later, when Sorin first sent unanimous written consents to the Compensation Committee for signature."

116. According to the Criminal Complaint, "the company-wide option grant dated 'as of' October 9, 1998, did not occur on that date. Rather, in an e-mail dated October 15, 1998, the Assistant stated that the grantee list would be going to the Compensation Committee the next day. By cover letter also dated October 15, 1998, the

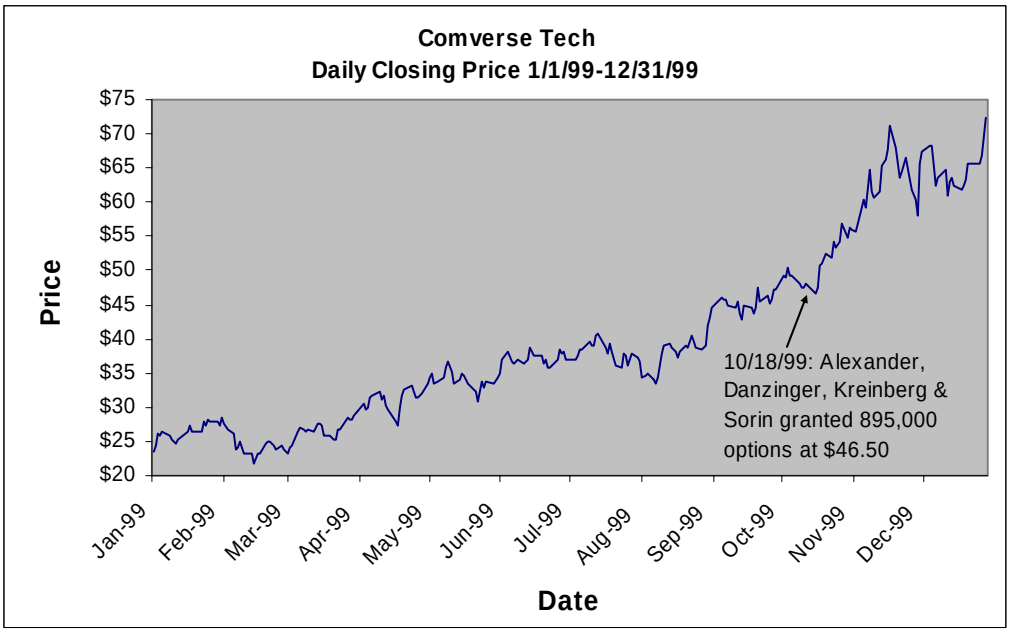
Assistant sent to the Compensation Committee unanimous written consent forms dated as of October 9, 1998."

117. In 1999, Comverse purportedly granted the following stock options to Alexander, Danziger, Kreinberg and Sorin purportedly on October 18, 1999, as follows:

Name	Grant Date	No. Options Granted	Exercise Price
Jacob "Kobi" Alexander	10/18/1999	630,000	$46.50
Itsik Danziger	10/18/1999	160,000	$46.50
David Kreinberg	10/18/1999	75,000	$46.50
David Sorin	10/18/1999	30,000	$46.50

As demonstrated by the chart below, during the eight trading days immediately before the purported grant date of October 18, 1999, the price of Comverse stock had steadily declined nearly 8%. On October 18, 1999, the backdated day selected for the grant, Comverse's stock was trading at $93, the lowest price since the last shareholder meeting of October 9, 1999, when the shareholders approved the 1999 stock option plan.[2] October 18 also was the lowest closing price for the fiscal quarter. On October 19, 1999, the day after the purported grant date, the price of Comverse stock rose and continued to rise through the end of the year, closing at $72.38 per share on December 31, 1999. The total number of options granted was over 3.83 million.

[2] Comverse disclosed in its 1999 proxy, filed with the SEC on September 7, 1999, that it did not have enough stock reserved under its pre-1999 stock option plans to make another company-wide grant. Therefore, Comverse had to wait until the shareholder meeting on October 9, 1999, before issuing a company-wide grant. This means that the Defendants could not backdate to a date prior to October 9, 1999 without attracting suspicion.



118. According to the Criminal Complaint, however, "the defendants knew, the grant did not occur on that date. Records show that the grant did not occur until late November at the earliest. Specifically, on November 24, 1999, the Assistant sent an e-mail to Kreinberg and others, with a copy to Alexander, stating: 'I understand from Kobi that he had approved the listing of grants as submitted. I then sent the appropriate documentation to the Stock Option Committee of the Board of Directors and should get their approvals today.' The earliest possible date that the October 18, 1999 purported grant with an exercise price of $93 was approved was on November 24, 1999 (the date of the Assistant's e-mail), when the stock was trading at $128.813. This means that the options were in the money by at least $35.813 per share."

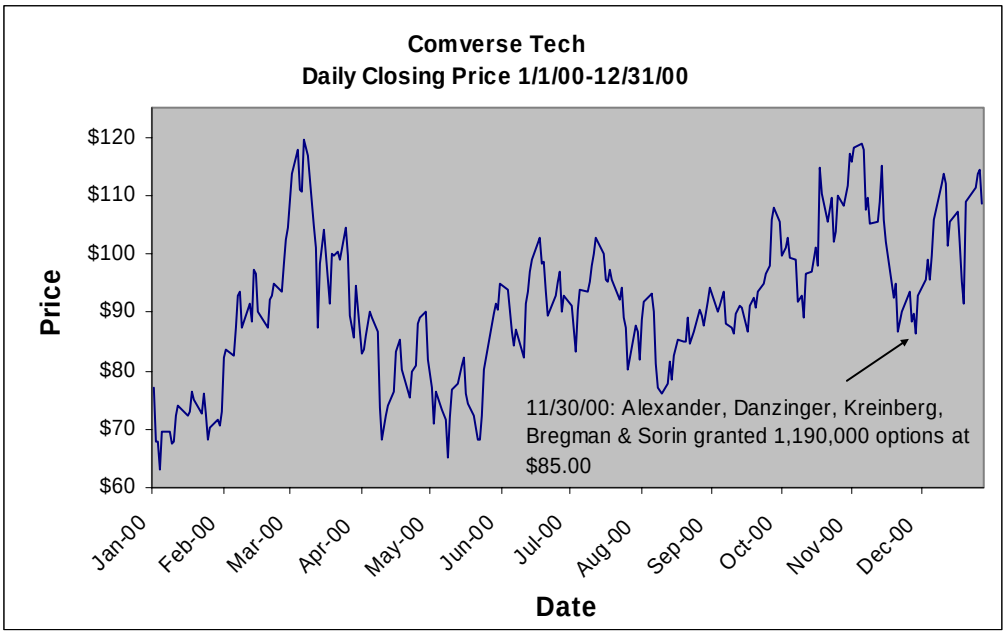
119. According to the Criminal Complaint, "With respect to this same 1999 grant, Sorin ensured that other documents, notifying employees of the grant, were backdated as well. Specifically, by e-mail dated April 13, 2000, the Assistant relayed an instruction from Sorin to backdate the notice of grant from Comverse to its employees.

In particular, the Assistant wrote: 'Per Bill Sorin, date them the date of the grant – October 18, 1999.' By omitting true date information, Sorin's conduct helped hide the fact that the grants were backdated."

120. In 2000, the Company made the following stock option grants to Alexander, Danziger, Kreinberg, Bregman and Sorin purportedly on November 30, 2000, as follows:

Name	Grant Date	No. Options Granted	Exercise Price
Jacob "Kobi" Alexander	11/30/2000	600,000	$85.00
Itsik Danziger	11/30/2000	200,000	$85.00
David Kreinberg	11/30/2000	100,000	$85.00
Zeev Bregman	11/30/2000	250,000	$85.00
David Sorin	11/30/2000	40,000	$85.00

As demonstrated by the chart below, the price of Comverse stock on November 30, 2000 had fallen $3.50, or 4%, from the closing price on the previous trading day. Comverse's stock price on November 30, 2000 was at its lowest point since the Company's annual meeting on September 14, 2000, when the shareholders approved Comverse's 2000 Stock Option Plan. November 30, 2000 was also the lowest trading price of the fiscal quarter. On December 1, 2000, the day after the purported grant date, the price of Comverse stock skyrocketed, rising $6.81, or nearly 8%, to close at $93.00. According to the Criminal Complaint, "the total number of options awarded was over 8.7 million. Over 3,000 employees received options in this grant."



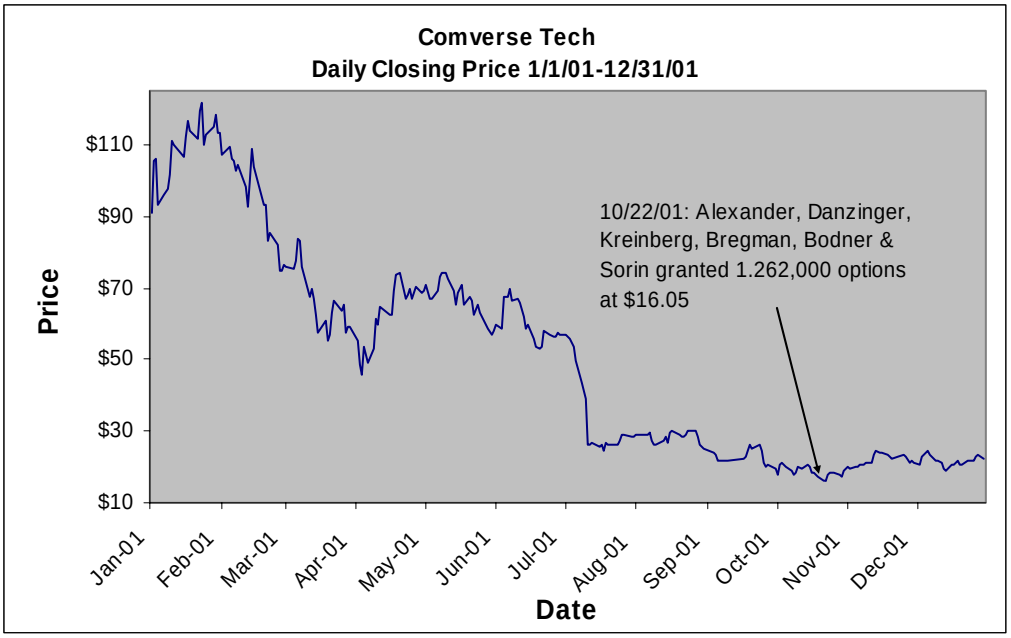
121. According to the Criminal Complaint, however, "the defendants knew, the grant did not occur on that date. In an e-mail dated December 13, 2000, the Assistant stated that he/she understood from Kreinberg that 'the option information has been finalized – it is November 30th at $85 per share.' (In fact, the stock closed at $86.19 on November 30, 2000.) The stock price on December 13, 2000, when the Assistant learned the chosen, backdated exercise date, was $112.125, or more than $27 above the (incorrect) price of $85 (rather than $86.19) used for November 30, 2000."

122. According to the Criminal Complaint, "Kreinberg told the Assistant that Sorin had obtained oral approval from the members of the Compensation Committee, and therefore, he/she did not need to compile or send a grantee list. Instead, the Assistant was instructed to input the relevant information into the Equity Edge database and, once that was done, to forward unanimous written consent forms, along with an Equity Edge report, to the Compensation Committee. The Assistant did so by cover letter dated March 2, 2001."

123. In 2001, the Company granted the following options to purchase Comverse stock to Alexander, Danziger, Kreinberg, Bregman, Bodner and Sorin purportedly on October 22, 2001, as follows:

Name	Grant Date	No. Options Granted	Exercise Price
Jacob "Kobi" Alexander	10/22/2001	600,000	$16.05
Itsik Danziger	10/22/2001	200,000	$16.05
David Kreinberg	10/22/2001	125,000	$16.05
Zeev Bregman	10/22/2001	300,000	$16.05
Dan Bodner	10/22/2001	30,000	$16.05
David Sorin	10/22/2001	27,000	$16.05

As demonstrated by the chart below, the price of Comverse stock on October 22, 2001 had fallen 8% from its previous trading day's closing price, and was trading at the second-lowest closing price of Comverse stock in 2001.[3] October 22, 2001 was also the second-lowest price for the 2002 fiscal year. The price of Comverse stock increased through the end of year, closing at $22.37 on December 31, 2001:



[3] The stock was trading fifteen cents lower, at $15.90 per share, the next day, on October 23, 2001.

According to the Criminal Complaint, however, "the defendants knew, the grant did not occur on that date. By cover letter dated November 28, 2001, the Assistant sent members of the Compensation Committee unanimous written consent forms dated as of October 22, 2001, and the grantee list.[4] The price on November 28, 2001, was $21.01, and generally continued to rise for the remainder of the year. Thus, the options were in the money by nearly $5 or more per share. The total number of options granted was more than 9.4 million."

124. As reported by The Wall Street Journal, the above pattern of stock option grants leads inexorably to the conclusion that the options were backdated. *See The Perfect Payday: Some CEOs Reap Millions By Landing Stock Options When They Are Most Valuable; Luck – Or Something Else?*, THE WALL STREET JOURNAL, March 18, 2006, at A1.

Comverse's 2002 Option Repricing

125. When Defendants' backdating scheme did not produce its intended results, Defendants caused the Company to reprice previously issued options. On January 16, 2002, Defendants caused the Company to file a Proxy Statement with the SEC on Form DEF 14A ("2002 Proxy Statement") that sought the approval of Comverse shareholders for the repricing of certain stock options pursuant to an "Exchange Offer." According to the 2002 Proxy Statement, Alexander, Danziger, Bregman, and Kreinberg held worthless options in the amount of 1,230,000, 330,000, 340,000, and 164,600, respectively, with exercise prices between $46.50 and $85.00 – well above the trading price of Comverse stock at the time (*i.e.*, between $21.00 and $28.00 in January 2002). The large disparity between the exercise price of the options and trading price of Comverse stock at the time

[4] Comverse made changes to the list as late as January 2002.

was clear evidence that the Company's stock option plan had failed to achieve its goals and that Defendants, therefore, were not entitled to incentive compensation for which they would not otherwise be eligible unless they achieved said goals. Instead of denying the incentive compensation, Defendants proposed in the Proxy that eligible persons, including Alexander, Danziger, Bregman, and Kreinberg, would be able to surrender some or all of their options for cancellation by the Company in exchange for replacement options, as follows:

> APPROVAL OF AN OFFER TO EXCHANGE CERTAIN OPTIONS
>
> ***The Company's Board of Directors has determined that it would be in the best interests of the Company and its shareholders to implement a repricing of certain options to purchase shares of the Company's Common Stock*** under the Company's existing stock incentive compensation plans by permitting the Company to make a one time offer to the holders of such options enabling such holders to surrender such options to the Company for cancellation in exchange for the grant of replacement options to purchase 0.85 shares of the Company's Common Stock for each share that was issuable under such cancelled options, with the replacement options to be granted no earlier than six (6) months and one (1) day following the cancellation date of the cancelled options at a price equal to the fair market value of the Company's Common Stock on the new grant date (the "Exchange Offer"). Since a number of the Company's existing stock incentive compensation plans require the Company to obtain the prior approval of the Company's shareholders if the Company wishes to reprice stock options, the shareholders of the Company are being asked to approve the Exchange Offer. [Emphasis added]

The 2002 Proxy Statement stated that, because many stock options held by Comverse employees were "underwater," the options were worthless and, consequently, no longer provided the "incentive to [the] employees to promote increased shareholder value." Therefore, according to Defendants, the repricing of the stock options would "restor[e]

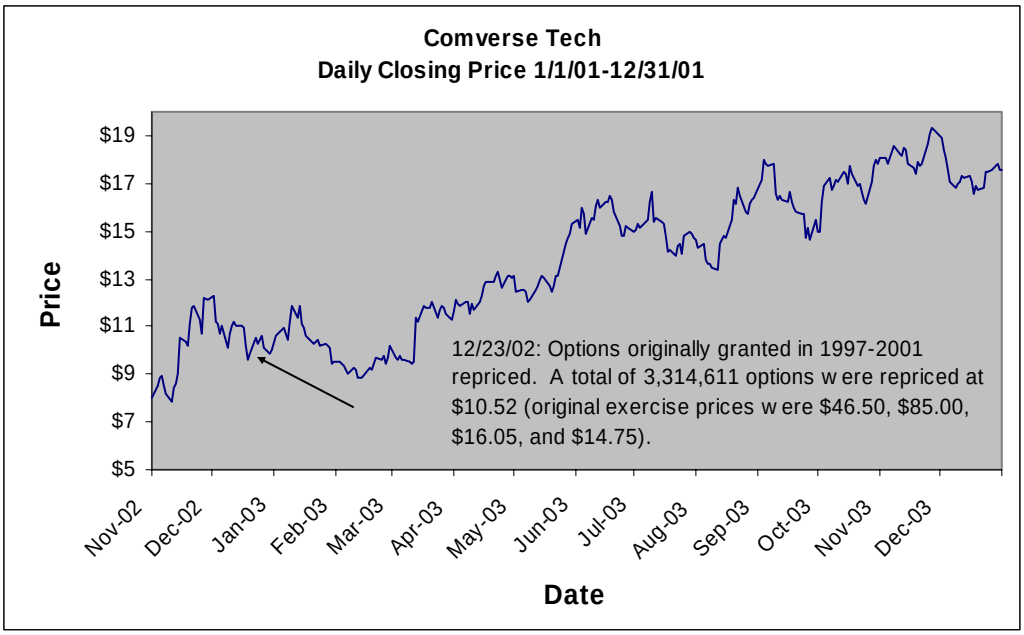
the incentive value of the associated options and reduc[e] the risk of loss of key employees who are essential to the future growth of the Company," stating, in relevant part, as follows:

> Recent adverse economic conditions have had a negative effect on the public securities markets in general and the technology and telecommunication sectors in particular, including the market in which the Company operates. The slowdown in the economy and the resulting decrease in capital expenditures in the technology and telecommunication sectors have adversely impacted the Company's sales in fiscal 2001 and the market price of the Company's Common Stock, like the share prices of other companies in the telecommunications equipment industry, has declined significantly. In an effort to minimize the impact of the economic slowdown, the Company has effected stringent cost-controls, including reductions in its workforce. Kobi Alexander, the Chief Executive Officer and Chairman of the Board of Directors of the Company, has voluntarily reduced his cash compensation for fiscal 2001 by approximately 90%, and other senior executive officers have voluntarily reduced their salary or bonus compensation.
>
> One consequence of the decrease in the market price of the Company's Common Stock is that many options currently held by employees have exercise prices considerably higher than the current market price of the Company's Common Stock. This difference between the exercise price and the market price has rendered these "underwater" options without value, unless the market price of the Company's Common Stock returns to its previous levels. As a result, these "underwater" options no longer provide the incentives that they were originally intended to create, eliminating many of the advantages that the Company has historically been able to derive from its option programs. In particular, the Company now faces a significant risk that employees holding underwater options may seek alternative employment with competitors of the Company and other technology companies whose shares are trading at low prices, and secure stock options at these other companies at an attractively low exercise price. The loss of key employees would have a detrimental effect on the Company's business and financial results.
>
> The Company believes that the Exchange Offer will achieve a critical corporate objective, restoring the incentive value of the associated options and reducing the risk of loss of key employees who are essential to the future growth of the Company.

126. In 2002, pursuant to the Exchange Offer, Alexander, Danziger, Bregman, Bodner, and Kreinberg submitted their worthless options for cancellation, and the Company granted them the following new stock options that carried significantly lower exercise prices:

Name	**Grant Date**	**No. Options Granted**	**New Exercise Price**	**Original Exercise Price**
Jacob "Kobi" Alexander	12/23/2002	553,510	$10.52	$46.50
	12/23/2002	510,000	$10.52	$85.00
	12/23/2002	509,999	$10.52	$16.05
	12/23/2002	382,499	$10.52	$14.75
Itsik Danziger	12/23/2002	170,000	$10.52	$85.00
	12/23/2002	170,000	$10.52	$16.05
	12/23/2002	110,500	$10.52	$46.05
	12/23/2002	31,875	$10.52	$14.75
Zeev Bregman	12/23/2002	255,000	$10.52	$85.00
	12/23/2002	212,500	$10.52	$16.05
	12/23/2002	76,500	$10.52	$46.50
	12/23/2002	25,500	$10.52	$14.75
Dan Bodner	12/23/2002	31,876	$10.52	$46.50
	12/23/2002	25,501	$10.52	$16.05
David Kreinberg	12/23/2002	106,252	$10.52	$16.05
	12/23/2002	85,000	$10.52	$85.00
	12/23/2002	54,911	$10.52	$46.50
	12/23/2002	3,188	$10.52	$14.75

127. As demonstrated by the below chart, the newly repriced stock options were no longer worthless. By the end of 2003, the price of Comverse stock had traded to more than $17 per share and, therefore, Alexander, Danziger, Bregman, Bodner, and Kreinberg were well positioned to cash in their exercise their options and sell shares of Comverse stock for substantial gains.



Comverse's Backdating of Options to New Employees

128. According to the Criminal Complaint, in addition to the backdating of company-wide option grants to executives and employees, "the defendants arranged to reward new employees with in-the-money options backdated to days before the new employees had actually begun work. Because the grants were made effective before the new employees joined the company, the grants were being awarded to persons who were, as of the backdated date, non-employees of the company."

129. According to the Criminal Complaint, for example, "by e-mail dated March 9, 2000, the Assistant requested information about the hire date of a particular employee ("New Hire #1") in connection with the October 18, 1999 grant so that the Assistant could create an account in the Equity Edge database. In response, the Assistant was informed that New Hire #1 was hired on "November 1, 1999," two weeks *after* the purported date ("as of" October 18, 1999) of the grant. Apart from the backdating problem with this grant, described above, this was improper because Comverse's 1999

stock option plan did not permit the award of options to non-employees (other than directors). Moreover, Comverse's stock price on October 18, 1999, the stated date of the grant, was $93 per share; the price on New Hire #1's start date of November 1 was $109.625 per share, giving New Hire #1 a paper profit of $16.625 per option."

130. According to the Criminal Complaint, "in a separate incident, e-mail correspondence dated late August and early September of 2000 disclosed that Alexander had promised 40,000 options at a price of $76.125 to an employee joining the company ("New Hire #2") on Sunday, September 17, 2000. To fulfill Alexander 's promise, by e-mail dated August 31, 2000, Kreinberg asked Sorin to arrange for "a remuneration committee minute granting the 40,000" to New Hire #2, and direct the Assistant to give Sorin the latest date when the stock was trading at the promised price of $76.125. The Assistant could not find a date with that exact price; the closest price was $76.025, on August 11, 2000. When informed of these facts, on September 5, 2000, New Hire #2's manager stated that he/she was "positive" that New Hire #2 would accept this lower exercise price, which would benefit New Hire #2. On Monday, September 18, 2000, the first trading date after New Hire #2 joined the payroll, Comverse's stock price was $86.75, over $10 more than New Hire #2's exercise price. Apart from the backdating problem with this grant, Comverse's 2000 stock option plan did not permit the granting of options to non-employees (other than directors). Nonetheless, New Hire #2 received in-the-money options, bearing an "as of" date when he/she did not work at the company, and made a profit, on paper, of over $400,000."[5]

[5] On Friday, September 15, the last trading date before New Hire #2 joined the company, Comverse's trading price wad $90.6875, at least $14 more than the exercise price on New Hire #2's options, leading to an immediate profit on paper of over $560,000.

THE SLUSH FUND SCHEME

131. According to the Criminal Complaint, in addition to the backdating scheme described above, "Alexander and Kreinberg used fictitious names to generate hundreds of thousands of backdated options, which they then parked in a secret slush fund designed to evade the requirements of Comverse's stock option plans. Alexander unilaterally awarded options from this slush fund to favored employees, with Kreinberg's knowledge."

132. According to the Criminal Complaint, "in or about October 1999, Alexander and Kreinberg instructed the Assistant to create a secret account in which to park options, to be available for Alexander and Kreinberg to dole out to employees, as Alexander saw fit, for recruitment and retention purposes. The Assistant created the secret account, as instructed, and initially named it "I.M. Fantom" [sic], a derivation of "Phantom," later changing the name to "Fargo" (the "Phantom/Fargo account")."

133. According to the Criminal Complaint, "at various times, Alexander and/or Kreinberg instructed the Assistant to manufacture options to be parked in the Phantom/Fargo account. Specifically, they directed the Assistant to insert dozens of fictitious names into the proposed grantee list to be given to the Compensation Committee for the 1999 company-wide options grant (which, as described above, was backdated), and to propose approximately 5,000 options for each of these fictitious individuals. The Assistant created the fictitious names, mixing and matching first and last names of his/her personal acquaintances, and interspersed them in the grantee list sent to the Compensation Committee, as instructed. After the Compensation Committee approved the grantee list, Alexander and Kreinberg directed the assistant to record the

aggregate[6] of at least 200,000 options in the Phantom/Fargo account within the Equity Edge database. A subsequent 2-for-1 stock split resulted in a doubling of the number of Phantom/Fargo options."

134. According to the Criminal Complaint, "in 2000, at Alexander and Kreinberg's direction, the Assistant assigned an additional lump sum of over 200,000 options to the Phantom/Fargo account in Equity Edge."

135. According to the Criminal Complaint, in connection with the backdated stock option grant of October 22, 2001, "Alexander and Kreinberg directed the Assistant to insert within the grantee list going to the Compensation Committee an additional twenty-five fictitious employees to receive approximately 10,000 options each. Upon approval by the Compensation Committee, the Assistant entered the aggregate of approximately 250,000 options into the Phantom/Fargo account in Equity Edge."

136. According to the Criminal Complaint, "on several occasions, Alexander and Kreinberg arranged for options to be transferred from the Phantom/Fargo account to executives and employees of Comverse. On one occasion in August 2000, Alexander and Kreinberg instructed the Assistant to transfer within the Equity Edge system approximately 48,000 options from Phantom/Fargo into the account of a top executive in Israel (the "Israeli executive") because the Israeli executive was unhappy with his/her compensation. Although the options had a four-year vesting period, Alexander directed the Assistant to make the options for the Israeli executive immediately exercisable. This immediate vesting completely defeated the purpose of stock options as stated in Comverse's public filings, to retain and incentivize Comverse's employees."

[6] Some of these options were first transferred to other employees in small amounts before the Assistant entered the remaining options into the Phantom/Fargo account in Equity Edge.

137. According to the Criminal Complaint, "the Israeli executive exercised the options the next day, when the stock was trading at nearly double the exercise price, and thereupon immediately sold his/her stock, realizing an instant $2 million profit, the equivalent of a cash bonus in that amount. In an e-mail notifying the Israeli executive about this grant of options, Kreinberg evinced his awareness of the effect on shareholders by stating: 'Please try and have [the broker] sell the shares slowly and not in one shot, so that the market can absorb the shares slowly and not hit the stock price.'"

138. According to the Criminal Complaint, "in or about December 2000, another set of over 40,000 options from the Phantom/Fargo account was transferred to the same Israeli executive. These options were similarly made immediately exercisable, yielding another profit of approximately $2 million to the Israeli executive."

139. According to the Criminal Complaint, "at the instruction of Alexander and Kreinberg, the Assistant closed the Phantom/Fargo account in Equity Edge on April 29, 2002."[7]

DEFENDANTS' ADMISSIONS

140. According to the Criminal Complaint, "on Monday, March 13, 2006, Alexander and Kreinberg made a series of admissions to Comverse's in-house lawyer ("Comverse Lawyer"), including, in substance, the following: (a) the grant dates were backdated because they had been picked after the fact; (b) there were grants to fictitious individuals, known as "Phantom;" (c) an account known as "Fargo" was created to store

[7] In response to changes to Section 16 reporting on the Securities and Exchange Act of 1934 mandated by the Sarbanes-Oxley Act, effective August 29, 2002, the SEC changed the reporting regulations for stock option grants. Prior to the change executives receiving stock option grants reported them to the SEC on Form 5, which was not due until 45 days after the Company's fiscal year end and also to stockholders in the proxy statement for the following year's annual stockholder meeting. Now, following the legislative change, stock option grant recipients must report them to the SEC on a Form 4, and must do so within two business days of receiving the grant.

the "Phantom" options to be issued as needed for certain employees to receive grants; (d) Phantom/Fargo was in operation from 1998 until 2002; (e) the purpose of Phantom/Fargo was to compensate employees and high-level executives; (f) Phantom/Fargo was justifiable because it helped employee retention; and (g) Phantom/Fargo was shut down in April 2002, with the advent of Sarbanes-Oxley and a more stringent enforcement 'environment.'"

141. According to the Criminal Complaint, "in March 2006, after The Wall Street Journal began inquiring about Comverse's option grants, Kreinberg told the Assistant that he had used the Assistant's password to access the Equity Edge options database.[8] In reviewing the database, Kreinberg saw that the Phantom/Fargo account in Equity Edge reflected two close-out dates, April 29, 2002 (the date that the Assistant closed the Phantom/Fargo account) and June 20, 2002 (the date of the company-wide repricing of options, pursuant to which all eligible options were canceled). After noticing this, as Kreinberg told the Assistant, on or about March 10, 2006, Kreinberg changed the Phantom/Fargo close-out date from April 29, 2002 to June 20, 2002. Kreinberg explained to the Assistant that he did this to bury the Phantom/Fargo account in the hundreds of accounts that reflected a June 20, 2002 close-out date, so that the Phantom/Fargo account would not stand out."

142. According to the Criminal Complaint, "during this conversation, Kreinberg referred to himself as an "idiot" and asked the Assistant to help him. Kreinberg insisted that he had reversed the change he had initially made, but was concerned that the "last modified" date in Equity Edge would reveal that someone had accessed the Phantom/Fargo account in March 2006. At Kreinberg's request, the

[8] In 2006, Kreinberg had "read-only" privileges inequity Edge; the Assistant had "write" privileges.

Assistant made an inconsequential global change within Equity Edge, thus accessing all the accounts, so that every account would reflect a single "last modified" date, and not just the Phantom/Fargo account that Kreinberg had tampered with."

143. According to the Criminal Complaint, "on Monday, March 20, 2006, Kreinberg admitted to the Comverse Lawyer that he had used someone else's password to access Equity Edge and change the close-out date for the Phantom/Fargo account from April to June 2002. Kreinberg explained that this would help hide the account because millions of other grants had been repriced and closed out in June 2002, and therefore Phantom/Fargo would not stand out if it bore the same close-out date. Kreinberg stated that he had tried to undo the change he made, and realized that both the change and reversal of the change would be detectable in the computer system."

144. According to the Criminal Complaint, "on March 16, 2006, Alexander explained that the options process started with Sorin calling the Compensation Committee and telling the members about a forthcoming grant – specifically the size of the grant company-wide, and how many options the top two or three executives were to receive. When asked whether some of the options were dated with dates prior to any meeting of the committee to approve the grant, Alexander admitted that they were, and noted, in substance, that 'we' tried to pick good prices for the sake of the employees. When asked if the 'as of' date was the date that Sorin spoke to the Compensation Committee, Alexander conceded that the majority of the unanimous written consents contained in 'as of' date predating Sorin's call to the committee. He added that, as far as he knew, 'everyone' was doing it this way, apparently referring to other technology

companies. When asked about whether a particular employee knew about the backdating of options, Alexander noted that it was no secret."

145. According to the Criminal Complaint, "with regard to Phantom/Fargo, Alexander stated that either he or Kreinberg came up with the idea, and then admitted, 'It might as well be me.' Alexander explained that the Phantom/Fargo account was used in certain situations to retain or recruit employees. Alexander admitted that both he and Kreinberg gave instructions to the Assistant to generate options for the Phantom/Fargo account using fictitious names hidden in grantee lists submitted to the Compensation Committee. Alexander admitted knowing about certain grants of options from the Phantom/Fargo account, and stated that approximately 270,000 options flowed out of that account. Alexander specifically admitted that he had authorized the transfer of Phantom/Fargo options to the Israeli executive who exercised and sold them, making $2 million in one day."

146. According to the Criminal Complaint, on March 16, 2006, "Kreinberg admitted that, in the grants prior to 2002, he and Alexander looked for the low price of the stock when setting an option grant date. He recalled that it was starting in approximately 1998 that he and Alexander discussed which dates would be good to have as 'as of' option dates. Kreinberg stated that Alexander communicated the chosen dates to Sorin."

147. According to the Criminal Complaint, "Kreinberg admitted that he and Alexander created Phantom/Fargo because Alexander felt it was important to be able to have options available for special circumstances, such as dealing with a disgruntled employee. Kreinberg acquiesced. Kreinberg provided details about how the account was

funded, both through the use of fictitious grant information sent to the Compensation Committee, and by shifting unvested options from the accounts of departing employees to the Phantom/Fargo account. Kreinberg identified two instances in which Phantom/Fargo options were granted to employees, including the Israeli executive who had received vested, in-the-money options, and who realized an instant $2 million profit. Kreinberg claimed that the backdating of Comverse options and the use of Phantom/Fargo ended in April 2002."

148. According to the Criminal Complaint, "on March 20, 2006, Kreinberg admitted that he had accessed Equity Edge with the Assistant's password on March 10, 2006 and had changed the April 29, 2002 close-out date on the Phantom/Fargo account to June 20, 2002, to hide the Phantom/Fargo account among other accounts in which options were canceled under the repricing plan on June 20, 2002. Kreinberg stated that he immediately re-thought his decision and attempted to change the close-out date back to April 29, 2002. Kreinberg further admitted that he had asked the Assistant for help in masking when he had last accessed the Phantom/Fargo account."

149. According to the Criminal Complaint, "on March 23, 2006, Sorin admitted that options were backdated…" Sorin stated that "the 'as of' option grant date had, at least sometimes, been picked days or weeks subsequent to the 'as of' date. He claimed minimal recall of the specifics – when this occurred, how many times, when it started. Sorin claimed that the practice was common in his experience, and said that it did not distinguish the company. When asked whether he thought this was legal, Sorin stated, in substance, that he did not remember having analyzed at the time whether it was legal or

not, but the fact it went through him means that he thought it was legal. Sorin subsequently admitted that the process was 'screwed up.'"

150. According to the Criminal Complaint, "when asked who told him he could backdate the unanimous written consents, Sorin stated that he could do it because, as he explained it in substance, the Compensation Committee in effect ratified management's selection of the option grant date. Sorin did not remember articulating to Alexander or Kreinberg that this practice was acceptable, but Sorin claimed that he thought that it was at the time. When asked what he meant when he said that now, in hindsight, 'maybe' disclosure was not proper, Sorin replied, in substance, that he was not sure and did not know, and that he would have to think about it, as he had not practiced law in many years."

151. According to the Criminal Complaint, "Sorin said that he did not know what he thought 'back then,' but that he now realized that Comverse options were granted below fair market value. When asked what steps he had taken at the time to ensure the accuracy of the Comverse proxy statements that the options were granted with a strike price at the fair market value of the stock, Sorin said that he did not take any steps."

152. According to the Criminal Complaint, "Sorin stated that, after The Wall Street Journal inquiry, Alexander told him that he and Kreinberg were going to acknowledge backdating the options. Sorin said that he told Alexander that this was not as 'clear cut' a case as he was presenting it. Sorin and Alexander then reviewed the option grant process together and discussed the fact that pricing had been an issue in selecting the grant date. Sorin admitted then that backdating 'happened on at least some

occasions.' When asked what he was referring to, Sorin admitted that the date in the "papers" preceded his discussion with the Compensation Committee."

EFFECTS OF THE BACKDATING SCHEME

153. On April 17, 2006, Comverse issued a press release announcing that Comverse would be late in filing its annual report due to the internal investigation of the Company's option grants and that the Special Committee had reached a preliminary conclusion that the actual dates of the grants differed from the recorded grant dates:

> Comverse (NASDAQ: CMVT) today announced that, as a result of the ongoing review relating to the Company's stock option grants, it will be filing a Form 12b-25 with the Securities and Exchange Commission (the "SEC") indicating that its Annual Report on Form 10-K for the fiscal year ended January 31, 2006 will not be filed on its due date of April 17, 2006. The Company will not seek a 15-day filing extension because it does not believe it could file the Annual Report by the end of the extension period.
>
> **Related to Stock-Based Compensation Expected**
>
> As previously announced on March 14, 2006, the Company's Board of Directors created a special committee (the "Special Committee") composed of outside directors to review matters relating to the Company's stock option grants, including the accuracy of the stated dates of option grants and whether all proper corporate procedures were followed. The Special Committee is being assisted by independent outside legal counsel and accounting experts. At this time, the Special Committee has not completed its work or reached final conclusions and is continuing its review. The Special Committee has, however, reached a preliminary conclusion that the actual dates of measurement for certain past stock option grants for accounting purposes differed from the recorded grant dates for such awards. As a result of changes in measurement dates, the Company expects to record additional non-cash charges for stock-based compensation expenses in prior periods. Based on the Special Committee's preliminary conclusion, the Company expects that (i) such non-cash charges will be material and (ii) the Company will need to restate its historical financial statements for each of the

> fiscal years ended January 31, 2005, 2004, 2003, 2002 and 2001 and for the first three quarters of the fiscal year ended January 31, 2006. Such charges could also affect prior periods. On April 14, 2006, the Audit Committee of the Company's Board of Directors concluded that such financial statements and any related reports of its independent registered public accounting firm should no longer be relied upon.
>
> Any such stock-based compensation charges would have the effect of decreasing the income from operations, net income and retained earnings figures contained in the Company's historical financial statements. The Company does not expect that the anticipated restatements would have a material impact on its historical revenues, cash position or non-stock option related operating expenses.
>
> The Company notified The NASDAQ Stock Market that it expects not to be in compliance with the NASDAQ requirements for continued listing under NASDAQ Marketplace Rule 4310(c)(14) that requires the Company to make on a timely basis all required filings with the SEC. The Company expects that it will receive a Staff determination letter from The NASDAQ Stock Market indicating that, due to its noncompliance with NASDAQ Marketplace Rule 4310(c)(14), its common stock would be delisted unless the Company requests a hearing in accordance with the NASDAQ Marketplace Rules. If the Company receives such a Staff Determination Letter, the Company intends to request a hearing before the NASDAQ Listing Qualifications Panel to review the Staff Determination. Under NASDAQ Marketplace Rules, a request for a hearing stays the delisting action pending the issuance of a written determination by the NASDAQ Listing Qualification Panel.
>
> The Company intends to issue results for its fourth quarter and the fiscal year ended January 31, 2006, file its Annual Report on Form 10-K for the fiscal year ended January 31, 2006 and file any financial statements required to be restated as soon as practicable after the completion of the Special Committee's review.

154. On April 20, 2006, Comverse issued a press release announcing possible NASDAQ delisting due to the delay in filing its annual report:

> Comverse (NASDAQ: CMVT) today announced that due to the delay in filing its Form 10-K for the year ended January 31, 2006, as required by NASDAQ Marketplace Rule 4310(c)(14), it has received on April 17, 2006, a Staff Determination letter from The NASDAQ Stock market indicating that the Company's securities will be delisted from The NASDAQ Stock market unless the company requests a hearing before the NASDAQ Listing Qualifications Panel. The Company will request a hearing before the NASDAQ Panel to review the Staff Determination. There can be no assurance that the NASDAQ Panel will grant the Company's request for continued listing. Under NASDAQ Marketplace Rules, a hearing request will stay the delisting action pending the decision of the NASDAQ Panel.

155. On May 1, 2006, Comverse issued a press release announcing the resignation of Alexander, Kreinberg, and Sorin and other changes to its senior management team and Board of Directors:

> Comverse (NASDAQ: CMVT) today announced changes to its senior management team and Board of Directors. The following changes are effective immediately:
>
> - Ron Hiram, an independent director of the Company since 2001, has been named non-executive Chairman of the Board of Directors.
>
> - Raz Alon, an independent director since 2003, has been named interim Chief Executive Officer.
>
> - Avi T. Aronovitz, currently Vice President of Finance and Treasurer of the Company, has been appointed interim Chief Financial Officer.
>
> - Paul L. Robinson, currently Vice President of Legal and General Counsel, will assume the role of Executive Vice President, Chief Administrative Officer, General Counsel, and Corporate Secretary.
>
> These changes come following the resignations of Kobi Alexander, former Chairman and CEO, David Kreinberg, former CFO, and William F. Sorin, a former director, Senior General Counsel, and Corporate Secretary. Mr. Alexander, Mr. Kreinberg and Mr. Sorin will become

> advisors to the Company on an interim basis. They will cooperate with the special committee of the Board of Directors in its previously announced review relating to the Company's stock option grants and help ensure a smooth transition for the Company's senior management . . . .

156. On May 6, 2006, The Wall Street Journal reported that on Thursday, May 4, 2006, Comverse announced that it received a subpoena from the U.S. Attorney's Office for the Eastern District of New York, indicating a criminal investigation of Comverse's stock option granting practices:

> On Thursday, Comverse said it had received a subpoena from the U.S. Attorney's office for the Eastern District of New York, where federal prosecutors have begun a corporate-fraud probe. Prosecutors are examining the role of the departed executives, a person familiar with the matter said.

157. On June 12, 2006, Comverse issued a press release announcing delay in filing its quarterly report and earnings release and providing a NASDAQ listing update:

> **Delay in Filing of Quarterly Report on Form 10-Q and Earnings Release**
>
> As a result of the ongoing review by the Special Committee of the company's Board of Directors relating to the company's stock option grants, the company will today file a Form 12b-25 with the Securities and Exchange Commission (the "SEC") indicating that its Quarterly Report on Form 10-Q for the quarter ended April 30, 2006 will not be filed with the SEC by the SEC deadline of June 9, 2006. The company will not seek a 5-day filing extension because it does not believe it will file the Quarterly Report within the extension period.
>
> The company intends to issue results for the quarterly period ended April 30, 2006 and the fiscal year ended January 31, 2006, and to file its Quarterly Report on Form 10-Q for the quarter ended April 30, 2006 and Annual Report on Form 10-K for the fiscal year ended January 31, 2006.

158. On June 16, 2006, Comverse issued a press release announcing that it had received an additional delisting notice from NASDAQ:

> Comverse (NASDAQ: CMVT) today announced that due to the previously disclosed delay in filing its Form 10-Q for the fiscal quarter ended April 30, 2006, the company received an additional Staff Determination Letter from The NASDAQ Stock market indicating that the delay in the filing of the Form 10-Q could serve as an additional basis for the delisting of the company's securities from NASDAQ, under NASDAQ Marketplace Rule 4310(c)(14) and that the NASDAQ Listing qualification Panel will consider this matter in rendering a determination regarding the company's continued listing.
>
> As previously disclosed, on April 20, 2006, the company announced that, due to the delay in the filing of its Annual Report on form 10-K for the fiscal year ended January 31, 2006, it had received a Staff Determination Letter from The NASDAQ Stock Market indicating that the company's securities were subject to delisting based upon the delinquent Form 10-K, unless the company requested a hearing before the NASDAQ Panel. The company requested a hearing and presented its plan to regain compliance with NASDAQ's filing requirement at an in-person hearing before the NASDAQ Panel on May 25, 2006. The NASDAQ Panel has not yet issued a decision as a result of that hearing.
>
> The company intends to submit to the NASDAQ Panel, within the permissible timeframe, its plan to file the Form 10-Q for the quarterly period ended April 30, 2006. However, there can be no assurance that the NASDAQ Panel will grant the company's request for continued listing on NASDAQ.

159. On September 12, 2006, Comverse issued a press release reporting selected unaudited second quarter financial results and announcing delay in filing Form 10-Q:

> Comverse Technology, Inc. (NASDAQ: CMVT) today announced sales of $394,090,000 for the second quarter of fiscal 2006, ended July 31, 2006, an increase of 37.9% year-over-year, representing the company's fifteenth

> consecutive quarter of sequential sales growth, and the highest quarterly sales in the company's history. The company ended the quarter with an orders backlog of $750,514,000, an increase of 27.5% year-over-year, and 1.2% sequentially . . . .
>
> The company ended the quarter with cash and cash equivalents, bank time deposits and short-term investments of $1,870,160,000, and convertible debt of $419,688,000.
>
> **Delay in Filing of Quarterly Report of Form 10-Q and Earnings Release**
>
> As a result of the ongoing review by the Special Committee of the company's Board of Directors relating to the company's stock option grants, the company will today file a Form 12b-25 with the Securities and Exchange Commission (the "SEC") indicating that its Quarterly Report on form 10-Q for the quarter ended July 31, 2006 has not been filed with the SEC by the SEC deadline of September 11, 2006. The company will not seek a 5-day filing extension because it does not believe it will file the Quarterly Report within the extension period.
>
> The company intends to issue results for the quarterly periods ended April 30, 2006 and July 31, 2006 and the fiscal year ended January 31, 2006, and to file its Quarterly Reports on Form 10-Q for the quarters ended April 30, 2006 and July 31, 2006 and Annual Report on Form 10-K for the fiscal year ended January 31, 2006, together with any restated historical financial statements, as soon as practicable . . . .

160. On September 18, 2006, Comverse announced over the Business Wire that the Nasdaq Stock Market had granted a stay of an extended Sept. 25, 2006 deadline to file financial statements for the year ended Jan. 31 and the first quarter ended April 30. The Nasdaq Listing and Hearing Review Council gave the company until Oct. 13 to submit additional information.

161. On September 6, 2006, the New York Times, in an article titled, "Report Estimates the Costs of a Stock Options Scandal," referred to a study performed by three

Professors from M. Ross School of Business at the University of Michigan. The study reported, "For about $600,000 a year to the executives, shareholders are being put at risk to the tune of $500 million." H. Nejat Seyhum, a co-author of the study, stated, "From a shareholder's perspective, it's not just the extra compensation the executives got, it's not just the extra taxes they have to pay . . . . There may be additional payouts for class-action lawsuits as well as worrying about the quality of the top management."

IMPROPER DISCLOSURE AND ACCOUNTING OF DEFENDANTS' COMPENSATION

162. The Defendants were motivated to engage in the fraudulent backdating scheme because the backdating provided them with a built-in, illegal and undisclosed paper profit. As a result, the Defendants were unjustly enriched. The grants of secretly backdated, in-the-money options disguised the fact that the Company was unknowingly conferring on the Defendants higher, unusual and excessive compensation without disclosure or shareholder approval of this kind of payment. This paper gain also carried with it numerous tax, accounting, and disclosure obligations. The discount from receiving in-the-money options is generally treated as a compensation expense under GAAP, specifically Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (October 1972) ("APB 25").

163. Pursuant to Accounting Principle Board ("APB") 25, the applicable GAAP provision at the time of the option grants set forth herein, if the stock's market price on the date of grant exceeds the exercise price of the options, the corporation must recognize the difference as an expense, which directly impacts earnings. Comverse did not properly expense this additional compensation to the Defendants granted backdated options even though the backdated stock options at issue in this action were priced below

the fair market value of the Corporation's stock at the date of grant and issuance. Thus, Comverse, with the knowledge and participation of the Individual Defendants, violated GAAP and issued materially false earnings press releases and SEC filings. As a result, the Comverse's earnings press releases and SEC filings materially misstated Comverse's earnings in violation of GAAP. These misstatements, in turn, effected an artificial inflation of the Company's stock price, which certain Defendants utilized to sell ***over hundreds of millions*** of their personal holdings.

164. As noted above, in the Company's Form 8-K, filed on April 17, 2006, the Company has already disclosed that "the actual dates of measurement for certain past stock option grants for accounting purposes differed from the recorded grant dates for such awards. As a result of changes in the measurement dates, the Company expects to record additional non-cash charges for stock-based compensation expenses in prior periods." The Form 8-K further disclosed that as a result of the internal review of the Company's stock option granting practices to date, "the Company expects that (i) such non-cash charges will be material and (ii) the Company will need to restate its historical financial statements for each of the fiscal years ended January 31, 2005, 2004, 2003, 2002 and 2001 and for the first three quarters of the fiscal year ended January 31, 2006. Such charges could also affect prior periods." In addition, the Form 8-K disclosed that "[a]ny such stock-based compensation charges would have the effect of decreasing the income from operations, net income and retained earnings figures contained in the Company's historical financial statements" and that "the Company has determined that it is highly likely that it had a material weakness in internal control over financial reporting as of January 31, 2005 and January 31, 2006."

165. Similarly, the option backdating caused Comverse to violate the Internal Revenue Code. This is because compensation from exercised stock options issued under the backdating scheme that was previously deducted, was in fact, nondeductible under Section 162(m) of the Tax Code, 26 U.S.C. § 162(m) ("Section 162(m)"). Pursuant to Section 162(m), compensation in excess of $1 million per year, including gains on stock options, paid to a corporation's five most highly-compensated officers is tax deductible only if: (i) the compensation is payable solely on account of the attainment of one or more performance goals; (ii) the performance goals are determined by a compensation committee comprised solely of two or more outside directors; (iii) the material terms under which the compensation is to be paid, including the performance goals, are disclosed to shareholders and approved by a majority of the vote in a separate shareholder vote before the payment of the compensation; and (iv) before any payment of such compensation, the compensation committee certifies that the performance goals and any other material terms were in fact satisfied.

166. Defendants were motivated to avoid correct accounting for the improper grants, because the proper accounting would have resulted in Comverse having lowered earnings and smaller tax deductions. Consequently, Defendants misrepresented or concealed the backdated nature of the options in numerous public filings such as Form 10-Ks, proxy statements, and Form 4s and 5s, as further explained below.

DISSEMINATION OF FALSE FINANCIAL STATEMENTS

167. As a result of the improper backdating of stock options, the Company, with the knowledge, approval, and participation of each of the Defendants,

a. violated the terms of the Stock Option Plans;

b. violated GAAP by failing to recognize compensation expenses incurred when the improperly backdated options were granted; and

c. produced and disseminated to Comverse shareholders and the market false financial statements that improperly recorded and accounted for the backdated option grants.

168. The Company, with the knowledge, approval, and participation of each of the Individual Defendants, for the sole purpose and with the effect of concealing the manipulation of the option grants, as alleged herein, disseminated false and misleading financial statements in, *inter alia*, the following Form 10-K filings:

a. Form 10-K405 for fiscal year ended December 31, 1994, filed with the SEC on March 31, 1995, and signed by Defendants Alexander, Nissim, Z. Alexander, Oolie, Friedman, Sorin and Y. Yemini ("1994 10-K405").

b. Form 10-K for fiscal year ended December 31, 1995, filed with the SEC on March 28, 1996, and signed by Defendants Alexander, Nissim, Z. Alexander, Oolie, Friedman, Sorin and Y. Yemini ("1995 10-K").

c. Form 10-K405 for fiscal year ended December 31, 1996, filed with the SEC on March 25, 1997, and signed by Defendants Alexander, Nissim, Z. Alexander, Oolie, Friedman, Sorin and Y. Yemini ("1996 10-K405").

d. Form 10-K for fiscal year ended December 31, 1997, filed with the SEC on March 30, 1998, and signed by Defendants Alexander, Nissim, Z. Alexander, Oolie, Friedman, Girard, Sorin, Vernia and S. Yemini ("1997 10-K").

e. Form 10-K/A for fiscal year ended December 31, 1997, filed with the SEC on April 28, 1998 and signed by Defendant Alexander ("First 1997 Amended 10-K").

f. Form 10-K/A for the one month period ended January 31, 1998 filed with the SEC on May 12,

1998 and signed by Defendant Alexander ("Second 1997 10-K").

g. Form 10-K for fiscal year ended January 31, 1999, filed with the SEC on April 26, 1999, and signed by Defendants Alexander, Nissim, Z. Alexander, Oolie, Friedman, Danzinger, Girard, Sorin, Vernia and S. Yemini ("1998 10-K").

h. Form 10-K405 for fiscal year ended January 31, 2000, filed with the SEC on May 1, 2000, and signed by Defendants Alexander, Kreinberg, Z. Alexander, Danzinger, Friedman, Girard, Oolie, Sorin, S. Yemini ("1999 10-K405").

i. Form 10-K for fiscal year ended January 31, 2001, filed with the SEC on April 30, 2001, and signed by Defendants Alexander, Z. Alexander, Kreinberg, Oolie, Friedman, Danzinger, Girard, Sorin and S. Yemini ("2000 10-K").

j. Form 10-K for fiscal year ended January 31, 2002, filed with the SEC on April 30, 2002, and signed by Defendants Alexander, Danzinger, Kreinberg, Z. Alexander, Friedman, Girard, Hiram, Oolie, Sorin and S. Yemini ("2001 10-K").

k. Form 10-K for fiscal year ended January 31, 2003, filed with the SEC on April 30, 2003, and signed by Defendants Alexander, Kreinberg, Danzinger, Friedman, Girard, Hiram, Oolie and Sorin ("2002 10-K").

l. Form 10-K for fiscal year ended January 31, 2004, filed with the SEC on April 14, 2004, and signed by Defendants Alexander, Kreinberg, Alon, Danzinger, Friedman, Hiram, Oolie and Sorin ("2003 10-K").

m. Form 10-K for fiscal year ended January 31, 2005, filed with the SEC on April 4, 2005, and signed by Defendants Alexander, Kreinberg, Alon, Danzinger, Friedman, Hiram, Oolie and Sorin ("2004 10-K").

169. In each of the foregoing Form 10-K's, or the Annual Reports to Shareholders incorporated therein, Defendants caused Comverse to misrepresent that the Company properly accounted for its stock-based compensation.

170. For instance, the Company's 1994 10-K included the following materially false and misleading statements under the headings "Stock Options and Warrants":

a. Options which are designated as "incentive stock options" under the options plans may be granted with an exercise price not less than the fair market value of the underlying shares at the date of grant and are subject to certain quantity and other limitations specified in Section 433 of the Internal Revenue Code.

b. The exercise price of each option [on subsidiary shares] is equal to the higher of the book value of the underlying shares at the date of grant or the fair market value of such shares at the date determined on the basis of an arms'-length transaction with a third party or, if no such transactions have occurred, on a reasonable basis by the Board of Directors.

171. The Company's 1994 Stock Option Plan attached to the 1994 10-K, included the following materially false and misleading statements under the heading "Option Prices":

a. The initial per share option price of any Option which is an incentive stock option shall not be less than the fair market value of a share of the Common Stock on the date of grant; provided, however, that, in the case of a Participant who owns more than 10% of the total combined voting power of the Common Stock at the time an incentive stock option is granted to him, the initial per share option price shall not be less than 110% of the fair market value of the Common Stock.

172. The Company's 1995 10-K included the following materially false and misleading statements under the heading "Stock Options and Warrants":

a. Options which are designated as "incentive stock options" under the options plans may be granted with an exercise price not less than the fair market value of the underlying shares at the date of grant and are subject to certain quantity and other

limitations specified in Section 433 of the Internal Revenue Code.

b. The exercise price of each option [on subsidiary shares] is equal to the higher of the book value of the underlying shares at the date of grant or the fair market value of such shares at the date determined on the basis of an arms'-length transaction with a third party or, if no such transactions have occurred, on a reasonable basis by the Board of Directors.

173. The Company's 1995 Stock Option Plan attached to the 1995 10-K, included the following materially false and misleading statements under the heading "Option Prices":

a. The initial per share option price of any Option which is an incentive stock option shall not be less than the fair market value of a share of the Common Stock on the date of grant; provided, however, that, in the case of a Participant who owns more than 10% of the total combined voting power of the Common Stock at the time an incentive stock option is granted to him, the initial per share option price shall not be less than 110% of the fair market value of the Common Stock.

174. The Company's 1996 Stock Option Plan attached to the 1996 10-K405, included the following materially false and misleading statements under the heading "Option Prices":

a. The initial per share option price of any Option which is an incentive stock option shall not be less than the fair market value of a share of the Common Stock on the date of grant; provided, however, that, in the case of a Participant who owns more than 10% of the total combined voting power of the Common Stock at the time an incentive stock option is granted to him, the initial per share option price shall not be less than 110% of the fair market value of the Common Stock.

175. The Company's 1997 10-K included the following false and misleading statements under the heading "Stock Options":

a. Options which are designated as "incentive stock options" under the options plans may be granted with an exercise price not less than the fair market value of the underlying shares at the date of grant and are subject to certain quantity and other limitations specified in Section 433 of the Internal Revenue Code.

b. The Company applied Accounting Principles Board Option No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its option plans. Accordingly, as all options have been granted at exercise prices equal to fair market value on the date of grant, no compensation expense has been recognized by the Company in connection with its stock-based compensation plans. Had compensation cost for the Company's stock option plans been determined based upon the fair market value at the grant date for awards under these plans consistent with the methodology prescribed under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation", the Company's net income and earnings per share would have been reduced by approximately $1,067,000, $2,676,000 and $7,401,000 or $.04, $.09 and $.28 per diluted share in 1995, 1996 and 1997, respectively. The weighted average fair value of the options granted during 1995, 1996 and 1997 is estimated at $8.40, $13.66 and $23.14 on the date of grant (using the Black-Scholes option pricing model) with the following weighted average assumptions for 1995, 1996 and 1997, respectively: volatility of 67%, 55% and 54%, risk-free interest rate of 6.8%, 6.1% and 6.5%, and an expected life of five years in 1995, 1996 and 1997.

176. The Company's First 1997 Amended 10-K, in the Summary Compensation Table, materially misstated the compensation of, and failed to disclose the illegal compensation received from the Company in violation of 402(b)(2)(iii)(B) and

402(c)(2)(iv) of Regulation S-K by Defendants Alexander, Vernia, Girard and Nissim in 1995, 1996 and 1997.

177. The Company's First 1997 Amended 10-K, in the Stock Option Grants In Last Fiscal Year Table, materially misstated the exercise price and number of options granted in 1997 to Defendants Alexander, Vernia, Girard and Nissim. This Table further included the false and misleading statement that, "[t]he exercise price of the options is equal to the fair market value of the underlying shares at the date of grant."

178. The Company's First 1997 Amended 10-K, in the Stock Option Grants In Last Three Fiscal Years Table, materially misstated the exercise price and number of options granted in 1997, 1996 and 1995 to Defendants Alexander, Vernia, Girard and Nissim.

179. The Company's Second 1997 10-K, in the Summary Compensation Table, materially misstated the compensation of, and failed to disclose the illegal compensation received from the Company in violation of 402(b)(2)(iii)(B) and 402(c)(2)(iv) of Regulation S-K by Defendants Alexander, Vernia, Girard and Nissim in 1998, 1997, 1996 and 1995.

180. The Company's Second 1997 10-K, in the Stock Option Grants In Last Fiscal Year Table, materially misstated the exercise price and number of options granted in 1998 to Defendants Alexander, Vernia, Girard and Nissim. This Table further included the following false and misleading statement, "[t]he exercise price of the options is equal to the fair market value of the underlying shares at the date of grant."

181. The Company's Second 1997 10-K, in the Stock Option Grants In Last Three Fiscal Years Table, materially misstated the exercise price and number of options granted in 1997, 1996 and 1995 to Defendants Alexander, Vernia, Girard and Nissim.

182. The Company's 1998 10-K included the following false and misleading statements under the heading "Stock Options":

a. EMPLOYEE STOCK OPTIONS - At January 31, 1999, 10,388,732 shares of common stock were reserved for issuance upon the exercise of options then outstanding and 413,730 shares were available for future grant under Comverse's Stock Option Plans, under which options may be granted to key employees, directors, and other persons rendering services to the Company. Options which are designated as "incentive stock options" under the option plans may be granted with an exercise price not less than the fair market value of the underlying shares at the date of grant and are subject to certain quantity and other limitations specified in Section 422 of the Internal Revenue Code.

b. The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its option plans. Accordingly, as all options have been granted at exercise prices equal to fair market value on the date of grant, no compensation expense has been recognized by the Company in connection with its stock-based compensation plans. Had compensation cost for the Company's stock option plans been determined based upon the fair value at the grant date for awards under these plans consistent with the methodology prescribed under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation", the Company's net income and earnings per share would have been reduced by approximately $4,962,000, $13,505,000 and $28,769,000 or $.07, $.20 and $0.40 per diluted share for the years ended December 31, 1996, 1997 and January 31, 1999, respectively. The weighted average fair value of the options granted for the years ended December 31,

1996, 1997 and January 31, 1999 is estimated at $9.47, $15.47 and $11.16 on the date of grant (using the Black-Scholes option pricing model) with the following weighted average assumptions for the years ended December 31, 1996, 1997 and January 31, 1999, respectively: volatility of 56%, 54% and 55%, risk-free interest rate of 6.3%, 6.5% and 4.7% and an expected life of 4.6, 4.7 and 5.0 years.

183. The Company's 1999 10-K405 included the following false and misleading statements under the heading "Stock Options":

a. EMPLOYEE STOCK OPTIONS - At January 31, 2000, 23,409,800 shares of common stock were reserved for issuance upon the exercise of options then outstanding and 90,020 shares were available for future grant under Comverse's Stock Option Plans, under which options may be granted to key employees, directors, and other persons rendering services to the Company. Options which are designated as "incentive stock options" under the option plans may be granted with an exercise price not less than the fair market value of the underlying shares at the date of grant and are subject to certain quantity and other limitations specified in Section 422 of the Internal Revenue Code.

b. The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its option plans. Accordingly, as all options have been granted at exercise prices equal to fair market value on the date of grant, no compensation expense has been recognized by the Company in connection with its stock-based compensation plans. Had compensation cost for the Company's stock option plans been determined based upon the fair value at the grant date for awards under these plans consistent with the methodology prescribed under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation", the Company's net income and earnings per share would have been reduced by approximately $13,505,000, $28,769,000 and $44,853,000 or $0.10, $0.20 and $0.27 per diluted share for the

years ended December 31, 1997 and January 31, 1999 and 2000, respectively. The weighted average fair value of the options granted for the years ended December 31, 1997 and January 31, 1999 and 2000, respectively, is estimated at $7.74, $5.58 and $21.67 on the date of grant (using the Black-Scholes option pricing model) with the following weighted average assumptions for the years ended December 31, 1997 and January 31, 1999 and 2000, respectively: volatility of 54%, 55% and 55%; risk-free interest rate of 6.5%, 4.7% and 5.9%; and an expected life of 4.7, 5.0 and 4.1 years.

184. The Company's 2000 10-K included the following false and misleading statements under the heading "Stock Options":

a. Employee Stock Options - At January 31, 2001, 26,163,560 shares of common stock were reserved for issuance upon the exercise of options then outstanding and 507,856 shares were available for future grant under Comverse's Stock Option Plans, under which options may be granted to key employees, directors, and other persons rendering services to the Company. Options which are designated as "incentive stock options" under the option plans may be granted with an exercise price not less than the fair market value of the underlying shares at the date of grant and are subject to certain quantity and other limitations specified in Section 422 of the Internal Revenue Code.

b. The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its option plans. Accordingly, as all options have been granted at exercise prices equal to fair market value on the date of grant, no compensation expense has been recognized by the Company in connection with its stock-based compensation plans. Had compensation cost for the Company's stock option plans been determined based upon the fair value at the grant date for awards under these plans consistent with the methodology prescribed under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation", the

Company's net income and earnings per share would have been reduced by approximately $29,261,000, $45,239,000 and $87,112,000 or $0.20, $0.27 and $0.47 per diluted share for the years ended January 31, 1999, 2000 and 2001, respectively. The weighted average fair value of the options granted for the years ended January 31, 1999, 2000 and 2001, respectively, is estimated at $5.51, $21.54 and $50.38 on the date of grant (using the Black-Scholes option pricing model) with the following weighted average assumptions for the years ended January 31, 1999, 2000 and 2001, respectively: volatility of 56%, 56% and 65%; risk-free interest rate of 4.7%, 5.9% and 5.5%; and an expected life of 5.0, 4.1 and 4.9 years.

185. The Company's 2001 10-K included the following false and misleading statements under the heading "Stock Options":

a. Employee Stock Options - At January 31, 2002, 33,089,823 shares of common stock were reserved for issuance upon the exercise of options then outstanding and 1,834,615 shares were available for future grant under Comverse's Stock Option Plans, under which options may be granted to key employees, directors, and other persons rendering services to the Company. Options which are designated as "incentive stock options" under the option plans may be granted with an exercise price not less than the fair market value of the underlying shares at the date of grant and are subject to certain quantity and other limitations specified in Section 422 of the Internal Revenue Code.

b. The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its option plans. Accordingly, as all options have been granted at exercise prices equal to fair market value on the date of grant, no compensation expense has been recognized by the Company in connection with its stock-based compensation plans. Had compensation cost for the Company's stock option plans been determined based upon the fair value at the grant date for awards under these plans consistent with the

methodology prescribed under Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation", the Company's net income and earnings per share would have been reduced by approximately 45,239,000, $87,112,000 and $181,837,000 or $0.27, $0.47 and $1.00 per diluted share for the years ended January 31, 2000, 2001 and 2002, respectively. The weighted average fair value of the options granted for the years ended January 31, 2000, 2001 and 2002, respectively, is estimated at $21.54, $50.38 and $10.85 on the date of grant (using the Black-Scholes option pricing model) with the following weighted average assumptions for the years ended January 31, 2000, 2001 and 2002, respectively: volatility of 56%, 65% and 76%; risk-free interest rate of 5.9%, 5.5% and 4.0%; and an expected life of 4.1, 4.9 and 4.3 years.

186. The Company's 2002 10-K included the following false and misleading statements under the heading "Stock Options":

a. Employee Stock Options - At January 31, 2003, 25,079,827 shares of common stock were reserved for issuance upon the exercise of options then outstanding and 9,235,083 shares were available for future grant under Comverse's Stock Option Plans, under which options may be granted to key employees, directors, and other persons rendering services to the Company. Options which are designated as "incentive stock options" under the option plans may be granted with an exercise price not less than the fair market value of the underlying shares at the date of grant and are subject to certain quantity and other limitations specified in Section 422 of the Internal Revenue Code.

187. The Company's 2003 10-K included the following false and misleading statements under the heading "Stock Options":

a. Employee Stock Options - At January 31, 2004, 23,287,332 shares of common stock were reserved for issuance upon the exercise of options then outstanding and 4,928,221 shares were available for future grant under Comverse's Stock Option Plans,

under which options may be granted to key employees, directors, and other persons rendering services to the Company. Options which are designated as "incentive stock options" under the option plans may be granted with an exercise price not less than the fair market value of the underlying shares at the date of grant and are subject to certain quantity and other limitations specified in Section 422 of the Internal Revenue Code.

188. The Company's 2004 10-K included the following false and misleading statements under the heading "Certain Trends and Uncertainties":

a. Currently, the Company accounts for employee stock options in accordance with Accounting Principles Board ("APB") Opinion No. 25 and related interpretations, which provide that any compensation expense relative to employee stock options be measured based on intrinsic value of the stock options. As a result, when options are priced at or above fair market value of the underlying stock on the date of the grant, as currently is the Company's practice, the Company incurs no compensation expense.

189. The Company's 2004 10-K included the following false and misleading statements under the heading "Stock Based Compensation":

a. Stock Options - At January 31, 2005, 22,603,387 shares of common stock were reserved for issuance upon the exercise of options then outstanding and 4,333,276 shares were available for future grant under Comverse's Stock Option Plans, under which options may be granted to key employees, directors, and other persons rendering services to the Company. Options which are designated as "incentive stock options" under the option plans may be granted with an exercise price not less than the fair market value of the underlying shares at the date of grant and are subject to certain quantity and other limitations specified in Section 422 of the Internal Revenue Code.

b. The exercise price of each option [on subsidiary shares] is equal to the higher of the book value of the underlying shares at the date of grant or the fair

> market value of such shares at the date determined on the basis of an arms'-length transaction with a third party or, if no such transactions have occurred, on a reasonable basis by the Board of Directors.

190. The foregoing statements were false and misleading because, as the Company has now admitted, Comverse did not, in fact, properly account for equity-based compensation. *See* ¶¶ 175(a)-(b); 182(a)-(b); 183(a)-(b); 184(a)-(b); 185(a)-(b); 186(a); 187(a); 188(a); 189(a). To the contrary, as discussed above, Comverse backdated stock options and thus issued options with exercise prices *below* the fair market value of the stock on the actual date of the grant, and failed to disclose or properly account for this extra compensation paid to the grant recipients

191. In addition, the foregoing statements were false and misleading because, as the Company has now admitted, Comverse granted options below the fair market value of the stock on the actual date of grant. *See* ¶¶ 170(a)-(b); 171(a); 172(a)-(b); 173(a); 174(a); 175(a)-(b); 177; 180; 182(a)-(b); 183(a)-(b); 184(a)-(b); 185(a)-(b); 186(a); 187(a); 188(a).

192. The financial statements included in the foregoing Form 10-K filings were also materially false and misleading, because, among other things, Defendants caused the Company to understate compensation expenses and tax liabilities it was required to incur when the improperly backdated options were granted and/or exercised, and therefore overstated net income, income from operations and retained earnings. In this respect, the following Form 10-Ks and Form 10-K450s contained the following materially false and misleading statements:

a. The 1994 10-K405 falsely stated the Company's net income as $5.7 million, $12.7 million and $11.8 million for the years ended December 31, 1992, December 31, 1993 and December 31, 1994,

respectively; and retained earnings as $15.5 million and $27.3 for the years ended December 31, 1993 and December 31, 1994, respectively;

b. The 1995 10-K falsely stated the Company's net income as $13.5 million, $12.1 million and $17 million for the years ended December 31, 1993, December 31, 1994 and December 31, 1995, respectively; and retained earnings as $26.3 million and $43.4 million for the years ended December 31, 1994 and December 31, 1995, respectively;

c. The 1996 10-K405 falsely stated the Company's net income as $12.1 million, $17 million and $28 million for the years ended December 31, 1994, December 31, 1995 and December 31, 1996, respectively; and retained earnings as $43.4 million and $71.4 million for the years ended December 31, 1995 and December 31, 1996, respectively;

d. The 1997 10-K falsely stated the Company's net income as $17.1 million, $28 million and $43.5 million for the years ended December 31, 1995, December 31, 1996 and December 31, 1997, respectively; and retained earnings as $71.4 million and $114.9 million for the years ended December 31, 1996 and December 31, 1997, respectively;

e. The 1998 10-K falsely stated the Company's income from operations as $49.9 million, $39 million and $115 million; and net income as $42 million, $34.5 million, and $111.5 million, for the years ended December 31, 1996, December 31, 1997 and January 31, 1999, respectively; and retained earnings as $ 6.6 million and $118.1 million for the years ended January 31, 1998 and January 31, 1999, respectively;

f. The 1999 10-K405 falsely stated the Company's income from operations as $39 million, $115 million and $169 million; and net income as $34.5 million, $111.5 million and $170 million, for the years ended December 31, 1997, January 31, 1999 and January 31, 2000, respectively; and retained earnings as $118.1 million and $285.9 million for the years ended January 31, 1999 and January 31, 2000, respectively;

g. The 2000 10-K falsely stated the Company's income from operations as $112.9 million, $172.3

million and $234.6 million; and net income as $109.4 million, $173.1 million and $249.1 million, for the years ended January 31, 1999, January 31, 2000 and January 31, 2001, respectively; and retained earnings as $282.8 million and $520 million for the years ended January 31, 2000 and January 31, 2001, respectively;

h. The 2001 10-K falsely stated the Company's income from operations as $172.3 million, $234.6 million and $64.8 million; and net income as $173.1 million, $249.1 million and $54.6 million, for the years ended January 31, 2000, January 31, 2001 and January 31, 2002, respectively; and retained earnings as $520.1 million and $574.8 million for the years ended January 31, 2001 and January 31, 2002, respectively;

i. The 2002 10-K falsely stated the Company's income from operations as $234.6 million, $64.8 million and a loss of $182.7 million; and net income as $249.1 million, $54.6 million and a loss of $129.5 million, for the years ended January 31, 2001, January 31, 2002 and January 31, 2003, respectively; and retained earnings as $574.8 million and $445.3 million for the years ended January 31, 2002 and January 31, 2003, respectively;

j. The 2003 10-K falsely stated the Company's income from operations as $64.9 million, a loss of $182.7 million and a loss of $30.4 million; and net income as $54.7 million, a loss of $129.5 million and a loss of $5.4 million, for the years ended January 31, 2002, January 31, 2003 and January 31, 2004, respectively; and retained earnings as $445.3 million and $439.9 million for the years ended January 31, 2003 and January 31, 2004, respectively;

k. The 2004 10-K falsely stated the Company's income from operations as a loss of $182.7 million, a loss of $30.4 million and $46.9 million; and net income as a loss of $129.5 million, a loss of $5.4 million and $57.3 million, for the years ended January 31, 2003, January 31, 2004 and January 31, 2005, respectively; and retained earnings as $439.9 million and $497.2 million for the years ended January 31, 2004 and January 31, 2005, respectively

193. Moreover, the foregoing Form 10-Ks were also materially false and misleading because they incorporated by reference the false and misleading disclosures regarding executive compensation in the proxies issued during the year in which each Form 10-K was issued.

194. Finally, each of the foregoing Form 10-Ks was materially false and misleading, because they each failed to disclose to shareholders the options backdating scheme. Indeed, as discussed above, on April 17, 2006, the Company acknowledged that a "the actual dates of measurement for certain past stock option grants for accounting purposes differed from the recorded grant dates for such awards. As a result of changes in the measurement dates, the Company expects to record additional non-cash charges for stock-based compensation expenses in prior periods" and "that (i) such non-cash charges will be material and (ii) the Company will need to restate its historical financial statements for each of the fiscal years ended January 31, 2005, 2004, 2003, 2002 and 2001 and for the first three quarters of the fiscal year ended January 31, 2006. Such charges could also affect prior periods." Moreover, the Company acknowledged that "[a]ny such stock-based compensation charges would have the effect of decreasing the income from operations, net income and retained earnings figures contained in the Company's historical financial statements" and that "the Company has determined that it is highly likely that it had a material weakness in internal control over financial reporting as of January 31, 2005 and January 31, 2006."

195. The financial statements included in the foregoing Form 10-K filings were also false because the Corporation, in violation of APB 25, understated compensation expenses it was required to incur when the improperly backdated options were granted,

and therefore overstated net income by indeterminate amounts. *See* ¶¶ 175(b); 182(b); 183(b); 184(b); 185(b); 188(a).

196. Comverse's Forms 10-K for fiscal years 2003, 2004 and 2005 contained materially false and misleading financial statements and results because they contained, to varying degrees, materially false and misleading historical financial statements from fiscal years 1999 through 2002 due to the defendants' backdating scheme. *See* ¶¶ 192(j)-(k).

197. In addition, during the relevant period, each of the Officer Defendants filed with the SEC Form 4s and 5s that falsely represented to the Company, the SEC and the shareholders that the fraudulent grants at issue herein actually occurred on the dates indicated thereon.

198. Alexander and Kreinberg also signed Sarbanes-Oxley Section 302 certifications falsely stating that Comverse's fiscal year 2002 through 2005 Forms 10-K, and Forms 10-Q for fiscal quarters ended September 12, 2002 to December 12, 2005, did not contain any material misstatements or omit material information and that the reports fairly presented in all material respects Comverse's financial condition and results of operations. Both knew, or were reckless in not knowing, that these certifications were materially false and misleading. Comverse's financial statements for those years did not fairly present Comverse's financial condition because (i) the 2002 Form 10-K failed to account for the October 22, 2001 in-the-money grant as a compensation expense and thus, overstated net income and earnings per share and (ii) the 2003 through 2005 Forms 10-K included materially false and misleading financial statements from previous years

that understated compensation expenses due to earlier disguised in-the-money option grants.

199. In addition, from 1994 to 2006, the Company, with the knowledge, approval, and participation of each Defendant, for the sole purpose and with the effect of concealing the manipulation of the option grants, as alleged herein, disseminated to shareholders and filed with the SEC the following annual proxy statements that contained material misstatements and omissions.

a. Comverse's proxy statement filed with the SEC, signed by Defendants Alexander, Vernia, Nissim, Z. Alexander, Oolie, Friedman, Sorin and Y. Yemini on October 18, 1995, falsely reporting that options granted to Alexander, Vernia and Nissim were granted on September 22, 1994.

b. Comverse's proxy statement filed with the SEC, signed by Defendants Alexander, Vernia, Nissim, Z. Alexander, Oolie, Friedman, Sorin and Y. Yemini on November 15, 1996, falsely reporting that options granted to Nissim were granted on May 25, 1995.

c. Comverse's proxy statement filed with the SEC, signed by Defendants Alexander, Vernia, Nissim, Z. Alexander, Friedman, Oolie, Sorin and S. Yemini on December 1, 1997, falsely reporting that options granted to Alexander, Vernia and Nissim were granted on July 15, 1996.

d. Comverse's proxy statement filed with the SEC, signed by Defendants Alexander, Vernia, Gerard, Danziger, Kreinberg, Z. Alexander, Friedman, Oolie, Sorin and S. Yemini on September 7, 1999, falsely reporting that options granted to Alexander and Danzinger were granted on October 9, 1998.

e. Comverse's proxy statement filed with the SEC, signed by Defendants Alexander, Gerard, Danziger, Bodner, Kreinberg, Z. Alexander, Friedman, Oolie, Sorin and S. Yemini on May 11, 2001, falsely reporting that options granted to Alexander, Danzinger, Sorin and Kreinberg were granted on October 18, 1999.

f. Comverse's proxy statements filed with the SEC, signed by Defendants Alexander, Danziger, Gerard, Bregman, Kreinberg, Z. Alexander, Friedman, Hiram, Oolie, Sorin and S. Yemini on May 11, 2001 (for the period June 15, 2000) and January 16, 2002, falsely reporting that options granted to Alexander, Danzinger, Kreinberg and Sorin were granted on November 30, 2000.

g. Comverse's proxy statement filed with the SEC, signed by Defendants Alexander, Danziger, Bregman,Gerard, Kreinberg, Bodner, Z. Alexander, Friedman, Hiram, Oolie, Sorin and S. Yemini on October 25, 2002, falsely reporting that options granted to Alexander, Danzinger, Kreinberg, Bodner, and Sorin were granted on October 22, 2001.

200. The material misstatements and omissions in these proxy statements fall into three general categories: (i) statements failing to disclose that the stated purpose of option grants to Comverse executives – *i.e.*, linking a significant portion of their compensation to the future performance of the Company – was significantly undermined to the detriment of the Company because the option grants described in the proxies were backdated; (ii) misstatements that the options granted were priced at the fair market value on the date of the grant, when in fact they were fraudulently backdated; and (iii) misstatements relating to the amount of compensation received by the Defendants in the relevant period.

201. The Company's proxy statements were submitted to shareholders in connection with the annual election of directors, as well as for shareholder approval of proposals offered by both management and other shareholders, including the adoption of the 1994, 1995 and 1996 Stock Option Plans, and the 1997, 2000 and 2001 Stock Incentive Compensation Plans. The Proxy Statements' materially misleading statements and omissions are set forth below.

1994 Proxy

202. Comverse's 1994 definitive proxy statement was filed with the SEC on Schedule 14A on October 18, 1995 (the "1994 Proxy") (Director Defendants Alexander, Z. Alexander, Friedman, Oolie, Sorin and Y. Yemini were directors at this time). This Proxy Statement was particularly important because Comverse Shareholders were being asked to approve the 1995 Stock Option Plan.

203. The 1994 Proxy contained at least the following false and misleading statements about the operation and administration of the stock option plan:

a. The exercise price of each option [subsidiary shares] is equal to the higher of the book value of the underlying shares at the date of grant or the fair market value of such shares at that date determined on the basis of an arms'-length transaction with a third party or, if no such transactions had occurred, on any other reasonable basis considered by the Remuneration and Stock Option Committee [Compensation Committee] on the Board of Directors to be appropriate in the circumstances.

b. The Board of Directors believes that an essential element of the Corporation's continued success will be its ability to provide compensation arrangements that enable it to attract, motivate and retain executive officers who are capable of developing and executing the Corporation's short-term and long-term business plans. The Remuneration and Stock Option Committee of the Board of Directors [Compensation Committee] (the "Committee") has the primary responsibility for establishing compensation levels for senior management and administering the Corporation's stock option plans.

c. The Board of Directors believes that equity-based incentive arrangements, such as employee stock options, are among the most effective means available to the Corporation of aligning the interests of employees with the objectives of shareholders generally, and of building their long term commitment to the organization. The Corporation emphasizes stock option awards as an essential

element of the remuneration package available to its executives and employees.

d. The Board of Directors believes that stock options have proven to be a highly useful and economical means for the Corporation to attract and retain qualified employees. By affording participating employees the opportunity to share in the growth and appreciation in the value of the Corporation, such options provide an incentive for employees to devote their maximum efforts to the success of the Corporation.

e. The exercise price of such options may not be less than 100% of the fair market value of the Common Stock on the date of grant and the term of any such option may not exceed ten years. With respect to any employee who directly and by attribution owns stock possessing more than 10% of the voting power of the outstanding capital stock of the Corporation or any of its subsidiaries, the exercise price of any incentive stock option must be at least equal to 110% of the fair market value of such shares at the time of grant, and the term may not exceed five years.

f. The Board of Directors of the Company (the "Board") believes that the granting of options (the "Options") under the [1995 Stock Option] Plan will promote continuity of management and increased incentive and personal interest in the welfare of the Company by those who are or may become primarily responsible for shaping and carrying out the long range plans of the Company and securing its continued growth and financial success.

g. Subject to the express provisions of the [1995 Stock Option] Plan, the Committee shall have complete authority, in its discretion, to interpret the [1995 Stock Option] Plan, to prescribe, amend and rescind rules and regulations relating to it, to determine the terms and provisions of the respective option agreements (which need not be identical), to determine the individuals (the "Participants") to whom and the times and the prices at which Options shall be granted, to establish the option periods, the number of shares of the Common Stock to be subject to each Option, whether each Option shall be exercisable immediately or in installments and, if

in installments, the time and size thereof, whether each Option shall be an incentive stock option or an Option which is not an incentive stock option, and to make all other determinations necessary or advisable for the administration of the [1995 Stock Option] Plan.

h. The initial per share option price of any Option which is an incentive stock option shall not be less than the fair market value of a share of the Common Stock on the date of grant; provided, however, that, in the case of a Participant who own more than 10% of the total combined voting power of the Common Stock at the time an incentive stock option is granted to him, the initial per share option price shall not be less than 110% of the fair market value of the Common Stock.

i. For the purposes hereof, the fair market value of a share of the Common Stock on any date shall be equal to the closing sale price of a share of the Common Stock as published by a national securities exchange on which the share of the Common Stock are traded on such date or, if there is no sale of the Common Stock on such date, the average of the bid and asked prices on such exchange at the close of trading on such date or, if the shares of Common Stock are not listed on a national securities exchange on such date, the closing price in the over the counter market, or if the Common Stock is not traded on a national securities exchange or the over the counter market, the fair market value of a share of the Common Stock on such date as shall be determined in good faith by the Committee in compliance with Section 422(b)(4) of the Code and the applicable regulations promulgated thereunder.

204. These statements are false and misleading because the options granted to Alexander, Vernia, Nissim and other Comverse executives during 1994 did not carry the fair market value on the date of the grant, but were in fact backdated. *See* ¶¶ 203(a), (e), (h), (i). They also are false and misleading because they fail to disclose that the Compensation Committee had permitted Alexander, Vernia, Nissim and other Comverse

executives to backdate option grants to maximize their own profits, at the expense of the Company. *See* ¶¶ 203(b), (g), (i).

205. These statements are also materially false and misleading because the Director Defendants failed to disclose that the stated purpose of option grants – *i.e.*, linking compensation to performance and incentivizing employees to devote their maximum efforts to the success of the Company – was significantly undermined to the detriment of the Company because the options granted to those officers were backdated. *See* ¶¶ 203(b)-(d), (f).

206. These statements are also materially false and misleading because the Director Defendants failed to disclose that the Compensation Committee did not, in fact, utilize its complete authority to administer the Stock Option Plan and grant options. *See* ¶¶ 203(b), (g), (i). Instead, at a minimum, Defendants Alexander, Kreinberg and Sorin (none of whom were members of the Compensation Committee) were intimately involved in administering the Stock Option Plan and granting backdated options.

207. The Summary Compensation Table from the 1994 Proxy is false and misleading because it materially misstates the compensation of, and fails to disclose the illegal compensation received from the Company by Alexander, Vernia and Nissim in fiscal years 1994, 1993 and 1992 as a result of their receipt of fraudulently backdated stock options at less than fair market value in 1994, 1993 and 1992.

208. Specifically, Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the "dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered . . ." (17 C.F.R. § 229.402(b)(2)(iii)(B).) Additionally, the Instructions to Item

402(b)(2)(iii)(A) and (B) further provide the following items be disclosed in the Summary Compensation Table:

> i. For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.
>
> ii. Above-market earnings or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period . . .
>
> iii. The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*)

209. The disclosures of "Annual Compensation," and "Long-Term Compensation Stock Option Grants" and "All Other Compensation" are materially false and misleading absent the disclosure of the additional compensation received by the Officer Defendants as a result of the backdated options.

210. The Stock Option Grants in Last Fiscal Years Table is materially false and misleading because it fails to include an additional column showing the market price on the date of the actual grant as required by Item 402(c)(2)(iv).

1995 Proxy

211. Comverse's 1995 definitive proxy statement was filed with the SEC on Schedule 14A on November 15 1996 (the "1995 Proxy") (Director Defendants Alexander, Z. Alexander, Friedman, Oolie, Sorin and Y. Yemini were directors at this time). This Proxy Statement was particularly important because Comverse Shareholders were being asked to approve the 1996 Stock Option Plan.

212. The 1995 Proxy contained at least the following false and misleading statements about the operation and administration of the stock option plan:

a. The Board of Directors believes that an essential element of the Corporation's continued success will be its ability to provide compensation arrangements that enable it to attract, motivate and retain executive officers who are capable of developing and executing the Corporation's short-term and long-term business plans. The Remuneration and Stock Option Committee [Compensation Committee] of the Board of Directors (the "Committee") has the primary responsibility for establishing compensation levels for senior management and administering the Corporation's stock option plans.

b. The Board of Directors believes that equity-based incentive arrangements, such as employee stock options, are among the most effective means available to the Corporation of aligning the interests of employees with the objectives of shareholders generally, and of building their long-term commitment to the organization. The Corporation emphasizes stock option awards as an essential element of the remuneration package available to its executives and employees.

c. The Board of Directors believes that stock options have proven to be a highly useful and economical means for the Corporation to attract and retain qualified employees. By affording participating employees the opportunity to share in the growth and appreciation in the value of the Corporation, such options provide an incentive for employees to devote their maximum efforts to the success of the Corporation.

d. The exercise price of such options may not be less than 100% of the fair market value of the Common Stock on the date of grant and the term of any such option may not exceed ten years. With respect to any employee who directly and by attribution owns stock possessing more than 10% of the voting power of the outstanding capital stock of the Corporation or any of its subsidiaries, the exercise price of any incentive stock option must be at least

equal to 110% of the fair market value of such shares at the time of grant, and the term may not exceed five years.

e. The Board of Directors of the Company (the "Board") believes that the granting of options (the "Options") under the Plan will promote continuity of management and increased incentive and personal interest in the welfare of the Company by those who are or may become primarily responsible for shaping and carrying out the long range plans of the Company and securing its continued growth and financial success.

f. The [1996 Stock Option] Plan shall be administered by the Committee referred to in Section 5 hereof. Subject to the express provisions of the Plan, the Committee shall have complete authority, in its discretion, to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to it, to determine the terms and provisions of the respective option agreements (which need not be identical), to determine the individuals (the "Participants") to whom and the times and the prices at which Options shall be granted, to establish the option periods, the number of shares of the Common Stock to be subject to each Option, whether each Option shall be exercisable immediately or in installments and, if in installments, the time and size thereof, whether each Option shall be an incentive stock option or an Option which is not an incentive stock option, and to make all other determinations necessary or advisable for the administration of the Plan.

g. For the purposes hereof, the fair market value of a share of the Common Stock on any date shall be equal to the closing sale price of a share of the Common Stock as published by a national securities exchange on which the share of the Common Stock are traded on such date or, if there is no sale of the Common Stock on such date, the average of the bid and asked prices on such exchange at the close of trading on such date or, if the shares of Common Stock are not listed on a national securities exchange on such date, the closing price in the over the counter market, or if the Common Stock is not traded on a national securities exchange or the over the counter market, the fair market value of a share

> of the Common Stock on such date as shall be determined in good faith by the Committee in compliance with Section 422(b)(4) of the Code and the applicable regulations promulgated thereunder..

213. These statements are false and misleading because the options granted to Nissim and other Comverse executives did not carry the fair market value on the date of the grant, but were in fact backdated. *See* ¶¶ 212(d), (g). They also are false and misleading because they failed to disclose that the Compensation Committee had permitted Nissim and other Comverse executives to backdate option grants to maximize their own profits, at the expense of the Company. *See* ¶¶ 212(a), (f).

214. These statements are also materially false and misleading because the Director Defendants failed to disclose that the stated purpose of option grants – *i.e.*, linking compensation to performance and incentivizing employees to devote their maximum efforts to the success of the Company – was significantly undermined to the detriment of the Company because the options granted to those officers were backdated. *See* ¶¶ 211(a)-(c), (e).

215. These statements are also materially false and misleading because the Director Defendants failed to disclose that the Compensation Committee did not, in fact, utilize its complete authority to administer the Stock Option Plan and grant options. *See* ¶¶ 212(a), (f). Instead, at a minimum, Defendants Alexander, Kreinberg and Sorin (none of whom were members of the Compensation Committee) were intimately involved in administering the Stock Option Plan and granting backdated options.

216. The Summary Compensation Table from the 1995 Proxy materially misstates the compensation of, and fails to disclose the illegal compensation received from the Company by Alexander, Vernia and Nissim in fiscal years 1995, 1994 and 1993

as a result of their receipt of fraudulently backdated stock options at less than fair market value in 1995, 1994 and 1993.

217. Specifically, Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the "dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered . . ." (17 C.F.R. § 229.402(b)(2)(iii)(B).) Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide the following items be disclosed in the Summary Compensation Table:

> i. For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.
>
> ii. Above-market earnings or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period . . .
>
> iii. The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*)

218. The disclosures of "Annual Compensation," and "Long-Term Compensation Stock Option Grants" and "All Other Compensation" are materially misleading absent the disclosure of the additional compensation received by the Officer Defendants as a result of the backdated options.

1996 Proxy

219. Comverse's 1996 definitive proxy statement was filed with the SEC on Schedule 14A on December 1, 1997 (the "1996 Proxy") (Director Defendants Alexander,

Vernia, Sorin, Z. Alexander, Friedman, Oolie and S. Yemini were directors at this time). This Proxy Statement was particularly important because Comverse Shareholders were being asked to approve the 1997 Stock Incentive Compensation Plan.

220. The 1996 Proxy contained at least the following false and misleading statements about the operation and administration of the stock option plan:

a. The Comverse Board believes that equity-based incentive arrangements, such as employee stock options, are among the most effective means available to Comverse of aligning the interests of employees with the objectives of shareholders generally, and of building their long-term commitment to the organization. Comverse emphasizes stock option awards as an essential element of the remuneration package available to its executives and employees. Stock options typically vest in increments over four years to encourage long-term commitment to Comverse by the grantees.

b. The exercise price of Incentive Stock Options must not be less than 100% of the mean between the highest and lowest price of actual sales on the Nasdaq of a share of Comverse Common Stock ("Fair Market Value") on the grant date; provided that the exercise price of an ISO granted to an employee who owns, directly or indirectly, stock possessing more than 10% of the total combined voting power of all classes of stock of Comverse or a subsidiary ("Ten-Percent Shareholder") shall be no less than 110% of the Fair Market Value of a share of Comverse Common Stock on the date of grant.

c. ISOs are intended to be incentive stock options under the Code [162(m)].

d. The purpose of the [1997 Stock Option] Plan is to assist the Company, its Subsidiaries and Affiliates in attracting and retaining valued directors and employees by offering them a greater stake in the Company's success and a closer identity with it, an to encourage ownership of the Company's stock by such employees.

e. "Fair Market Value" means, on any given date, the mean between the highest and lowest prices of actual sales of shares of Common Stock on the principal national securities exchange on which the Common Stock is listed on such date or, if Common Stock was not traded on such date, on the last preceding day on which the Common Stock was traded.

f. The [1997 Stock Option] Plan shall be administered by the Committee, which shall have full power to interpret and administer the Plan and full authority to act in selected the Employees to whom Awards will be granted, in determining the type an amount of Awards to be granted to each such Employee, the terms and conditions of Awards granted under the Plan and the terms of agreements which will be entered into with Holders.

g. Subject to Section 3.2, the price per share at which Common Stock may be purchased upon exercise of an Option shall be determined by the [Compensation] Committee, but, in the case of grants of Incentive Stock Options, shall be not less than the Fair Market Value of a share of Common Stock on the date of grant. In the case of any Incentive Stock Option granted to a Ten percent Shareholder, the option price per share shall not be less than 110% of the Fair Market Value of a share of Common Stock on the date of grant.

221. These statements are false and misleading because the options granted to Alexander, Vernia, Nissim and other Comverse executives did not carry the fair market value on the date of the grant, but were in fact backdated. *See* ¶¶ 220(b), (e), (g). They also are false and misleading because they fail to disclose that the Compensation Committee had permitted Alexander, Vernia, Nissim and other Comverse executives to backdate option grants to maximize their own profits, at the expense of the Company. *See* ¶¶ 220(f)-(g).

222. These statements are materially false and misleading because the Director Defendants failed to disclose that the stated purpose of option grants – *i.e.*, linking

compensation to performance and incentivizing employees to devote their maximum efforts to the success of the Company – was significantly undermined to the detriment of the Company because the options granted to those officers were backdated. *See* ¶¶ 220(a), (d).

223. These statements are materially false and misleading because the Director Defendants failed to disclose that the Compensation Committee did not, in fact, utilize its complete authority to administer the Stock Option Plan and grant options. *See* ¶¶ 220(f)-(g). Instead, at a minimum, Defendants Alexander, Kreinberg and Sorin (none of whom were members of the Compensation Committee) were intimately involved in administering the Stock Option Plan and granting backdated options

224. The Summary Compensation Table from the 1996 Proxy materially misstates the compensation of, and fails to disclose the illegal compensation received from the Company by Alexander, Vernia and Nissim in fiscal year 1996, 1995 and 1994 as a result of their receipt of fraudulently backdated stock options at less than fair market value in 1996, 1995 and 1994.

225. Specifically, Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the "dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered . . ." (17 C.F.R. § 229.402(b)(2)(iii)(B).) Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide the following items be disclosed in the Summary Compensation Table:

i. For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.

ii. Above-market earnings or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period

iii. The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant

(*Id.*)

226. The disclosures of "Annual Compensation," and "Long-Term Compensation Stock Option Grants" and "All Other Compensation" are materially misleading absent the disclosure of the additional compensation received by the Officer Defendants as a result of the backdated options.

1998 Proxy

227. Comverse's 1998 definitive proxy statement was filed with the SEC on Schedule 14A on September 7, 1999 (the "1998 Proxy") (Director Defendants Alexander, Z. Alexander, Danzinger, Friedman, Girard, Oolie, Sorin, Vernia and S. Yemini were directors at this time). This Proxy Statement was particularly important because Comverse Shareholders were being asked to approve the 1999 Stock Incentive Compensation Plan.

228. The 1998 Proxy contained at least the following false and misleading statements about the operation and administration of the stock option plan:

a. The Board of Directors believes that equity-based incentive arrangements, such as employee stock options and employee stock purchase plans, are among the most effective means available to the Company of aligning the interests of employees with the objectives of shareholders generally, and of building their long term commitment to the

organization. The Company emphasizes stock option awards as an essential element of the remuneration package available to its executives and employees. Stock options typically vest in annual increments over periods of up to four years to encourage long-term commitment to the Company by the grantees.

b. The purpose of the [1999] Incentive Plan are (sic) to attract, retain and motivate directors and key employees, to align their respective interests with shareholders' interests through equity-based compensation and to permit the granting of awards that will constitute performance-based compensation for certain executive officers under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code").

c. The Remuneration [Compensation] Committee has the authority to determine the Award (as defined below) recipients, the timing of Awards and the type, size and terms of each Award. It also has the authority to construe, interpret and implement the Incentive Plan, including prescribing rules thereunder.

d. The exercise price of Incentive Stock Options must not be less than the price of a share of Common Stock on the NASDAQ National Market System ("Fair Market Value") on the grant date.

e. In the Remuneration [Compensation] Committee's discretion, any Award may be designated a Section 162(m) award. . . . Section 162(m) Awards may also consist of Options and SARs granted with an exercise price or appreciation base, as the case may be, not less than the Fair Market Value of a share of Common Stock, on the grant date.

f. The purpose of the [1999 Stock Option] Plan is to assist the Company, its Subsidiaries and Affiliates in attracting and retaining valued directors and employees by offering them a greater stake in the Company's success and a closer identity with it, and to encourage ownership of the Company's stock by such employees.

g. "Fair Market Value" on any given date means the closing price of shares of Common Stock on the principal national securities exchange on which the

> Common Stock is listed on such date or, if Common Stock was not traded on such date, on the last preceding day on which the Common Stock was traded, or as otherwise determined by the Committee.
>
> h. The Plan shall be administered by the [Compensation] Committee, which shall have full power to interpret and administer the [1999 Stock Option] Plan and full authority to act in selecting the Employees to whom Awards will be granted, in determining the type and amount of Awards to be granted to each such Employee, the terms and conditions of Awards granted under the Plan and the terms of agreements which will be entered into with Holders.
>
> i. Subject to Section 3.2, the price per share at which Common Stock may be purchased upon exercise of an Option shall be determined by the [Compensation] Committee, but, in the case of grants of Incentive Stock Options, shall be not less than the Fair Market Value of a share of Common Stock on the date of grant. In the case of any Incentive Stock Option granted to a Ten Percent Shareholder, the option price per share shall not be less than 110% of the Fair Market Value of a share of Common Stock on the date of grant. The option price per share for Non-Qualified Options may be less than the Fair Market Value of a share of Common Stock on the date of grant.

229. These statements are false and misleading because the options granted to Alexander, Danzinger, and other Comverse executives did not carry the fair market value on the date of the grant, but were in fact backdated. *See* ¶¶ 228(d), (g), (i). They also are false and misleading because they fail to disclose that the Compensation Committee had permitted Alexander, Danziger and other Comverse executives to backdate option grants to maximize their own profits, at the expense of the Company. *See* ¶¶ 228(c), (e), (h), (i).

230. These statements are materially false and misleading because the Director Defendants failed to disclose that the stated purpose of option grants – *i.e.*, linking

compensation to performance and incentivizing employees to devote their maximum efforts to the success of the Company – was significantly undermined to the detriment of the Company because the options granted to those officers were backdated. *See* ¶¶ 228(a)-(b), (f).

231. These statements are materially false and misleading because the stock option grants were not administered pursuant to 162(m) of the Internal Revenue Code because the Company did not recognize the backdated options are ordinary compensation. *See* ¶¶ 228(b), (e).

232. These statements are materially false and misleading because the Director Defendants failed to disclose that the Compensation Committee did not, in fact, utilize its complete authority to administer the Stock Option Plan and grant options. *See* ¶¶ 228(c), (e), (h), (i). Instead, at a minimum, Defendants Alexander, Kreinberg and Sorin (none of whom were members of the Compensation Committee) were intimately involved in administering the Stock Option Plan and granting backdated options.

233. The Summary Compensation Table from the 1998 Proxy materially misstates the compensation of, and fails to disclose the illegal compensation received from the Company by Alexander, Vernia, Girard, Danzinger and Nissim in fiscal years 1999, 1998, 1997 and 1996 as a result of their receipt of fraudulently backdated stock options at less than fair market value in 1999, 1998, 1997 and 1996.

234. Specifically, Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the "dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered . . ." (17 C.F.R. § 229.402(b)(2)(iii)(B).) Additionally, the Instructions to Item

402(b)(2)(iii)(A) and (B) further provide the following items be disclosed in the Summary Compensation Table:

> i. For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.
>
> ii. Above-market earnings or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period . . .
>
> iii. The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*)

235. The disclosures of "Annual Compensation," and "Long-Term Compensation Stock Option Grants" and "All Other Compensation" are materially misleading absent the disclosure of the additional compensation received by the Officer Defendants as a result of the backdated options.

First 2000 Proxy

236. Comverse's first 2000 definitive proxy statement was filed with the SEC on Schedule 14A on May 11, 2001 (the "First 2000 Proxy") (Director Defendants Alexander, Z. Alexander, Danzinger, Friedman, Girard, Oolie, Sorin and S. Yemini were directors at this time). This Proxy Statement was particularly important because Comverse Shareholders were being asked to approve the 2000 Stock Incentive Compensation Plan.

237. The First 2000 Proxy contained at least the following false and misleading statements about the operation and administration of the stock option plan:

a. The Board of Directors believes that equity-based incentive arrangements, such as employee stock options an employee stock purchase plans, are among the most effective means available to the Corporation of aligning the interests of employees with the objectives of shareholders generally, and of building their long term commitment to the organization. The Corporation emphasizes stock option awards as an essential element of the remuneration package available to its executives and employees. Stock options typically vest in increments over a number of years to encourage long-term commitment to the Company by the grantees.

b. The Board of Directors has approved the 2000 Stock Incentive Compensation Plan (the "Incentive Plan") and has recommended that the Incentive Plan be submitted to the shareholders for adoption at the Annual Meeting. The purposes of the [2000 Stock] The Remuneration Committee has the authority to determine the Award (as defined below) recipients, the timing of Awards and the type, size and terms of each Award. It also has the authority to construe interpret and implement the Incentive Plan, including prescribing rules thereunder.

c. Incentive Plan are to attract, retain and motivate directors and key employees, to align their respective interests with shareholders' interests through equity-based compensation and to permit the granting of awards that will constitute performance-based compensation for certain executive officers under Section 162(m) of the Code.

d. The exercise price of ISOs must not be less than the price of a share of Common Stock on the NASDAQ National Market System ("Fair Market Value") on the grant date.

e. In the Remuneration Committee's [Compensation Committee] discretion, any Award may be designated a Section 162(m) Award. . . . Section 162(m) Awards may also consist of Options and SARs granted with an exercise price or appreciation base, as the case may be, not less than the Fair Market Value of a share of Common Stock, on the grant date.

f. The purpose of the [2000 Stock Option] Plan is to assist the Company, its Subsidiaries and Affiliates in attracting and retaining valued directors and employees by offering them a greater stake in the Company's success and a closer identity with it, and to encourage ownership of the Company's stock by such employees.

g. "Fair Market Value" on any given date means the closing price of shares of Common Stock on the principal national securities exchange on which the Common Stock is listed on such date or, if Common Stock was not traded on such date, on the last preceding day on which the Common Stock was traded, or as otherwise determined by the Committee.

h. The Plan shall be administered by the [Compensation] Committee, which shall have full power to interpret and administer the Plan and full authority to act in selecting the Employees to whom Awards will be granted, in determining the type and amount of Awards to be granted to each such Employee, the terms and conditions of Awards granted under the Plan and the terms of agreements which will be entered into with Holders.

i. Subject to Section 3.2, the price per share at which Common Stock may be purchased upon exercise of an Option shall be determined by the [Compensation] Committee, but, in the case of grants of Incentive Stock Options, shall be not less than the Fair Market Value of a share of Common Stock on the date of grant. In the case of any Incentive Stock Option granted to a Ten Percent Shareholder, the option price per share shall not be less than 110% of the Fair Market Value of a share of Common Stock on the date of grant.

238. These statements are false and misleading because the options granted to Alexander, Danzinger, Vernia, Nissim and other Comverse executives did not carry the fair market value on the date of the grant, but were in fact backdated. *See* ¶¶ 237(d)-(e), (g), (i). They also are false and misleading because they fail to disclose that the Compensation Committee had permitted Alexander, Danzinger, Kreinberg and other

Comverse executives to backdate option grants to maximize their own profits, at the expense of the Company. *See* ¶¶ 237(b), (h).

239. These statements are materially false and misleading because the Director Defendants failed to disclose that the stated purpose of option grants – *i.e.*, linking compensation to performance and incentivizing employees to devote their maximum efforts to the success of the Company – was significantly undermined to the detriment of the Company because the options granted to those officers were backdated. *See* ¶¶ 237(a), (c), (f).

240. These statements are materially false and misleading because the stock option grants were not administered pursuant to 162(m) of the Internal Revenue Code because the Company did not recognize the backdated options are ordinary compensation. *See* ¶¶ 237(c), (e).

241. These statements are materially false and misleading because the Director Defendants failed to disclose that the Compensation Committee did not, in fact, utilize its complete authority to administer the Stock Option Plan and grant options. *See* ¶¶ 237(b), (h). Instead, at a minimum, Defendants Alexander, Kreinberg and Sorin (none of whom were members of the Compensation Committee) were intimately involved in administering the Stock Option Plan and granting backdated options.

242. The Summary Compensation Table from the 2000 Proxy materially misstates the compensation of, and fails to disclose the illegal compensation received from the Company by Alexander, Vernia, Girard, Danzinger, Kreinberg and Nissim in fiscal years 2000, 1999, 1998 and 1996 as a result of their receipt of fraudulently backdated stock options at less than fair market value in 2000, 1999, 1998 and 1997.

243. Specifically, Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the "dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered . . ." (17 C.F.R. § 229.402(b)(2)(iii)(B).) Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide the following items be disclosed in the Summary Compensation Table:

> i. For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.
>
> ii. Above-market earnings or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period . . .
>
> iii. The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*)

244. The disclosures of "Annual Compensation," and "Long-Term Compensation Stock Option Grants" and "All Other Compensation" are materially misleading absent the disclosure of the additional compensation received by the Officer Defendants as a result of the backdated options.

Second 2000 Proxy

245. Comverse's second 2000 definitive proxy statement was filed with the SEC on Schedule 14A on May 11, 2001 (the "Second 2000 Proxy") (Director Defendants Alexander, Z. Alexander, Danzinger, Friedman, Girard, Oolie, Sorin and S. Yemini were directors at this time). This Proxy Statement was particularly important because

Comverse Shareholders were being asked to approve the 2001 Stock Incentive Compensation Plan.

246. The Second 2000 Proxy contained at least the following false and misleading statements about the operation and administration of the stock option plan:

a. The exercise price of the options is equal to the fair market value of the underlying shares at the date of grant.

b. The Board of Directors believes that equity-based incentive arrangements, such as employee stock options an employee stock purchase plans, are among the most effective means available to the Corporation of aligning the interests of employees with the objectives of shareholders generally, and of building their long term commitment to the organization. The Corporation emphasizes stock option awards as an essential element of the remuneration package available to its executives and employees. Stock options typically vest in increments over a number of years to encourage long-term commitment to the Company by the grantees.

c. The Board of Directors has approved the 2001 Stock Incentive Compensation Plan (the "Incentive Plan") and has recommended that the Incentive Plan be submitted to the shareholders for adoption at the Annual Meeting. The purposes of the Incentive Plan are to attract, retain and motivate directors and key employees, to align their respective interests with shareholders' interests through equity-based compensation and to permit the granting of awards that will constitute performance-based compensation for certain executive officers under Section 162(m) of the Code.

d. The Remuneration Committee has the authority to determine the Award (as defined below) recipients, the timing of Awards and the type, size and terms of each Award. It also has the authority to construe interpret and implement the Incentive Plan, including prescribing rules thereunder.

e. The exercise price of ISOs must not be less than the price of a share of Common Stock on the NASDAQ

National Market System ("Fair Market Value") on the grant date.

f. Section 162(m) Awards may also consist of Options and SARs granted with an exercise price or appreciation base, as the case may be, not less than the Fair Market Value of a share of Common Stock, on the grant date.

g. The purpose of the Plan is to assist the Company, its Subsidiaries and Affiliates in attracting and retaining valued directors and employees by offering them a greater stake in the Company's success and a closer identity with it, and to encourage ownership of the Company's stock by such employees.

h. "Fair Market Value" on any given date means the closing price of shares of Common Stock on the principal national securities exchange on which the Common Stock is listed on such date or, if Common Stock was not traded on such date, on the last preceding day on which the Common Stock was traded, or as otherwise determined by the Committee.

i. The Plan shall be administered by the Committee, which shall have full power to interpret and administer the Plan and full authority to act in selecting the Employees to whom Awards will be granted, in determining the type and amount of Awards to be granted to each such Employee, the terms and conditions of Awards granted under the Plan and the terms of agreements which will be entered into with Holders.

j. Subject to Section 3.2, the price per share at which Common Stock may be purchased upon exercise of an Option shall be determined by the Committee, but, in the case of grants of Incentive Stock Options, shall be not less than the Fair Market Value of a share of Common Stock on the date of grant. In the case of any Incentive Stock Option granted to a Ten Percent Shareholder, the option price per share shall not be less than 110% of the Fair Market Value of a share of Common Stock on the date of grant.

247. These statements are false and misleading because the options granted to Alexander, Danzinger, Bregman and Kreinberg and other Comverse executives did not carry the fair market value on the date of the grant, but were in fact backdated. *See* ¶¶ 246(a), (e), (h), (i). They also are false and misleading because they fail to disclose that the Compensation Committee had permitted Alexander, Danzinger, Bregman, Kreinberg and other Comverse executives to backdate option grants to maximize their own profits, at the expense of the Company. *See* ¶¶ 246(d), (i).

248. These statements are materially false and misleading because the Director Defendants failed to disclose that the stated purpose of option grants – *i.e.*, linking compensation to performance and incentivizing employees to devote their maximum efforts to the success of the Company – was significantly undermined to the detriment of the Company because the options granted to those officers were backdated. *See* ¶¶ 246(b)-(c), (g).

249. These statements are materially false and misleading because the stock option grants were not administered pursuant to 162(m) of the Internal Revenue Code because the Company did not recognize the backdated options are ordinary compensation. *See* ¶¶ 246(c), (f).

250. These statements are materially false and misleading because the Director Defendants failed to disclose that the Renumeration Committee did not, in fact, utilize its complete authority to administer the Stock Option Plan and grant options. *See* ¶¶ 246(d), (i). Instead, at a minimum, Defendants Alexander, Kreinberg and Sorin (none of whom were members of the Compensation Committee) were intimately involved in administering the Stock Option Plan and granting backdated options.

251. The Summary Compensation Table from the Second 2000 Proxy materially misstates the compensation of, and fails to disclose the illegal compensation received from the Company by Alexander, Vernia, Girard, Danzinger, Kreinberg, Bregman and Nissim in fiscal years 2001, 2000 and 1999 as a result of their receipt of fraudulently backdated stock options at less than fair market value in 2001, 2000 and 1999.

252. Specifically, Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the "dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered . . ." (17 C.F.R. § 229.402(b)(2)(iii)(B).) Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide the following items be disclosed in the Summary Compensation Table:

> i. For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.
>
> ii. Above-market earnings or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period . . .
>
> iii. The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*)

253. The disclosures of "Annual Compensation," and "Long-Term Compensation Stock Option Grants" and "All Other Compensation" are materially

misleading absent the disclosure of the additional compensation received by the Officer Defendants as a result of the backdated options.

First 2001 Proxy

254. Comverse's 2001 definitive proxy statement was filed with the SEC on Schedule 14A on January 16, 2002 (the "First 2001 Proxy") (Director Defendants Alexander, Danzinger, Girard, Bregman, Kreinberg, Vernia and Nissim were directors at this time). This proxy statement was particularly important because the shareholders were being asked to approve the repricing of certain options to purchase shares of the Company's Common Stock under the Company's existing stock incentive compensation plans by permitting the Company to make a one time offer to the holders of such options enabling such holders to surrender such options to the Company for cancellation in exchange for the grant of replacement options.

255. The First 2001 Proxy contained at least the following false and misleading statements about the operation and administration of the Stock Option Plan and the repricing of certain options:

> a. The Company's Board of Directors has determined that it would be in the best interests of the Company and its shareholders to implement a repricing of certain options to purchase shares of the Company's Common Stock under the Company's existing stock incentive compensation plans by permitting the Company to make a one time offer to the holders of such options enabling such holders to surrender such options to the Company for cancellation in exchange for the grant of replacement options to purchase 0.85 shares of the Company's Common Stock for each share that was issuable under such cancelled options, with the replacement options to be granted no earlier than six (6) months and one (1) day following the cancellation date of the cancelled options at a price equal to the fair market

value of the Company's Common Stock on the new grant date (the "Exchange Offer").

b. The Company believes that stock options provide incentive to its employees to promote increased shareholder value and are a major factor in the Company's ability to attract and retain key personnel responsible for the continued development and growth of the Company's business.

c. Options granted by the Company under the Company's stock incentive compensation plans have exercise prices not less than market price of the Company's Common Stock as reported on the NASDAQ National Market System as of the respective dates of grant.

d. The Company believes that the Exchange Offer will achieve a critical corporate objective, restoring the incentive value of the associated options and reducing the risk of loss of key employees who are essential to the future growth of the Company.

e. The Board of Directors believes that the Exchange Offer best serves the interests of the Company and its shareholders. By offering the Company's employees the opportunity to exchange their "underwater" options for options at a presumably lower exercise price more aligned to the current market price of the Company's Common Stock, the Company will provide an increased incentive to its employees to promote shareholder value.

f. The exercise price of the options is equal to the fair market value of the underlying shares at the date of grant.

256. These statements are false and misleading because the options granted to Alexander, Danzinger, Bregman, Kreinberg and other Comverse executives did not carry the fair market value on the date of the grant, but were in fact backdated. *See* ¶¶ 255(c), (f). They also are false and misleading because they fail to disclose that the Compensation Committee had permitted Alexander, Danzinger, Girard, Bregman,

Kreinberg and other Comverse executives to backdate option grants to maximize their own profits, at the expense of the Company.

257. These statements are materially false and misleading because the Director Defendants failed to disclose that the stated purpose of option grants – *i.e.*, linking compensation to performance and incentivizing employees to devote their maximum efforts to the success of the Company – was significantly undermined to the detriment of the Company because the options granted to those officers were backdated. *See* ¶¶ 255(b)-(e).

258. These statements are additionally materially false and misleading because the repricing of Defenders' underwater options did not best serve the interests of the Company and its shareholders, nor did the repricing restore the incentive value of the underwater options, due to the fact that the majority of the underwater options were backdated when originally granted. *See* ¶¶ 254(a), (d)-(e).

259. The Summary Compensation Table from the First 2001 Proxy materially misstates the compensation of, and fails to disclose the illegal compensation received from the Company by Alexander, Danzinger, Girard, Bregman, Kreinberg, Vernia and Nissim in fiscal years 2001, 200 and 1999 as a result of their receipt of fraudulently backdated stock options at less than fair market value in 2001, 200 and 1999.

260. Specifically, Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the "dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered . . ." (17 C.F.R. § 229.402(b)(2)(iii)(B).) Additionally, the Instructions to Item

402(b)(2)(iii)(A) and (B) further provide the following items be disclosed in the Summary Compensation Table:

> i. For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.
>
> ii. Above-market earnings or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period . . .
>
> iii. The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*)

261. The disclosures of "Annual Compensation," and "Long-Term Compensation Stock Option Grants" and "All Other Compensation" are materially misleading absent the disclosure of the additional compensation received by the Officer Defendants as a result of the backdated options.

Second 2001 Proxy

262. Comverse's Second 2001 definitive proxy statement was filed with the SEC on Schedule 14A on October 25, 2002 (the "Second 2001 Proxy") (Director Defendants Alexander, Sorin, Danzinger, Freidman, Girard, Hiram and Ooolie were directors at this time).

263. The "Second 2001 Proxy" contained the following false and misleading statements about the operation and administration of the Stock Option Plan:

> a. The exercise price of the options is equal to the fair market value of the underlying shares at the date of grant.

b. The Board of Directors believes that equity-based incentive arrangements, such as employee stock options and employee stock purchase plans, are among the most effective means available to the Company of aligning the interests of employees with the objectives of shareholders generally, and of building their long term commitment to the organization. The Company emphasizes stock option awards as an essential element of the remuneration package available to its executives and employees. Stock options typically vest in increments over a number of years to encourage long-term commitment to the Company by the grantees.

c. The exercise price of the options is equal to the fair market value of the underlying shares at the date of grant.

d. Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), places a limit of $1,000,000 on the amount of compensation that may be deducted by the Company in any year with respect to each of the Company's five most highly paid executive officers. Certain performance-based compensation that has been approved by stockholders is not subject to the deduction limit. To maintain flexibility in compensating executive officers in a manner designed to promote varying corporate goals, the Compensation Committee has not adopted a policy that all compensation must be deductible.

264. These statements are false and misleading because the options granted to Alexander, Danzinger, Bregman, Kreinberg, Bodner and other Comverse executives did not carry the fair market value on the date of the grant, but were in fact backdated. *See* ¶¶ 263(a), (c). They also are false and misleading because they fail to disclose that the Compensation Committee had permitted Alexander, Vernia, Nissim and other Comverse executives to backdate option grants to maximize their own profits, at the expense of the Company.

265. These statements are materially false and misleading because the Director Defendants failed to disclose that the stated purpose of option grants – *i.e.*, linking compensation to performance and incentivizing employees to devote their maximum efforts to the success of the Company – was significantly undermined to the detriment of the Company because the options granted to those officers were backdated. *See* ¶ 263(b).

266. These statements are materially false and misleading because the stock option grants were not administered pursuant to 162(m) of the Internal Revenue Code because the Company did not recognize the backdated options are ordinary compensation. *See* ¶ 263(d).

267. The Summary Compensation Table from the First 2001 Proxy materially misstates the compensation of, and failed to disclose the illegal compensation received from the Company by Alexander, Danzinger, Bregman, Kreinberg, Bodner, Girard and Vernia in fiscal years 2002, 2001, and 2000 as a result of their receipt of fraudulently backdated stock options at less than fair market value in 2002, 2001 and 2000.

268. Specifically, Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the "dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered . . ." (17 C.F.R. § 229.402(b)(2)(iii)(B).) Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide the following items be disclosed in the Summary Compensation Table:

i. For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.

ii. Above-market earnings or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year

or payable during that period . . .

iii. The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*)

269. The disclosures of "Annual Compensation," and "Long-Term Compensation Stock Option Grants" and "All Other Compensation" are materially misleading absent the disclosure of the additional compensation received by the Officer Defendants as a result of the backdated options.

2002 Proxy

270. Comverse's 2002 definitive proxy statement was filed with the SEC on Schedule 14A on November 3, 2003 ("2002 Proxy") (Director Defendants Alexander, Friedman, Sorin, Alon, Hiram, Danzinger and Oolie were directors at this time).

271. The 2002 Proxy contained the following false and misleading statements about the operation and administration of the Stock Option Plan:

a. The Committee believes that equity-based incentive arrangements, such as employee stock options, restricted stock and employee stock purchase plans, are among the most effective means available to the Company of aligning the interests of employees with the objectives of shareholders generally, and of building their long term commitment to the organization. The Company emphasizes stock option awards as an essential element of the compensation package available to its executives and employees. The Company considers both available competitive data and subjective performance evaluations in determining the amount of long-term incentive compensation to grant to its officers and key employees. Stock options typically

vest in increments over four years to encourage long-term commitment to the Company by the grantees.

b. The exercise price of the options is equal to the fair market value of the underlying shares at the date of grant.

c. The exercise price of each option is equal to the higher of the book value of the underlying shares at the date of grant or the fair market value of such shares at that date determined by the Board of Directors of the applicable subsidiary or affiliate or by a committee of the Board of Directors of the Company.

d. The purpose of the Comverse Technology, Inc. 2004 Management Incentive Plan is to promote and advance the interests of Comverse Technology, Inc. (the Company) and its shareholders by enabling the Company to attract, retain and reward key employees of the Company and its Affiliates, and to qualify incentive compensation paid to such persons as performance-based compensation within the meaning of Section 162(m) of the Code.

272. These statements are false and misleading because the options granted to Alexander, Danzinger, Bregman, Kreinberg and other Comverse executives did not carry the fair market value on the date of the grant, but were in fact backdated. *See* ¶¶ 271(b)-(c). They also are false and misleading because they fail to disclose that the Compensation Committee had permitted Alexander, Danzinger, Bregman, Bodner, Kreinberg and other Comverse executives to backdate option grants to maximize their own profits, at the expense of the Company.

273. These statements are materially false and misleading because the Director Defendants failed to disclose that the stated purpose of option grants – *i.e.*, linking compensation to performance and incentivizing employees to devote their maximum efforts to the success of the Company – was significantly undermined to the detriment of

the Company because the options granted to those officers were backdated. *See* ¶¶ 271(a), (d).

274. These statements are materially false and misleading because the stock option grants were not administered pursuant to 162(m) of the Internal Revenue Code because the Company did not recognize the backdated options are ordinary compensation. *See* ¶ 271(d).

275. The Summary Compensation Table from the 2002 Proxy materially misstates the compensation of, and fails to disclose the illegal compensation received from the Company by Alexander, Danzinger, Girard, Bregman, Bodner and Kreinberg in fiscal years 2002, 2001 and 2000 as a result of their receipt of fraudulently backdated stock options at less than fair market value in 2002, 2001 and 2000.

276. Specifically, Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the "dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered . . ." (17 C.F.R. § 229.402(b)(2)(iii)(B).) Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide the following items be disclosed in the Summary Compensation Table:

i. For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.

ii. Above-market earnings or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period . . .

iii. The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair

> market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*)

277. The disclosures of "Annual Compensation," and "Long-Term Compensation Stock Option Grants" and "All Other Compensation" are materially misleading absent the disclosure of the additional compensation received by the Officer Defendants as a result of the backdated options.

2003 Proxy

278. Comverse's 2003 definitive proxy statement was filed with the SEC on Schedule 14A on May 3, 2004 ("2003 Proxy") and was materially false and misleading (Director Defendants Alexander, Friedman, Sorin, Alon, Hiram, Danzinger and Oolie were directors at this time).

279. The Summary Compensation Table from the 2003 Proxy materially misstates the compensation of, and fails to disclose the illegal compensation received from the Company by Alexander, Bregman, Bodner, Kreinberg and Danzinger in fiscal year 2002 as a result of their receipt of fraudulently backdated stock options at less than fair market value in 2002.

280. Specifically, Item 402(b)(2)(iii)(B) of Regulation S-K required that the Summary Compensation Table include the "dollar value of bonus (cash and non-cash) earned by the named executive officer during the fiscal year covered . . ." (17 C.F.R. § 229.402(b)(2)(iii)(B).) Additionally, the Instructions to Item 402(b)(2)(iii)(A) and (B) further provide the following items be disclosed in the Summary Compensation Table:

(1) For stock or any other form of non-cash compensation, disclose the fair market value at the time the compensation is awarded, earned or paid.

(2) Above-market earnings or preferential earnings on restricted stock, options, SARs or deferred compensation paid during the fiscal year or payable during that period . . .

(3) The dollar value of the difference between the price paid by a named executive officer for any security of the registrant or its subsidiaries purchased from the registrant or its subsidiaries (through deferral of salary or bonus, or otherwise), and the fair market value of such security at the date of purchase, unless that discount is available generally, either to all security holders or to all salaried employees of the registrant.

(*Id.*)

281. The disclosures of "Annual Compensation," and "Long-Term Compensation Securities Underlying Options" and "All Other Compensation" are materially misleading absent the disclosure of the additional compensation received by the Officer Defendants as a result of the backdated options.

DERIVATIVE ACTION ALLEGATIONS

282. Plaintiff brings this action derivatively in the right and for the benefit of Comverse, pursuant to Rule 23.1 of the Federal Rules of Civil Procedure, to redress injuries suffered, and to be suffered, by Comverse as a direct result of Defendants' breaches of fiduciary duties, abuse of control, gross mismanagement, waste of corporate assets, unjust enrichment and violations of federal securities laws. Comverse is named as a Nominal Defendant solely in a derivative capacity. This is not a collusive action to confer jurisdiction on this Court that it would not otherwise have.

283. Plaintiff is a public pension fund and institutional shareholder of Comverse common stock that will adequately and fairly represent the interests of the Corporation and its shareholders in this litigation.

284. Plaintiff presently owns Comverse common shares and intends to retain shares in Comverse through the duration of the litigation.

285. The wrongful acts complained of herein subject, and will persist in subjecting, the Company to continuing harm because the adverse consequences of the injurious actions are still in effect.

286. The wrongful actions complained of herein were fraudulently concealed from Comverse shareholders.

287. The Comverse Board of Directors at the time of filing of the original complaint in this action consisted of the following seven (7) Directors: Alexander, Sorin, Alon, Friedman, Hiram, Oolie and Danzinger.

288. The wrongful acts complained of herein subject, and will persist in subjecting, the Corporation to continuing harm because the adverse consequences of the injurious actions are still in effect.

289. The wrongful actions complained of herein were fraudulently concealed from Comverse shareholders.

290. This is not a collusive action to confer jurisdiction on a court of the United States.

DEMAND EXCUSED ALLEGATIONS

291. Plaintiff's derivative claims for misstatements and omissions from proxy statements under Section 14(a) of the Exchange Act (Count II) are not subject to the demand requirement because business judgment – the lynchpin of the demand requirement – does not apply to disclosure decisions.

292. Plaintiff has made no demand on the Comverse Board of Directors to institute an action regarding any of the derivative claims because (1) the wrongful acts

complained of herein – *i.e.*, the stock option backdating scheme – was not only illegal and self-dealing, but also *ultra vires*, or outside the scope of the Boards' authority, and was not, nor could it have been, the product of a valid or good faith exercise of business judgment; (2) the entire fairness doctrine applies here; and (3) there is not a majority of disinterested and independent directors on Comverse's board to appropriately consider a demand as the majority of Comverse's seven directors[9] have disabling interests or conflicts. As such, demand should be excused.

293. The Director Defendants' practice of approving stock options is inconsistent with the Plan as approved by the shareholders of Comverse and therefore is unlawful and unauthorized. Thus, the option grants at issue herein are not, nor could they have been, the product of a valid or good faith exercise of business judgment. Indeed, Comverse has now admitted that it issued executive stock options with "effective dates" that ***predated*** the formal approval of the option grants. Because the Director Defendants approved stock option grants only after the fact, they knew, at the very least, that they were making material decisions without adequate information and without adequate deliberation. By approving stock option grants after the fact, the Director Defendants knowingly permitted backdating and acted with complete disregard for fact that the Corporation, itself, was being harmed. As a result of the backdating, Comverse has announced that it will need to restate its historical financial statements for each of the

[9] The first filed action consolidated under this caption, *Capovilla v. Alexander*, 06-CV-1849, was filed on April 20, 2006. Director Defendants Alexander and Sorin did not resign from the Board until May 1, 2006. Current Director Mark Terrell did not join Comverse's Board of Directors until July 28, 2006. Due to the fact that the *Capovilla* Complaint was well-pleaded as a derivative action, satisfied the legal test for demand excusal and the actions complained of in this Consolidated and Amended Complaint are essentially the same as the actions challenged in the *Capovilla* Complaint, demand futility need only be alleged upon the Board as constituted on April 20, 2006. *See Braddock v. Zimmerman*, ___ A.2d ____, 2006 WL 2632237 at *8 (Del. Ch. Sept. 12, 2006).

fiscal years ended January 31, 2005, 2004, 2003, 2002 and 2001 and the first three quarters of the fiscal year ended January 31, 2006.

294. Moreover, the Company has admitted in its Form NT 10-Q filed with the SEC on June 12, 2006 that the actual dates of measurement for certain past stock option grants for accounting purposes differed from the recorded grant dates for such awards. Defendants Alexander, Kreinberg and/or Sorin individually engaged in either telephonic conversations with the members of the Compensation Committee or simple, form correspondence to request approval for stock option grants to Comverse's senior executives. This practice was incompatible with a good faith exercise of business judgment because it did not allow for full and open discussions between all the members of the Compensation Committee before approval of the stock options in question. Indeed, this practice, by design, prevented a thorough and joint vetting process and, therefore, cannot be considered a valid exercise of business judgment. Nor was the responsibility of granting options delegated to any other group or subcommittee, it was the exclusive responsibility of the Compensation Committee. Indeed, as set forth above, the Compensation Committee had the exclusive responsibility of approving the granting of stock options under the Company's stock option plans.

295. In addition, the Comverse Board of Directors are incapable of objectively evaluating a pre-suit demand due to their participation and approval of the backdating scheme, personal interests, improper outside influences, divided loyalties, domination and control. Accordingly, as set forth below, any demand upon the Board would be futile.

296. The wrongful acts complained of herein were approved by and/or performed for the benefit of approximately one-half of the Board of Directors as it was constituted on April 20, 2006. Specifically, three (Alexander, Sorin and Danzinger) of the seven members of the Comverse Board of Directors as constituted on April 20, 2006, personally benefited from backdated stock options. As detailed more fully above, Director Defendant Alexander purportedly received backdated options at least on the following dates: September 22, 1994, July 15, 1996, May 28, 1997, January 27, 1998, October 9, 1998, October 18, 1999, November 30, 2000 and October 22, 2001. Director Defendant Sorin purportedly received backdated options at least on the following dates: May 28, 1997, January 27, 1998, October 9, 1998, October 18, 1999, November 30, 2000 and October 22, 2001. Director Defendant Danzinger purportedly received backdated options at least on the following dates: October 9, 1998, October 18, 1999, November 30, 2000 and October 22, 2001. Three other (Hiram, Oolie and Friedman) of the seven members of the Board were members of the Compensation Committee that was directly responsible for authorizing the backdated grants and were members of the Audit Committee that was directly responsible for approving the Corporation's materially false and misleading financial statements, or issued materially false statements in SEC filings. As explained in detail below, Hiram, Oolie and Friedman were directly responsible for administering the Corporation's stock option compensation for executives, and were otherwise responsible for backdated stock option grants. As members of the Audit Committee, Hiram, Oolie and Friedman were also directly responsible for approving the Corporation's materially false and misleading financial statements. Alon was a member of Comverse's Board during the Relevant Period and issued material false statements

regarding the stock option grants in SEC filings. Each of these Defendants faces a substantial likelihood of personal liability given the strong evidence of backdating set forth above and thus cannot be considered disinterested in this case. As such, six of the seven members of the Board, as constituted on April 20, 2006 are interested and demand to them would be futile.

297. The Sarbanes-Oxley Act of 2002 placed significant additional responsibilities on the boards of directors of public companies subject to the Act, like Comverse, to improve corporate financial accounting and internal controls and to improve corporate financial responsibility and disclosure. This new law was a disaster for the Comverse Board, since, despite its public posture of concern over good corporate governance, controls, disclosure and integrity, it was sitting atop a massive ongoing scheme to falsifying and thus, artificially inflating its Company's reported financial results. Any real compliance with the Sarbanes-Oxley Act of 2002 would have exposed this scheme, brought it to an end and resulted in embarrassing discharges. Thus, the Comverse Board of Directors did not enforce or comply with the Sarbanes-Oxley Act of 2002, despite its legal obligation under federal law to do so. Clearly, the Comverse Board of Directors will not sue themselves for this failure.

298. In addition, to the above stated reasons, demand is futile because of the irreconcilable conflicts, divided loyalties, and domination that a majority of the current directors face. Specifically:

a. In order to bring this action for breaching their fiduciary duties, the Current Director Defendants would have been required to sue themselves and/or their fellow directors and family members, allies in the top ranks of the Corporation, which they would not do. Defendants Alexander, Z. Alexander, S.

Yemini, and Y. Yemini are all family members. Therefore, the Current Director Defendants would not be able to vigorously prosecute any such action;

b. The Current Director Defendants received payments, benefits, stock options and other benefits by virtue or their membership on the Board and their control of Comverse. They have thus benefited from the wrongdoing herein alleged an have engaged in such conduct to preserve their positions of control and the perquisites thereof, and are incapable of exercising independent objective judgment in deciding whether to bring this action;

c. If Comverse's current and past officers and directors are protected against personal liability for their acts on mismanagement, deception and breach of fiduciary duty alleged in this Complaint by directors' and officers' liability insurance, they caused the Corporation to purchase that insurance for their protection with corporate funds, *i.e.*, monies belonging to the stockholders of Comverse. However, due to certain changes in the language of directors' and officers' liability insurance policies in the past few years, the directors' and officers' liability insurance policies covering the defendants in this case likely contain provisions that eliminate coverage for any action brought directly by Comverse against these defendant, know as, *inter alia*, the "insured versus insured exclusion." As a result, if these directors were to sue themselves or certain of the officers of Comverse, there would be no directors' and officers' insurance protection and thus, this is a further reason why they will not bring such a suit. On the other hand, if the suit is brought derivatively, as this action is brought, the "insured versus insured exclusion" will not apply and will provide a basis for the Corporation of effectuate a recovery. If there is no directors' and officers' liability insurance at all then the defendant directors will not cause Comverse to sue them, since they will face a large uninsured liability;

d. The members of the Compensation Committee (Hiram, Oolie, and Friedman) and Audit Committee (Hiram, Oolie and Friedman) could not have acted in good faith or with the requisite care and concern for the best interest of the Company and its

shareholders because no rational legitimate process could have been employed that would allow the backdating of stock options and the cover up of such improprieties. Thus, three members of the Board could not properly respond to a demand and each member of the Board is exposed to personal liability by reason of personal profiteering, gross negligence or recklessness, bad faith acts of misconduct, and/or gross or reckless inattention and failure of oversight;

e. In addition to the conflicts that exist as a result of their participation in the improper accounting, demand is also excused because Hiram, Oolie and Friedman ratified the egregious actions outlined herein, and these same Directors Defendants cannot be expected to prosecute claims against themselves, and persons with whom they have extensive inter-related business, professional and personal entanglements, if Plaintiff demanded that they do so;

f. The Audit Committee is comprised of Director Defendants Friedman, Oolie and Hiram, who have been members for over twelve, twenty and five years, respectively. Director Defendant Hiram served as Chairman of the Audit Committee during the Relevant Period. The Comverse Board of Directors determined that each of the members of its Audit Committee qualifies as an "audit committee financial expert" as defined in item 104(h)(2) of Regulation S-K and pursuant to Section 407 of Sarbanes-Oxley. By its charter, the Audit Committee assists the Board in fulfilling certain of its responsibilities, including (i) overseeing the Company's financial reporting process; (ii) overseeing the Company's compliance with legal and regulatory requirements; (iii) reviewing and evaluation the independent auditors' qualifications and independence; (iv) reviewing the performance of the Company's internal audit function, if applicable, and its independent auditors and its systems of internal accounting and financial controls; (v) reviewing and authorizing related-party transactions (as defined in the relevant NASDAQ requirements); (vi) overseeing the Company's code of business conduct and ethics as established by the Board; and (vii) preparing the

Committee report required to be included in the Company's annual proxy statement.

g. Director Defendants Friedman, Oolie and Hiram were responsible, as members of Comverse's Audit Committee, for insuring that the Company's internal controls were adequate and that the Company's quarterly and annual financial statements were accurate. Comverse's internal controls, however, were woefully deficient as evidenced by its executives' improper backdating of stock option grants. As a result of this improper option backdating, the Company's financials were rendered inaccurate because those financials did not account for the true amount of compensation being granted to Comverse's executives. Accordingly, there is reasonable doubt that Director Defendants Friedman, Oolie and Hiram are disinterested because they face a substantial likelihood of liability for their breaches of fiduciary duty to Converse. Thus, demand is futile as to Director Defendants Friedman, Oolie and Hiram;

h. The Compensation Committee is also comprised of Director Defendants Friedman, Oolie and Hiram, who have been members for over twelve, twenty and five years, respectively. Director Defendant Friedman served as Chairman of the Compensation Committee during the Relevant Period. The members of Comverse's Compensation Committee are responsible for administering the issuance of Stock Option grants under the Company's stock option plans. Therefore, Director Defendants Friedman, Oolie and Hiram were responsible to review the stock options grant to Comverse executives during their respective tenures on the Compensation Committee. Clearly, these Director Defendants did not fulfill this duty, therefore causing or allowing the Company's executives to obtain unreasonable and unreported compensation via the backdating of stock option grants. Accordingly, there is reasonable doubt that Director Defendants Friedman, Oolie and Hiram are disinterested because they face a substantial likelihood of liability for their breaches of fiduciary duty to Comverse. Thus, demand is futile as to Director Defendants Friedman, Oolie and Hiram;

i. Comverse's non-employee directors receive substantial compensation in the form of annual retainers, stock option grants, and Board and Committee fees. Specifically, during 2005, Comverse paid the following annual retainers:

Non-Employee Directors	Compensation
Friedman	$158,050
Oolie	$151,050
Hiram	$151,050
Alon	$147,050

j. Moreover, Director Defendants Sorin, Friedman, Oolie and Alon received generous option grants each year they served on the Board. Accordingly, Director Defendants Friedman, Oolie, Hiram and Alon are interested in maintaining their positions on the Board so as to safeguard their substantial compensation and unvested stock options. Thus, demand upon these defendants is futile;

299. Current Director Defendants, because of their inter-related business, professional and personal relationships, have developed debilitating conflicts of interest that prevent the Comverse Board members from taking the necessary and proper action of behalf of the Company, as requested herein. In addition to the conflicts that exist as a result of their participation in the improper accounting and insider selling, as detailed herein, the majority of the Comverse Board, as constituted on April 20, 2006, including the Current Director Defendants listed below, are subject to prejudicial entanglements and divided loyalties;

a. Defendants Hiram and Alon were employed by Lehman Brothers before joining the Comverse Board of Directors. Lehman Brothers provides investment banking services to Comverse, including

acting as manager and co-manager of Comverse's offerings of securities, including Zero Yield Puttable Securities. Accordingly, defendants Hiram and Alon are not independent because of their ties to Comverse's investment bankers. Both Director Defendants Hiram and Alon worked in related positions at Lehman for a period of three years. Director Defendant Alexander worked in the finance department from 1979 – 80. Lehman Brothers acted as the placement agent and acquired 246,305 shares of Comverse convertible preferred shares in the Company's first IPO in December 1986. Shearson Loeb Rhodes later split into Lehman Brothers and Salomon Smith Barney. Salomon Smith Barney is the Citigroup banking investment division. In 2003, Citigroup was Comverse's second-largest shareholder.

b. Director Defendant Hiram was appointed a director of System Management ARTS, Inc., also known as "SMARTS," which was founded by Defendants S. Yemini and Y. Yemini in 1993. At the same time Defendant Hiram was a director of SMARTS, Defendant Alexander served as chairman of the board of SMARTS. In December 2004, SMARTS was sold to EMC for $260 million in cash and $25 million in options.

c. Hiram and Alexander both worked for and with U.S. Financier George Soros. Hiram was the managing director and partner of Soros Fund Management from 1994 to 2000, devoting the bulk of his time to private equity investments. In 1997, Soros and Alexander co-funded in equal partnership a $30 million high-tech investment fund named Comsor.

d. Between 1994 and 2004, Director Defendant Sorin received over $2,546,364.00 in legal fees from the Company.

e. The cronyism and lack of independence at Comverse also exists at Verint, which is a subsidiary of Comverse and is dominated and controlled by Comverse. Alexander, Sorin and

Kreinberg are all members of Verint. In addition, in a July 1, 2002 article published by TheMarker.com, Verint CEO, Officer Defendant Bodner was quoted as stating that "Kobi and I have worked together for 15 years and our relationship is very informal. I ask for his advice when necessary, as he knows the company since the day it was founded. . . . In general, our relationship with the members of the board is not limited to the board's meetings." According to a July 25, 2004 article in TheMarker.com, "[a] company in which more than 50% of the voting power rests with an individual, a family, or a group of shareholders voting as a block, or another company, can call itself a 'controlled company'. It is thus given relief of certain stringent regulations applying to the boards of all other publicly listed companies [the "loophole"]. A controlled company can shake off one or more of the following three demands: (1) That a majority of directors be independent. (2) That only independent directors sitting on the nominating committee select director candidates. (3) That only independent directors sit on the compensation committee." The article continues:

> At Verint, the compensation committee consists of Comverse personnel: Comverse chief executive Kobi Alexander, the chief financial officer David Kreinberg, and the corporate secretary William Sorin [all of whom have now been indicted by the U.S. government, as mentioned above].
>
> In its 2003 financial statement, Verint wrote that its chairman, Alexander, also chairs Comverse Technology, a position that soaks up his time and also, Verint admitted, "presents potential conflicts of interest."
>
> Given the pressure on Alexander's time, one wonders why he finds it needful to sit on Verint's compensation committee. He also sits on the compensation committee of another Comverse subsidiary, Ulticom (Nasdaq: ULCM), which is also a "controlled company."

> Nor is it clear why three Comverse personnel, who together hold less than 3% of Comverse's shares and less than 2% of Verint's, prevent the "minority" with 40% of the voting rights from having representation on the Verint compensation committee through independent directors.
>
> * * *
>
> ISS recommends that shareholders not support the nine non-independent directors being proposed, because Verint failed to establish an independent nominating committee and failed to establish a board with an independent majority. It specifically recommended that its clients withhold votes from Kreinberg and Alexander for standing as insiders, and from William Sorin for standing as an affiliated outsider on the compensation committee.
>
> Glass Lewis stresses that nine of the 13 are insiders or affiliated with Verint, which could well compromise the objectivity and independence of the board, impairing its fulfillment of its oversight duties.

f. The cronyism and lack of independence at Comverse also exists at Ulticom, which is a subsidiary of Comverse and is dominated and controlled by Comverse. Alexander, Sorin, Hiram, Kreinberg and Osborne are all directors at Ulticom.

300. The Special committee provides no assurance that the wrongs complained of herein will be properly and satisfactorily addressed and remedied. The two known members of the Special Committee, Defendants Hiram and Alon, as described above, have disabling interests that prevent them from properly considering a demand. Moreover, it has been close to ***seven months*** since the Defendants backdating scheme was exposed. The Special Committee has not instituted legal proceedings against any board members (despite the fact that numerous civil lawsuits have been brought and the SEC and the U.S. Attorney have brought criminal actions against Defendants Alexander, Kreinberg and Sorin). Nor has the Special Committee taken any action whatsoever

against members of the Company's Board of Directors, Compensation Committee members or Audit Committee members.

TOLLING OF THE STATUTE OF LIMITATIONS

301. Plaintiff's allegations and claims as set forth herein are timely. Plaintiff did not know, and had no reason to know, that Defendants had improperly and repeatedly backdated stock option grants to Comverse executives. Plaintiff could not have known, even with the exercise of all reasonable diligence, that Defendants had acted unlawfully, because Defendants actively concealed this information.

302. Specifically, from as early as 1994 until March 2006, Defendants concealed their improper backdating of option grants and unlawful awarding of compensation to Comverse executives by issuing false and misleading statements that falsely reported the dates of stock option grants as well as the practices employed by the Corporation for granting and approving stock option grants. Specifically, from 1994 to 2006, the Corporation, with the knowledge, approval, and participation of each of the Defendants, for the purpose and with the effect of concealing the improper option backdating alleged herein, disseminated to shareholders and filed with the SEC annual proxy statements that falsely reported the dates of stock option grants to the Defendants, as follows:

a. Comverse's proxy statement filed with the SEC on October 18, 1995, falsely reporting that options granted to Alexander, Vernia and Nissim were granted on September 22, 1994;

b. Comverse's proxy statement filed with the SEC on November 15, 1996, falsely reporting that options granted to Nissim were granted on May 25, 1995;

c. Comverse's proxy statement filed with the SEC on December 1, 1997, falsely reporting that options granted to Alexander, Vernia and Nissim were granted on July 15, 1996;

d. Comverse's proxy statement filed with the SEC on May 11, 2001, falsely reporting that options granted to Alexander, Danzinger, Sorin and Kreinberg were granted on October 18, 1999;

e. Comverse's proxy statement filed with the SEC on January 16, 2002, falsely reporting that options granted to Alexander, Danzinger, Kreinberg and Sorin were granted on November 30, 2000;

f. Comverse's proxy statement filed with the SEC on October 25, 2002, falsely reporting that options granted to Alexander, Danzinger, Kreinberg, Bodner, and Sorin were granted on October 22, 2001;

g. Comverse's proxy statement filed with the SEC on November 3, 2003, falsely reporting that options granted to Alexander, Danzinger, Bregman, Bodner and Kreinberg were repriced on December 23, 2002, and that these options were equal to the fair market value of the underlying shares at the date of grant."

303. Defendants also concealed their improper backdating of option grants and unlawful awarding of compensation to Comverse executives by failing to disclose (1) how the Compensation Committee approved, awarded and priced stock option grants failing; and (2) that grants of stock options to Comverse's executives were backdated and based on exercise prices that served only to enrich the recipient at the expense of the Company. Indeed, the information necessary to put Plaintiff on notice of Defendants' unlawful stock option backdating was in the exclusive control of Defendants, who as fiduciaries, had an affirmative obligation to disclose the facts giving rise to the claims alleged herein, but failed to do so.

304. On March 14, 2006, Comverse issued a press release announcing the creation of a Special Committee of its Board of Directors to review matters relating to the Company's stock option grants, including, but not limited to, the accuracy of the stated dates of options grants and whether all corporate procedures were followed, and that management believes that certain restatements likely will be required. Until March 14,

2006, Comverse investors reasonably relied upon Defendants' materially false and misleading statements and could not determine from the pattern of Comverse's option grants alone that Defendants were, in fact, backdating executive option grants. Upon the Corporation's March 14, 2006 disclosure and the additional disclosures that followed, however, the pattern of the Defendants' well-timed option grants was revealed to be more than "blind luck." Plaintiffs promptly filed this case upon discovering these facts and have worked diligently to uncover the additional facts set forth herein demonstrating the Individual Defendants' wrongdoing. Thus, the statute of limitations should be tolled until at least the March 14, 2006 disclosure.

305. In addition, as shareholders of Comverse, Plaintiffs reasonably relied upon the good faith, loyalty and skill of the Defendants in their actions on behalf of and with respect to the Corporation's property and processes. As set forth herein, however, the Defendants, violated their fiduciary duties owed to Comverse and its shareholders, including Plaintiffs, and acted in a self-dealing, unlawful manner in their granting of stock options and awarding of compensation to the Corporation's executives and, in doing so, concealed from Comverse's shareholders, including Plaintiffs, the facts giving rise to the claims asserted herein. Accordingly, the Defendants cannot rely on any limitations defense where they, as fiduciaries, violated their fiduciary duties and concealed such violations and unlawful acts for their personal enrichment and to the detriment of the Corporation.

CAUSES OF ACTION

COUNT I

DERIVATIVE CLAIM FOR VIOLATION OF SECTION 10(b) OF THE SECURITIES EXCHANGE ACT AND RULE 10B-5 PROMULGATED THEREUNDER

(Against Director Defendants And Officer Defendants)

306. Plaintiff incorporates by reference and realleges each and every allegation contained above as though fully set forth herein.

307. This Count is brought on behalf of Comverse pursuant to Section 10(b) of the Exchange Act and Rule 10b-5(a), (b), and (c) promulgated thereunder against all Director and Officer Defendants.

308. From March 2001 to the present, the Director and Officer Defendants, individually and in concert, directly and indirectly, by use of the means or instrumentalities of interstate commerce, the mails, and or the facilities of a national securities exchange knowingly or recklessly:

a. Employed devices, schemes, and/or artifices to defraud Comverse in connection with grants to, and exercises by, the Officer Defendants of fraudulently-priced Comverse stock options;

b. Made untrue statements of material fact to the Company, the SEC and the Company's shareholders and/or omitted to state material facts necessary in order to make the statements made, in light of the circumstances in which they were made, not misleading, in order to defraud Comverse in connection with grants to, and exercises by, the Officer Defendants of fraudulently-priced Comverse stock options; and/or

c. Engaged in acts, practices, and a course of conduct that operated as a fraud or deceit upon Comverse causing Comverse to issue fraudulently-priced stock options and permitting the exercise of such options, at the Company's expense.

309. Since the Company 10(k)s and proxy statements included information regarding the prior three fiscal years and included aggregate information on the value of

all unexercised options held by the top five executive officers an all of the directors, the 1994 through 2004 financial and proxy statements made material misrepresentations and omissions pertaining to the Officer Defendants' undisclosed compensation resulting from backdated option grants that occurred at least as far back as the year 1991.

310. During the Relevant Period, each Director Defendant was a direct and necessary participant in the fraudulent options scheme and acted with knowledge, or reckless disregard, of the wrongdoing alleged herein. Each Director Defendant implemented, perpetuated and/or furthered the scheme by, among other things, knowingly or recklessly:

a. approving and/or permitting the backdated option grants to the Officer Defendants;

b. knowingly or recklessly causing the Company to issue materially false and misleading statements such as the Company's proxy statements and Form 10-Ks during the 10(b) Period concerning the nature and validity of the fraudulent stock option grants at issue in this action.

311. During the Relevant Period, as described in detail above, each Officer Defendant knowingly or recklessly directly participated in the option backdating scheme by, among other things, knowingly accepting the backdated option grants and signing and filing with the SEC Forms 4s and 5s which fraudulently misrepresented the dates of the grants at issue in this case.

312. The Defendants' deceptive conduct referenced above had the direct purpose and effect of misleading and defrauding Comverse, because it induced it to issue the option grants to the Officer Defendants at prices below fair market value on the date of the grants, and thereby depriving the Company of adequate compensation for the shares issued in connection with such option grants.

313. The Company relied upon the Defendants' materially false and misleading statements and omissions in connection with the issuance of the fraudulent option grants at issue in this action. Had the Company and the shareholders not been defrauded by the Defendants' false and misleading statements and omissions, the Company would not have issued the options at fraudulently manipulated prices and the options backdating scheme could have been stopped in its tracks.

314. The Director and Officer Defendants acted with scienter throughout the Relevant Period, in that they either knowingly implemented the fraudulent options scheme and had actual knowledge of the misrepresentations and/or omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose the true facts, even though such facts were readily available to them.

315. As detailed herein, Comverse suffered and continues to suffer significant damage as a direct result of the issuance of fraudulently-priced stock options to the Officer Defendants, the exercise or potential exercise of such options, and the Director Defendants' materially false and misleading statements and omissions, which harm was a direct and proximate result of Defendants' misconduct.

316. Through their positions of control and authority as officers and directors of the Company, each Defendant was able to and did control the conduct complained of herein and the content of the public statements disseminated by Comverse.

317. The Defendants are liable to the Company as a result of the acts alleged herein.

COUNT II

DERIVATIVE CLAIM FOR VIOLATIONS OF SECTION 14(a) OF THE EXCHANGE ACT AND RULE 14a-9 PROMULGATED THEREUNDER BASED UPON MATERIAL MISSTATEMENTS IN AND OMISSIONS FROM THE 1994 THROUGH 2006 PROXY STATEMENTS

(Against Director Defendants)

318. Plaintiff incorporates by reference and realleges each and every allegation above as though fully set forth herein.

319. Each of the Director Defendants caused Comverse to issue the 1994 through 2004 Proxy Statements to solicit shareholder votes for the election of directors.

320. As alleged in detail above, these Proxy Statements contained materially false and misleading statements and omissions, including the failure to disclose that: (a) in violation of the Company's stock option plans, the Officer Defendants were fabricating dates for option grants that were the best possible dates for him, the Officer Defendants, and the worst possible dates for the Company; (b) in complete abdication of their fiduciary duties, the Board acquiesced in the Officer Defendants' selection of false grant dates; (c) the other Officer Defendants received significant undisclosed compensation through the improper option grants; and (d) the Officer Defendants' receipt of such compensation involved significant undisclosed tax and accounting implications for the Company.

321. Since the 1994 through 2004 Proxy Statements were required to include compensation information regarding the prior three fiscal years and included aggregate information on the value of all unexercised options held by the top five executive officers and all of the directors, the 1994 through 2004 Proxy Statements made material misrepresentations and omissions pertaining to the Officer Defendants' undisclosed

compensation resulting from backdated option grants that occurred at least as far back as the year 1991.

322. The misrepresentations and omissions in each Proxy Statement were material to shareholders in voting on each Proxy Statement. The Proxy Statements were an essential link in Defendants' unlawful stock option manipulation scheme, as the truth would have brought an end to shareholders' endorsement of the Director Defendants and the Officer Defendants and the Company's compensation policies, including the fraudulent stock option scheme.

323. The Board's failure to include these material facts in the 1994 through 2004 Proxy Statements rendered the Proxy Statements materially false and misleading, in violation of Section 14(a) of the Exchange Act and Rule 14a-9 thereunder.

324. As a direct and proximate result of the issuance of false and misleading Proxy Statements, the Company has suffered harm, because, among other things, the Director Defendants who, as alleged herein, knowingly and/or recklessly orchestrated the option scheme, continued to receive the undisclosed compensation and perpetuated the fraud at Comverse's expense.

325. As a direct and proximate result of the issuance of false and misleading Proxy Statements, the Company has also been exposed to SEC and other government enforcement actions as well as penalties, fines and civil liabilities for violations of federal and state law, as well as large tax liabilities and unrecorded and unreported employee compensation expenses that caused its financial statements to be false.

COUNT III

DERIVATIVE CLAIM FOR BREACH OF FIDUCIARY DUTIES

(Against Director Defendants And Officer Defendants)

326. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though fully set forth herein.

327. Defendants all owed and owe a fiduciary duty to Comverse and its stockholders. By reason of their fiduciary relationships, Defendants all owed and owe Comverse the highest obligation of good faith, fair dealing, loyalty and due care and diligence in the management and administration of the affairs of the Company, as well as in the financial accounting, auditing and reporting of the Company. Moreover, Defendants owed and owe the duty of full and candid disclosure of all material facts thereto.

328. Defendants have been responsible for the gross and reckless mismanagement of Comverse. Defendants abdicated their corporate responsibilities by mismanaging the Company in at least the following ways:

a. They manipulated the grant dates of employee stock options;

b. They concealed from the Company's shareholders and the investing public the fact that Comverse lack adequate internal controls;

c. They subjected Comverse to adverse publicity that could impair its earnings;

d. They abused and perverted the Company's compensation structure in a manner that prevented proper incentives to be applied and that rewarded improper self-dealing;

e. They misused or permitted the misuse of Comverse's internal propriety corporate information in violation of federal and state laws and corporate rules and policies to the personal profit of certain corporate fiduciaries;

f. They caused the Company to improperly misrepresent the financial results and guidance. These actions could not have been a good faith exercise of prudent business judgment to protect and promote the Company's corporate interests; and

g. They caused the Company to falsify records used to gain access to corporate assets and to improperly make and keep books, records, and accounts, which fail to, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company in violation of the Foreign Corrupt Practices Act, 15 U.S.C. §78dd et seq.

329. All defendants, singly and in concert, engages in the aforesaid conduct in intentional breach and/or reckless disregard of their fiduciary duties to the Company.

330. Defendants conspired to abuse, and did abuse, the control vested in them by virtue of their positions in the Company.

331. By reason of the foregoing, Defendants have breached their fiduciary obligations to Comverse and its shareholders.

332. Comverse and its shareholders have been injured by reason of the Defendants' intentional breach and/or reckless disregard of their fiduciary duties to the Company. Plaintiff, as a shareholder and representative of Comverse, seeks damages and other relief for the Company as hereinafter set forth.

333. Plaintiff on behalf of Comverse has no adequate remedy at law.

COUNT IV

DERIVATIVE CLAIM FOR AIDING AND ABETTING A BREACH OF FIDUCIARY DUTY

(Against Director Defendants)

334. Plaintiffs incorporate by reference and reallege each and every allegation contained above as though fully set forth herein.

335. By reason of their positions as fiduciaries of the Corporation, the Officer Defendants owed duties of due care, undivided loyalty, good faith, and truthful disclosure. The Officer Defendants violated and breached these duties.

336. By virtue of their role in creating and administering the Corporation's stock option plan, and their approval and authorization of the stock options that were backdated as alleged herein, the Director Defendants were able to, and in fact did, render aid and assistance to the Officer Defendants in their breach of fiduciary duty. The Director Defendants did so knowing, or but for their gross negligence would have known, of the Officer Defendants' fiduciary breach.

337. As a direct and proximate result of the Director Defendants' aiding and abetting the Officer Defendants' breach of fiduciary duty, the Corporation has sustained, and will continue to sustain, substantial harm.

338. The Director Defendants are liable to the Corporation as a result of the acts alleged herein.

COUNT V

DERIVATIVE CLAIM FOR ABUSE OF CONTROL
(Against Director Defendants And Officer Defendants)

339. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though full set forth herein.

340. Defendants' misconduct alleged herein constituted an abuse of their ability to control and influence Comverse, for which they are legally responsible.

341. As a direct and proximate result of Defendants' abuse of control, Comverse has suffered substantial monetary damages, as well as further and even greater

damage in the future, including damage to Comverse's reputation and goodwill. Defendants are liable to the Company as a result of the misconduct alleged herein.

342. Plaintiff on behalf of Comverse has no adequate remedy at law.

COUNT VI

DERIVATIVE CLAIM FOR GROSS MISMANAGEMENT

(Against Director Defendants And Officer Defendants)

343. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though fully set forth herein.

344. By their actions alleged herein, Defendants, either directly or through aiding and abetting, abandoned and abdicated their responsibilities and fiduciary duties with regard to prudently managing the assets and businesses of Comverse in a manner consistent with the operations of a publicly held corporation.

345. As a direct and proximate result of Defendants' gross mismanagement and breaches of duty alleged herein, Comverse has suffered substantial monetary damages, as well a further and even greater damage in the future, including damage to Comverse's reputation and good will. Defendants are liable to the Company as a result of the misconduct alleged herein.

346. Plaintiff on behalf of Comverse has not adequate remedy at law.

COUNT VII

DERIVATIVE CLAIM FOR WASTE OF CORPORATE ASSETS

(Against Director Defendants And Officer Defendants)

347. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though fully set forth herein.

348. As a result of the improper accounting described herein, and by failing to properly consider the interests of the Company and its public shareholders by failing to

conduct proper supervision, Defendants have caused Comverse to waste valuable corporate assets by: having to direct manpower to the task of restating Comverse's past financials to correct for the improperly backdated stock option grants; incurring unreported compensation costs in connection with the improper employee stock option dating practices because the improper dating of the stock options brought an instant paper gain to certain Comverse executives; and incurring potentially millions of dollars of legal liability and legal costs to defend Defendants' unlawful actions.

349. As a direct and proximate result of Defendants' waste of corporate assets, the Defendants are liable to the Company.

350. Plaintiff on behalf of Comverse has no adequate remedy at law.

COUNT VIII

DERIVATIVE CLAIM FOR UNJUST ENRICHMENT

(Against Director Defendants, Officer Defendants and John Doe Defendants)

351. Plaintiff incorporates by reference and realleges each and every allegation set forth above, as though fully set forth herein.

352. By their wrongful acts and omissions, Defendants were unjustly enriched at the expense of and to the detriment of Comverse.

353. Plaintiff, as shareholder and representative of Comverse, seeks restitution, damages, an order of this Court disgorging all profits, benefits and other compensation obtained by these Defendants from their wrongful conduct and fiduciary breaches, and other relief for the Company, in an amount to be proven at trial.

COUNT IX

RECISSION

(Against Director Defendants, Officer Defendants and John Doe Defendants)

354. Plaintiffs incorporate by reference and reallege each and every allegation contained above as though fully set forth herein.

355. As a result of the acts alleged herein, all stock option contracts between the Officer Defendants and Comverse entered into during the relevant period were obtained through the Officer Defendants' fraud, deceit, and abuse of control. Further, the backdated stock options and the shares underlying these options were not duly authorized by the Board, as was legally required, because they were not authorized in accordance with the terms of the publicly filed contracts – including the Plan and the Officer Defendants' employment agreements – approved by Comverse shareholders and filed with the SEC.

356. All stock option contracts between the Officer Defendants and Comverse entered into during the relevant period should, therefore, be rescinded, with all sums paid under such contracts returned to the Corporation, and all such executory contracts cancelled and declared void.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for judgment as follows:

(1) Determining that this action is a proper derivative action maintainable under law and demand is excused;

(2) Against each Defendant for restitution and/or damages in favor of plaintiff, on behalf of Comverse and its public shareholders;

(3) Extraordinary equitable and/or injunctive relief as permitted by law, equity and state statutory provisions sued hereunder, including attaching, impounding, imposing a constructive trust on or otherwise restricting the proceeds of defendants' trading activities or their other assets so as to assure that plaintiff on behalf of Comverse has an effective remedy;

(4) Setting aside the election of each of the Comverse director to the Comverse Board of Directors;

(5) Awarding plaintiff the costs and disbursements of this action, including reasonable attorneys' and experts' fees;

(6) Granting such other and further relief as this Court may deem just and proper;

(7) Awarding Plaintiff the costs and disbursements of the action, including reasonable allowance of fees for Plaintiff's attorneys, experts and accountants; and

(8) Granting Plaintiff such other and further relief as the Court deems just and proper.

JURY DEMAND

Plaintiff demands a trial by jury on all issues.

Dated: New York, New York
October 6, 2006

Respectfully submitted,

BERNSTEIN LITOWITZ BERGER & GROSSMANN LLP

By:/s/ Darnley D. Stewart

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