

**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

