

**SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK**

In Re: Comverse Technology, Inc.
Derivative Litigation

Index No. 601272/2006

CONSOLIDATED AND AMENDED SHAREHOLDER DERIVATIVE COMPLAINT

Lead Plaintiffs Leonard Sollins and Timothy Hill, by their attorneys, submit this Consolidated Shareholder Derivative Complaint (the "Complaint") against the defendants named herein.

INTRODUCTION AND OVERVIEW

1. This consolidated stockholder's derivative action (the "Action") is brought on behalf of nominal defendant Comverse Technology, Inc. ("CTI" or the "Company") by two of its shareholders against CTI's Board of Directors for breaching their fiduciary duties beginning in 1991 through the present by: (i) allowing and participating in a scheme to backdate the grant dates of employee stock options to improperly benefit the Company's top executives and certain board members; (ii) allowing insiders, including certain of the Defendants, to personally profit by trading the Company's stock while in possession of material inside information; (iii) failing to properly oversee or implement procedures to detect and prevent such improper practices; (iv) causing CTI to issue materially false and misleading proxy statements, as well as causing CTI to file many false and misleading documents with the SEC; and (v) exposing the Company to civil liability. This Action is also brought against Deloitte & Touche LLP ("D&T") for breach of

fiduciary duty, malpractice, breach of contract, and negligent misrepresentation in connection with their execution of their professional duties as CTI's independent auditor.

2. CTI is a Manhattan, New York-based provider of software, systems and related services for multimedia communication and information processing applications. The Company operates numerous subsidiaries, including Ulticom, Inc. ("Ulticom"), of which CTI owned 74% in April 2003 and 70% in April 2005, a publicly-traded company that provides service-enabling signaling software for wireline, wireless and Internet communications, and Verint Systems, Inc. ("Verint"), of which CTI owned 78% in January 2003 and 59% in April 2005, another publicly-traded subsidiary that provides analytic software-based solutions for communications interception, networked video security and business intelligence, and Comverse, Inc., a provider of software and systems that enable multimedia network based enhanced services. Until in and about April 2000, Ulticom was a wholly-owned subsidiary of CTI while until in or about April 2002, Verint was a wholly-owned subsidiary of CTI.

3. This Complaint alleges, among other things, that the Company's officers and/or directors intentionally, knowingly and/or recklessly approved and/or participated in misstating and otherwise manipulating the grant dates of employee stock options to benefit themselves at the expense of the Company and its shareholders.¹

4. During the relevant period, CTI'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 [CTI] common stock on the date of the

¹ A stock option is granted to specified employees of a company and carries the right, but not the obligation, to buy a certain amount of shares in the company after a specified amount of time at a predetermined price called the "exercise price." Typically, the exercise price of a stock option is the same as the closing price of shares of the company's stock on the date on which the option is granted. Accordingly, the lower the exercise price, and the higher the price of the company stock on the date on which the option is exercised, the more valuable the stock option becomes.

grant.” During the relevant period, however, CTI 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 CTI stock was lower than it was on the actual grant date, thereby increasing the value of the options to the grantees. When certain of the options became worthless because their exercise price was “underwater,” *i.e.*, above the then-current market price of CTI stock, Defendants simply repriced the options by cancelling them and granting themselves new options with significantly lower exercise prices so that the new options could be exercised for substantial profits.

5. This practice is antithetical to the express purpose of employee stock option programs, which is to provide incentives to Company employees to work hard to benefit the Company and its shareholders. When options are backdated to lower their exercise price for the benefit of insiders, the salutary purpose behind an employee stock option plan is undermined to the detriment of the Company and its shareholders because the recipients of the options receive compensation, even though they did not achieve the goals that would otherwise be a prerequisite to the granting of the options. Backdating options, therefore, results in corporate waste because it serves no legitimate corporate purpose, but rather is a vehicle for looting the Company. The practice of backdating options, moreover, had the effect of understating the Company’s reported stock-based compensation expense and overstating its earnings.

6. This scheme came to light on March 14, 2006 when the Company announced that it had created a Special Committee of its Board of Directors to investigate its stock option grants, particularly, “the accuracy of the stated dates of option grants and whether all proper corporate procedures were followed.” According to the release, the Company stated that as a result of the backdating scheme, it is likely that it will have to restate its financial results.

7. Defendants' backdating scheme violated CTI's stock option plan, which provided that the exercise price of any stock options be no less than fair market value on the date of the grant. In addition, as further alleged herein, defendants breached their fiduciary duties to the Company and its shareholders.

JURISDICTION AND VENUE

8. Venue is proper in this Court because CTI's principal place of business is in this County.

9. This Court has jurisdiction over the defendants because defendants transact business within the State, have committed tortious acts within the State and have committed tortious acts outside the State that have caused injury to persons and property within the State.

THE PARTIES

10. Lead Plaintiffs Leonard Sollins and Timothy Hill, are, and were at times relevant hereto, owners and holders of CTI common stock. Additional plaintiffs are, and who were at times relevant hereto, owners and holders of CTI common stock, include those plaintiffs who were named in the complaints now consolidated under this Complaint.

11. Nominal defendant CTI is a corporation organized and existing under the laws of the state of New York with its headquarters located at 909 Third Avenue, New York, NY.

12. Defendant Jacob "Kobi" Alexander ("Alexander") is the founder of CTI and was Chairman of the Board of Directors and Chief Executive Officer of CTI until his resignation on May 1, 2006, which occurred following the commencement of this Action. Between October 1984 and January 2001, Alexander served as President of the Company. Alexander also served as Co-Managing Director of the Company's wholly-owned Israeli subsidiary, Comverse, Ltd., from its formation in 1982 to October 1986. Alexander was also Chairman of the Board and a

director of Ulticom and Verint. Alexander is the son of Defendant Zvi Alexander, the brother of Defendant Shaula A. Yemini, and the former brother-in-law of Defendant Yechiam Yemini. Alexander has been indicted by the U.S. government in connection with this backdating scandal.

13. Defendant John H. Friedman (“Friedman”), a graduate of Yale Law School, has served as a director of CTI and a member of its Stock Option and Remuneration Committee, later renamed the Compensation Committee (the “Compensation Committee”) and Audit Committee since 1994. He serves on CTI’s Corporate Governance and Nominating Committee.

14. Defendant William F. Sorin (“Sorin”), a graduate of Harvard Law School, was a director and Corporate Secretary of CTI from 1984 until his resignation in May 2006, which occurred following the commencement of this Action. Sorin was also Senior General Counsel of CTI and a director of Ulticom and Verint. Sorin has been indicted by the U.S. government in connection with this backdating scandal.

15. Defendant Ron Hiram (“Hiram”) has served as a director of CTI since June 2001 and was named Chairman of the Board in May 2006. Hiram has served as Chairman of the Company’s Audit and Corporate Governance and Nominating Committees since 2002. He serves on the Compensation Committee and the Executive Committee. He was also a director of Ulticom. Hiram worked at Lehman Brothers, CTI’s investment banker, for thirteen years until 1994.

16. Defendant Itsik Danziger (“Danziger”) has served as a director of CTI since 1998. Since 1995, Danziger served in various management positions in the Company, including Vice President of Research and Development, and General Manager and President of the Company’s Network Systems Division. Danziger is presently Chairman of Starhome, a CTI subsidiary. Moreover, Danziger served as President of Comverse between January 2001 and March 2003.

An employee since 1985, Danziger also served as Chief Operating Officer of Comverse, Inc., and as President of Comverse, Inc. between May 1999 to January 2001.

17. Defendant Sam Oolie (“Oolie”) was, at all relevant times, a director of CTI and a member of its Compensation Committee, Audit Committee, Corporate Governance and Nominating Committee, and Executive Committee.

18. Defendant Carmel Vernia (“Vernia”) served as a director of CTI from 1997 until her resignation in 2000. Between 1994 and 2000, Vernia served as Chief Operating Officer of the Company. She also served as Managing Director of Efrat Future Technology Ltd., a CTI subsidiary now known as Comverse Network Systems Ltd.

19. Defendant Francis Girard (“Girard”) served as a director of CTI between 1998 and 2003. Girard has served as Vice Chairman of Comverse Network Systems, a subsidiary of the Company, and as Chief Executive Officer of Comverse Network Systems between January 1998 and January 2001.

20. Defendant Igal Nissim (“Nissim”) served as Chief Financial Officer of CTI between 1993 and 1998. Since January 1999, Nissim has served as Chief Financial Officer and as a director of CTI’s subsidiary, Verint Systems, Inc.

21. Defendant David Kreinberg (“Kreinberg”) served as Chief Financial Officer of CTI from May 1999 and as the Company’s Executive Vice President since 2002 until his resignation announced on May 1, 2006. Kreinberg served as Vice President of Finance and Treasurer from April 1996 and as Vice President of Financial Planning from April 1994. Prior to joining CTI, Kreinberg was a senior manager at Deloitte & Touche LLP. Kreinberg has been indicted by the U.S. government in connection with this backdating scandal.

22. Defendant Zeev Bregman (“Bregman”) has served as Chief Executive Officer 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 CTI and Vice President, Messaging Division of CTI.

23. Defendant Dan Bodner (“Bodner”) has served as President, Chief Executive Officer, and/or director of Verint since February 1994. From 1991 to 1998 Bodner also served as President and Chief Executive Officer of Comverse Government Systems Corp., a former affiliate of the Company.

24. Defendant Shaula A. Yemini (“S. Yemini”) served as a director of CTI from 1997 until 2002 and as a member of the Compensation Committee from 1999 to 2001. S. Yemini is the sister of Defendant Jacob “Kobi” Alexander and the daughter of Zvi Alexander.

25. Defendant Zvi Alexander (“Z. Alexander”) served as a director of CTI between August 1989 and December 2002. Z. Alexander is the father of Defendants Hacob “Kobi” Alexander and Shaula A. Yemini, and the father-in-law of Defendant Yechiam Yemini.

26. Defendant Yechiam Yemini (“Y. Yemini”) served as a director of CTI between October 1984 and May 1986, and between May 1987 and December 1997. Y. Yemini was the co-founder of CTI along with Alexander. Y. Yemini was the Chief Scientific Advisor to the Company during the relevant period. Y. Yemini is the former brother-in-law of Defendant Jacob “Kobi” Alexander and the former son-in-law of Defendant Z. Alexander.

27. Defendant Shawn K. Osborne (“Osborne”) has served as President and Chief Executive Officer of Ulticom since 1997 and as a director of Ulticom.

28. Defendant D&T served as the CTI’s outside independent auditor since at least 1994, rendering allegedly independent review of the Company’s reported financial statements.

D&T conducted audits pursuant to engagement letters whereby it contracted with the Company to perform audits of the Company's financial statements in accordance with Generally Accepted Audit Standards ("GAAS"). In addition to auditing the annual financial statements of the Company and issuing unqualified audit opinions thereon, D&T conducted reviews of the quarterly financial statements of CTI.

29. The defendants referenced in ¶¶ 12-27 are referred to collectively herein as "Individual Defendants." All defendants referenced in ¶¶ 12-24 are referred to collectively herein as "Insider Seller Defendants." All defendants referenced in ¶¶ 12-28, are referred to collectively herein as "Defendants."

30. Non-Party Director Raz Alon ("Alon") has served as a director of CTI since December 2003 and was a member of the Board of Directors at the commencement of this Action. He was appointed interim CEO in May 2006. Alon was an investment banker at Lehman Brothers, CTI's investment banker from 1991 through 1996. Upon information and belief, Alon was neither a director nor employee of CTI or any of its subsidiaries and/or affiliates during the time when backdated options were granted. Additionally, upon information and belief, Alon was not a recipient of backdated options.

31. Because of their positions of trust, loyalty and fidelity, Individual Defendants owed the Company and its public shareholders the duty to exercise a high degree of due care, loyalty, and diligence in the management and administration of the affairs of the Company, including the administration of the Company's stock option plan, and in the use and preservation of its property and assets. The conduct of CTI's directors complained of herein involves a knowing and culpable violation of their obligations as directors of CTI, the absence of good faith on their part, and a reckless disregard for their duties to the Company and its shareholders, which

the directors were aware or should have been aware posed a risk of serious injury to the Company. The conduct of CTI's officers and directors who engaged in the backdating of option grants has been ratified by CTI's Board, which has failed to take any timely action against them.

32. Regardless of their positions of trust and fidelity, during the relevant period, while in the possession of materially adverse non-public information regarding CTI, the Individual Defendants either sold or acquiesced in and/or permitted the sale of significant amounts of Company stock by the officers, directors and/or insiders of the Company. A substantial portion of the Company stock sold was obtained by exercising the improperly backdated stock options. Individual Defendants were motivated to materially misrepresent to the SEC and investors the true financial condition of the Company because it allowed certain Company insiders, including certain Individual Defendants, to sell CTI shares while the price of such shares were inflated by Individual Defendants' misrepresentations to the market, and because such deception was a prerequisite to the success of Individual Defendants' stock option grant backdating scheme.

33. The officers and directors of CTI were required to exercise reasonable and prudent supervision over the management, policies, practices, controls, and financial affairs of the Company pursuant to their fiduciary obligations to use the same care and diligence as would an ordinary prudent person in a like position. The officers and directors of CTI were required, among other things:

a. To, in good faith, manage, conduct, supervise, and direct the business and affairs of CTI carefully and prudently and in accordance with the laws of the State of New York, the laws of the United States and the rules and regulations and the charter and by-laws of CTI;

b. To, in good faith, 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. To neither violate nor knowingly permit any officer, director, or employee of CTI to violate applicable federal and state laws, rules and regulations or any rule or regulation of CTI;

d. To exercise reasonable control and supervision over the public statements, including the Company's filings with the SEC, to the securities markets and trading in CTI stock by the officers and employees of CTI;

e. To remain informed as to the status of CTI's operations, and upon receipt of notice or information of imprudent or unsound practices, to make a reasonable inquiry in connection therewith, and to take steps to correct such conditions or practices and make proper disclosures;

f. To supervise the preparation, filing and/or dissemination of any SEC filings, press releases, audits, reports, or other information required by law, to examine and evaluate any reports or examinations, audits, or other financial information concerning the financial condition of CTI and to cause CTI to obey and comply with and not violate state securities laws;

g. To ensure that CTI was operated in a diligent, honest, and prudent manner in compliance with all applicable federal and state laws, rules and regulations; and

h. To maintain and implement an adequate system of controls and information systems, such that no officer, director, or employee of the Company would make false statements about CTI to the securities markets or would be able to misappropriate internal confidential information for his or her own benefit and profit, by insider stock trading or otherwise.

34. The Individual Defendants, as corporate officers and/or directors, owed CTI and its shareholders the duty of due care in the performance of their responsibilities with respect to CTI's operations. Each Individual Defendant in this action, individually or jointly, as alleged herein, breached their fiduciary duties to the Company by participating in and/or acquiescing to the backdating of stock options grants, failed to exercise reasonable diligence and due care, was grossly negligent or reckless, and committed one or more of the following actions or omissions constituting waste, mismanagement and breaches of fiduciary duty:

a. Individual Defendants authorized, caused, and/or permitted CTI to abandon valuable corporate assets through the backdating employee stock options, which not only served no legitimate corporate purpose but was also wasteful; and

b. Individual Defendants authorized, caused, and/or permitted CTI to conduct its business in an unsafe, imprudent and dangerous manner by pursuing unsound practices, including concealing their reckless, unsafe and unsound practices and the serious adverse impact of these practices.

35. By reason of their corporate positions and their ability to control the business and corporate affairs of CTI, Individual Defendants owed CTI and its stockholders fiduciary obligations of candor, fidelity, trust, and loyalty, and are and were required to use their ability to control CTI in a fair, just, and equitable manner, as well as to act in furtherance of the best

interests of CTI and its stockholders and not in furtherance of their own personal interests. In addition, each director owed CTI, while he or she occupied such directorship, the fiduciary duty to exercise due care and diligence in the management and administration of the affairs of CTI and in the use and preservation of its property and assets. Moreover, each Individual Defendant failed to ensure that CTI maintained adequate internal controls to detect and prevent the backdating of stock options and other wrongful and improper conduct in violation of their fiduciary duties. Individual Defendants, in breach of their fiduciary duties, permitted and/or caused CTI 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.

36. Individual 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.

37. As officers and/or directors of CTI, Individual 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 CTI to unreasonable risks without any reward to the Company or its shareholders.

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

39. CTI's Board of Directors and its committees must fulfill the roles provided in CTI'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.

40. CTI's employees, including its officers, must follow CTI's Employee Code of Business Conduct and Ethics, which states in 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 sought 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 off the Company will be in protecting against harm to the Company's business and reputation.

Accurate Books & 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 recording 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.

41. CTI's employees, including its officers, shall also abide by CTI'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

42. According to CTI's Audit Committee Charter, the Individual Defendants on

CTI's Audit Committee had the duty, among other things, to:

- a. 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; and

- b. 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 auditors by Statement of Auditing Standards Nos. 61, 90 and 100.

43. Throughout the period of its engagement by CTI, D&T was the auditor for CTI and failed to discover the stock option scheme described herein. In an effort to preserve its relationship with CTI and particularly with Kreinberg, pursuant to which D&T received large auditing fees, D&T falsely and negligently represented that its audits of CTI's financial statements had been conducted in accordance with GAAS and wrongfully issued "clean" or unqualified opinions and/or certifications that those financial statements fairly presented CTI's financial condition and results of operations in conformity with GAAP. For example, in connection with the Company's Annual Report on Form 10-K filed with the SEC on April 4, 2005, D&T stated as follows:

We have audited management's assessment, included in the accompanying Management Report On Internal Control Over Financial Reporting, that Comverse Technology, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of January 31, 2005, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the

effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of January 31, 2005, is fairly stated, in all material respects, based on the criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2005, based on the criteria established in Internal

Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended January 31, 2005 of the Company and our report dated April 1, 2005 expressed an unqualified opinion on those financial statements.

* * * * *

We have audited the accompanying consolidated balance sheets of Comverse Technology, Inc. and subsidiaries (the "Company") as of January 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended January 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Comverse Technology, Inc. and subsidiaries as of January 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of January 31, 2005, based on the criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 1, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

44. During its yearly audits and quarterly reviews of CTI's books, records, and financial statements, D&T had virtually limitless access to information concerning CTI's true financial condition and the manipulated stock option grant dates. D&T was present at CTI's headquarters frequently, had unfettered access to the Company's corporate financial records, business records, and employees, and had conversations with CTI management and employees regarding the Company's financial reporting and accounting practices with respect to stock option grants. This was especially the case given D&T's long history and close relationship with Kreinberg, its former senior manager and CTI's CFO.

45. D&T knowingly and/or recklessly permitted the Individual Defendants to design and execute the option backdating scheme described herein, in an extreme departure from the ordinary standard of care for auditors, in violation of GAAP and GAAS.

SUBSTANTIVE ALLEGATIONS

CTI Stock Option Plans

46. Since 1991, CTI has granted stock options to its employees and employee-directors pursuant to several different stock option plans. The plans had been drafted by Sorin, approved by the Board of Directors, and voted upon and adopted by CTI shareholders. SEC Complaint ¶ 34.²

47. According to CTI's annual proxy statements, all stock option plans were basically identical in all material respects.

48. Pursuant to the terms of the Company's shareholder-approved stock option plans, including the 1984 Stock Option Plan, the 1987 Stock Option Plan, the 1994 Stock Option Plan,

² In this Complaint, Lead Plaintiffs refer to the complaint filed in *Securities and Exchange Commission v. Jacob "Kobi" Alexander, David Kreinberg, and William F. Sorin*, Civil Action No. 1:06-cv-03844-NGG-RER in United States District Court for the Eastern District of New York as the "SEC Complaint."

the 1995 Stock Option Plan, the 1996 Stock Option Plan, the 1997 Stock Incentive Compensation Plan, the 1999 Stock Incentive Compensation Plan, the 2000 Stock Incentive Compensation Plan, and the 2001 Stock Incentive Compensation Plan, the exercise price of options “shall not be less than the fair market value of a share of the Common Stock on the date of the grant,” where fair market value is defined as “the closing sale price of a share of the Common Stock . . . on such date.”

49. Pursuant to the Company’s shareholder-approved stock option plans, the Compensation Committee had the authority under the plans as follows:

- a. 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
- b. The Committee shall have the power to adopt regulations for carrying out the Plan and to make changes in such regulations as it shall, from time to time, deem advisable. Any interpretation by the Committee of the terms and provisions of the Plan and the administration thereof, and all action taken by the Committee, shall be final and binding on Holders

The Backdating Scheme

50. Alexander, Kreinberg, and Sorin masterminded a scheme to backdate millions of stock options to themselves and other CTI employees to days when the Company’s stock was trading at a relatively low point. Alexander initiated and orchestrated the scheme to backdate employee stock options beginning in 1991. SEC Complaint ¶¶ 1, 19, 34. Beginning no later than 1998, Kreinberg assisted Alexander in the scheme and in its concealment. SEC Complaint ¶ 34. At all relevant times, Sorin was the liaison to the Compensation Committee to obtain approval of the backdated option grants. *Id.* The members of the Compensation Committee had

