

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

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

COMVERSE TECHNOLOGY, INC.,

Defendant.

FILED
IN CLERK'S OFFICE
U.S. DISTRICT COURT E.D.N.Y.
★ JUN 18 2009 ★

BROOKLYN OFFICE
Civil Action No.

09

2588

**HURLEY, J.
TOMLINSON, M.J.**

COMPLAINT

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

SUMMARY

1. Comverse Technology, Inc. ("Comverse" or the "Company") engaged in two separate fraudulent schemes, during the course of more than a decade, to materially misstate its financial condition and performance metrics. The first scheme involved improper backdating of Comverse stock options. The second scheme involved improper accounting practices, including (i) the improper establishment, maintenance, and release of reserves, (ii) the improper reclassification of certain expenses, and (iii) the improper calculation of its backlog of sales orders.

2. From approximately 1991 through 2001, three former Comverse senior executives routinely backdated grants of stock options made to the Company's employees, officers and others, to coincide with historically low closing prices for the Company's common stock. These options were "in-the-money," meaning the exercise price of the backdated Comverse options were less than the Company's stock price on the date the grants were formally approved by Comverse's Compensation Committee (the "Committee"). Additionally, as part of this scheme, Comverse utilized grants to fictitious employees and other means to establish an illegal pool of

options thereby creating a slush fund of “in-the-money” stock options to later use in circumvention of the approved stock option grant process.

3. Overall, between 1991 and 2001, Comverse distributed options from at least 26 backdated option grants to, among others, its employees, employee-directors, and to employees of its two wholly-owned subsidiaries, Ulticom, Inc. (“Ulticom”) and Verint Systems Inc. (“Verint”), until those entities became separate, publicly-traded companies. Six out of seven company-wide grants made by Comverse during the relevant period were granted at or near the lowest stock price for the fiscal quarter or year.

4. The backdating scheme allowed Comverse to award employees disguised in-the-money options without recording a corresponding non-cash compensation expense for the in-the-money portion of the option grant in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”). As a result, Comverse (i) filed materially false and misleading financial statements that materially understated its compensation expenses and materially overstated its reported net income and earnings per share (“EPS”) through the fiscal year ended January 31, 2005, and (ii) made disclosures in certain periodic filings, proxy statements, and other filings during this time that falsely portrayed Comverse’s options as having been granted at exercise prices equal to the fair market value of Comverse’s common stock on the date of the grant.

5. Comverse’s second fraudulent scheme spanned from at least 1996 to 2002, and involved several improper earnings management practices that were not in conformity with GAAP. Comverse improperly built up, and subsequently improperly released, certain reserves to meet earnings targets, improperly reclassified certain expenses to manipulate other performance metrics, and made false disclosures about its backlog of sales orders. As a result of this improper conduct, Comverse was able to portray itself as a company with steady, but measured growth,

which regularly met analysts' earnings targets. This misconduct caused Comverse to make misstatements of material fact as to its operating income, net income, liabilities, cost of goods sold, research and development expense, and sales order backlog.

6. Comverse has announced that it will restate its historical financial statements for its fiscal years ended December 31, 1991 ("Fiscal Year 1991") through the period ended October 31, 2005, in order to record additional material non-cash charges for option-related compensation expenses and to correct the material misstatement of its earnings.

7. By engaging in the foregoing conduct, Comverse violated the anti-fraud, reporting, books and record, and internal controls provisions of the federal securities laws. Specifically, Comverse violated Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)], Sections 10(b), 13(a), 13(b)(2)(A), 13(b)(2)(B), and 14(a) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), 78m(b)(2)(B) and 78n(a)] and Exchange Act Rules 10b-5, 12b-20, 13a-1, 13a-11, 13a-13 and 14a-9 [17 C.F.R. §§ 240.10b-5, 240.12b-20, 240.13a-1, 240.13a-11, 240.13a-13, and 240.14a-9]. An injunction is necessary to ensure that Comverse will not continue to violate the foregoing provisions of the federal securities laws.

JURISDICTION AND VENUE

8. The Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Sections 21(d), 21(e), and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e), and 78aa].

9. Defendant Comverse, directly or indirectly, used the means and instrumentalities of interstate commerce, or of the mails, or the facilities of a national securities exchange in connection with the transactions, acts, practices, and courses of business alleged herein.

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

DEFENDANT

11. Defendant **Comverse Technology, Inc.**, a New York corporation that was based in Woodbury, New York and is now headquartered in New York City, makes software systems and provides related services for multimedia communication and information processing applications. During the relevant time period, the Company had five operating subsidiaries: Comverse Network Systems (“CNS”), Verint, Ulticom, Starhome, B.V., and Startel Corporation, two of which (Ulticom and Verint) were wholly owned (and are now majority-owned public) subsidiaries. Comverse’s common stock was registered with the Commission pursuant to Section 12(b) of the Exchange Act, and traded on the NASDAQ National Market. Because it failed to timely file its 2005 Annual Report on Form 10-K and 2006 Quarterly Reports on Forms 10-Q, Comverse’s stock was suspended from trading on NASDAQ effective February 1, 2007, and delisted on June 4, 2007. Currently, Comverse’s stock is registered with the Commission pursuant to Section 12 (g) of the Exchange Act and is quoted on the “Pink Sheets.”

OTHER RELEVANT PERSONS AND ENTITIES

12. **Ulticom, Inc.**, is a New Jersey corporation based in Mount Laurel, New Jersey, that provides service-enabling signaling software for fixed, mobile, and internet communications. Ulticom was a wholly-owned subsidiary of Comverse until its IPO in April 2000; it has been a majority-owned subsidiary of Comverse since April 2000. Ulticom’s common stock was registered with the Commission pursuant to Section 12(b) of the Exchange

Act and traded on the NASDAQ Global Market. Trading in Ulticom stock was suspended on February 1, 2007, and the stock was eventually delisted, due to Ulticom's failure to file timely its fiscal 2005 annual report on Form 10-K and fiscal 2006 quarterly reports on Forms 10-Q. Ulticom has not filed periodic reports on Forms 10-K or 10-Q with the Commission since December 2005. Currently Ulticom's stock is registered with the Commission pursuant to Section 12(g) of the Exchange Act and is quoted on the "Pink Sheets" under the symbol "ULCM" or "ULCM.PK."

13. **Verint Systems Inc.**, is a Delaware corporation based in Melville, New York. Verint acts through nineteen operating subsidiaries and provides analytic software-based solutions for the security and business intelligence markets. Verint (formerly Comverse Infosys, Inc.) was a wholly-owned subsidiary of Comverse until its IPO in May 2002; it has been a majority-owned subsidiary of Comverse since May 2002. Its common stock was registered with the Commission pursuant to Section 12(b) of the Exchange Act and traded on the NASDAQ Global Market. Trading in Verint stock was suspended on February 1, 2007, and the stock was eventually delisted, due to Verint's failure to file timely its fiscal 2005 annual report on Form 10-K and fiscal 2006 quarterly reports on Forms 10-Q. Verint has not filed periodic reports on Forms 10-K or 10-Q with the Commission since December 2005. Currently, Verint's stock is registered with the Commission pursuant to Section 12(g) of the Exchange Act and is quoted on the "Pink Sheets" under the symbol "VRNT" or "VRNT.PK."

FACTS

A. Comverse's Stock Options Backdating Scheme

14. Between 1991 and 2002, two, and then three, former Comverse senior executives backdated its stock option grants to award employees disguised in-the-money

options without recording a corresponding non-cash compensation expense for the in-the-money portion of the option grant in conformity with GAAP.

15. As a result, Comverse filed materially false and misleading financial statements that materially understated its compensation expenses and materially overstated its reported net income and EPS through the fiscal year ended January 31, 2005. The Company also made disclosures in certain periodic filings and proxy statements during this time that falsely portrayed Comverse's options as having been granted at exercise prices equal to the fair market value of Comverse's common stock on the date of the grant.

1. Comverse's Stock Option Plans and Bylaws

16. From at least 1991 through 2002, Comverse had nine stock option plans that permitted the Company to issue stock options to its employees and directors and to those of its various subsidiaries and affiliates, such as Ulticom and Verint. Each option gave the grantee the right to buy one share of Comverse common stock from the Company at a set price, called the "exercise" or "strike" price, on a future date after the option vested. The option was "in-the-money" whenever the trading price of Comverse's common stock exceeded the option's exercise price. The option was "at-the-money" whenever the trading price of Comverse's common stock and the exercise price were the same. The option was "underwater" or "out-of-the-money" whenever the trading price of Comverse's common stock was less than the exercise price. Throughout the relevant period, Comverse represented that its option grants were made at fair market value, i.e., as generally defined by the plans, to be the closing trading price of Comverse common stock on the date of grant.

17. The primary purpose of issuing Company stock options was to attract and retain employees and directors at Comverse and its subsidiaries:

18. Pursuant to the plans, Comverse's Compensation Committee (the "Committee"), which typically was composed of three members during the relevant time period, had full power to interpret and administer the plans and full authority (i) to select the specific employees to whom options would be granted under the plans; (ii) to determine the type and amount of the options to be granted such employees; and (iii) to determine the terms of the option agreements to be entered into with such employees.

19. Comverse's bylaws stated that the Committee could formally act upon stock option grant proposals in two ways. The Committee could act either by holding a meeting at which a quorum of Committee members was present, if a majority of those present approved the action; or without a formal meeting if all members of the Committee signed and consented in writing to the adoption of a resolution authorizing the action (otherwise known as a "unanimous written consent").

20. Options granted to Comverse employees and to employee-directors could be structured as either "incentive options" (defined by Section 422 of the Internal Revenue Code) or "non-qualified options" (defined as any option that is not an incentive option), each with different tax implications for the grantee and the Company. Non-employee-directors and employees of Comverse's affiliates could receive only non-qualified options.

21. Under the plans, the 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." The plans gave the Committee greater latitude in determining the exercise price of non-qualified options and options granted to foreign nationals and others employed outside the United States. Nevertheless, the Committee intended to grant all stock options that are the

subject of this Complaint at fair market value, irrespective of whether the options were incentive or non-qualified.

22. If a grantee was terminated for reasons other than death, disability, or retirement, all unexercised vested options terminated on the earlier of 90 days from the date of termination or on the date specified in the employee's option agreement. The shares underlying the terminated option reverted to the pool of options available for future awards under the plan. Options that reverted to the pool, however, could not be awarded to others without Committee approval.

23. For the vast majority of option grants Comverse made during 1991 through 2001, the Committee acted through unanimous written consents, not through formal meetings of Committee members.

2. Accounting for Options in Conformity with GAAP

24. Throughout the relevant time period, Comverse accounted for stock options using the intrinsic value method described in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under APB 25, employers were required to record as an expense on their financial statements the "intrinsic value" of a fixed stock option on its "measurement date." The measurement date, as defined by APB 25, is the first date on which the following information is known: (i) the number of options that an individual employee is entitled to receive and (ii) the exercise price. An option that is in-the-money on the measurement date has intrinsic value, and the difference between its exercise price and the quoted market price must be recorded as compensation expense to be recognized over the vesting period of the option. Options that are at-the-money or out-of-the-money on the measurement date need not be expensed. Excluding non-employee directors, APB 25 required

employers to record compensation expenses on options granted to non-employees irrespective of whether they were in-the-money or not on the date of grant.

3. The Stock Option Backdating Scheme at Comverse

25. Prior to 1998, company-wide grants of stock options were made at different times throughout the year, but beginning in approximately 1998, they were made only during the later part of the fiscal year. Grants made to smaller groups of employees, referred to as “one-off grants,” were still made throughout the year.

26. Comverse initiated its grant process through its former CEO, who determined the number of shares to be awarded and allotted them among the Company’s divisions and subsidiaries. Each of the divisions and/or subsidiaries then prepared grant lists with amounts for each grantee and the lists were consolidated and subsequently forwarded to the Committee.

27. Comverse’s former CEO and, at times, its former CFO, selected the grant date by looking back at Comverse’s historical stock prices and, with the benefit of hindsight, “cherry-picking” a grant date on which the Company’s stock was trading at a relative low.

28. The Company’s former General Counsel then prepared (or caused to be prepared) and forwarded (or caused to be forwarded) unanimous written consents containing “as of” dates for the proposed stock option grant to the Compensation Committee for approval. The approved unanimous written consents containing the “as of” date falsely indicated that corporate action sufficient to approve each grant had taken place on the “as of” date. These three former senior Comverse executives knew that no corporate action had taken place on the “as of” date because, among other things, the Committee had not approved the grant on the “as of” date. Indeed, the Committee had not received or signed the unanimous written consents on that date.

29. The three former Comverse senior executives knew that the “as of” date reflected in each unanimous written consent preceded the date on which the Committee had acted on the option grant proposal. They also knew that the closing price of Comverse common stock on the “as of” date was used as the exercise price of the options granted, and that, consequently, the exercise prices of the backdated options were not at “fair market value” on the date when the Committee formally acted to approve such grants. By the time the Committee did formally act, the backdated options were in-the-money. Pursuant to APB 25, the in-the-money portion of these option grants should have been, but was not, recorded as a compensation expense on Comverse’s books and records.

30. No written consent that was signed in connection with a stock option grant between 1991 and 2002 identified the specific date on which any Committee member had signed his or her name to the consent. No written consent during that period identified the date on which any stock option grant had officially been acted upon by the Committee. The sole date reflected on the Unanimous Written Consents was the “as of” date.

31. Upon approval by the Committee, the Company entered the details of the stock option awards into a computer tracking system called Equity Edge. Without seeking appropriate authorization, the three former Comverse senior executives, or others acting at their direction, frequently made changes to the grant list previously approved by the Committee and entered these improperly amended awards into Equity Edge.

32. Between fiscal years 1991 and 2001, Comverse made seven company-wide grants of stock options, all of which were backdated to a date on which no corporate action was taken to approve the grant. These company-wide grants are depicted below:

"As Of" Date / Price	Corrected Measurement Date / Price	In-the-Money Amount (difference per share)	Number of Shares	Total In-the-Money Amount of Grant
7-15-1996 \$7.92	9-9-1996 \$12.27	\$4.35	1,398,080	\$6,081,648
5-28-1997 \$14.75	6-17-1997 \$15.25	\$0.50	2,126,982	\$1,063,491
1-27-1998 \$10.42	2-24-1998 \$14.88	\$4.46	9,343,372	\$4,1671,439.12
10-9-1998 \$10.00	10-19-1998 \$13.33	\$3.33	2,231,996	\$7,432,546.68
10-18-1999 \$46.50	12-10-1999 \$63.50	\$17.00	7,592,310	\$129,069,270
11-30-2000 \$86.19	3-2-2001 \$76.06	N/A	8,744,360	N/A
10-22-2001 \$16.05	12-18-2001 \$20.77	\$4.72	9,446,407	\$44,587,041.04

33. Between fiscal years 1991 and 2001, Comverse made at least twenty one-off grants of stock options, all of which were backdated to a date on which no corporate action was taken to approve the grant. The one-off grants are depicted below:

"As Of" Date / Price	Corrected Measurement Date / Price	In-the-Money Amount (difference per share)	Number of Shares	Total In-the-Money Amount of Grant
2-27-1991 \$0.63	8-29-1991 \$2.40	\$1.77	1,275,000	\$2,256,750
4-3-1991 \$1.04	8-1-1991 \$1.88	\$0.84	1,156,800	\$971,712
7-8-1991 \$1.67	8-1-1991 \$1.88	\$0.21	220,500	\$46,305
8-26-1992 \$2.60	3-2-1993 \$5.58	\$2.98	763,500	\$2,275,230
9-22-1994 \$3.33 (2 grants)	4-12-1995 \$4.88	\$1.55	3,525,000	\$5,463,750
2-7-1995 \$3.96	2-16-1995 \$4.21	\$0.25	1,050,000	\$262,500
5-25-1995 \$4.50	10-3-1995 \$7.13	\$2.63	479,998	\$1,262,394.74
7-19-1995 \$5.71	8-13-1996 \$11.33	\$5.62	75,000	\$421,500
8-24-1995 \$6.33	1-4-1996 \$5.69	N/A	138,000	N/A

"As Of" Date / Price	Corrected Measurement Date / Price	In-the-Money Amount (difference per share)	Number of Shares	Total In-the-Money Amount of Grant
8-30-1995 \$6.54	1-4-1996 \$5.69	N/A	138,000	N/A
1-22-1996 \$6.13 (2 grants)	2-1-1996 \$6.96	\$0.83	815,994	\$677,275.02
12-2-1996 \$11.08	1-15-1997 \$13.67	\$2.59	979,500	\$2,536,905
11-13-1997 \$12.21	11-24-1997 \$11.88	N/A	480,000	N/A
2-2-1998 \$11.63	3-18-1998 \$14.71	\$3.08	2,580	\$7,946.40
5-19-1998 \$14.08	6-12-1998 \$17.02	\$2.94	384,000	\$1,128,960
3-2-1999 \$23.69	3-12-1999 \$26.83	\$3.14	737,996	\$2,317,307.44
5-10-2000 \$65.25	5-21-2000 \$74.25	\$9.00	271,600	\$21,444,400
8-11-2000 \$76.06	10-10-2000 \$91.75	\$15.69	90,770	\$1,424,181.30
12-21-2000 \$91.38	3-2-2001 \$76.06	N/A	66,585	N/A
4-9-2001 \$52.97	5-21-2001 \$67.62	\$14.65	385,600	\$5,649,040

34. Comverse changed its options-granting practices in or around 2002, at which point Comverse's practice was to record a grant date only after receipt of signed unanimous written consents from all Committee members.

4. The "Slush Fund"

35. In approximately 1999, two former Comverse senior executives improperly created a "slush fund" of backdated stock options, from which they later made option grants to employees in circumvention of the proper stock option award process. These stock options were held in an Equity Edge account called, "I.M. Fanton" (a.k.a. "Phantom"), which was later changed to "Fargo." From 1999 until 2002, approximately 906,000 options were held in the Phantom/Fargo account, of which approximately 187,000 were distributed.

36. The slush fund account was funded with options from three company-wide stock option grants. In 1999 and 2001, options were purportedly granted to fictitious employees through the grant process. In the 2000 grant, a line item containing the number of options for the “slush fund” was omitted from the grant list sent to the Compensation Committee, but included in the total number of stock options to be awarded on that list. Contrary to the shareholder-approved options plans, approximately 100,000 unexercised options were also placed into the Phantom/Fargo account, including those from terminated employees’ unexercised options.

37. The Phantom/Fargo account was concealed from Comverse’s auditors. For instance, at the direction of the Company’s former CFO, pages referencing the account were removed from the stock option grant documentation that the Company provided to its independent auditors during their 2001 audit.

**5. Comverse’s Materially Misleading Financials
And Disclosures Resulting from Its Options Practices**

38. Because it stated in its public filings that it accounted for its options during the relevant period in conformity with APB 25, Comverse was required to record a compensation expense in connection with the grants listed above over the four-year vesting period of the options. It did not do so. As a result of the fraudulent backdating and slush fund practices that occurred between 1991 and 2002, Comverse materially understated its compensation expense and materially overstated the Company’s reported net income and EPS for fiscal years 1991 through the fiscal year ended January 31, 2006.

39. Due to the misconduct of the three former Comverse senior executives, Comverse published materially false and misleading financial information about its quarterly and annual pre-tax earnings and net income in, among other things, its annual and quarterly

reports on Forms 10-K and 10-Q for fiscal years 1991 through 2006. Comverse's annual income overstatements are depicted below:

Reporting Period	Overstatement of Annual Pre-Tax Income	Overstatement as a Percentage of Annual Pre-Tax Income/ (Loss)
FYE 12/31/91	\$2,294,877	417.75%
FYE 12/31/92	\$799,397	13.60%
FYE 12/31/93	\$1,409,319	10.78%
FYE 12/31/94	\$535,484	4.01%
FYE 12/31/95	\$2,831,884	17.40%
FYE 12/31/96	\$10,501,000	51.85%
FYE 12/31/97	\$4,814,000	13.820%
Month Ending 1/31/1998	\$285,000	(0.29%)
FYE 1/31/99	\$15,426,000	14.13%
FYE 1/31/00	\$24,639,000	16.97%
FYE 1/31/01	\$74,195,000	38.39%
FYE 1/31/02	\$48,942,000	406.63%
FYE 1/31/03	\$80,150,000	(39.29%)
FYE 1/31/04	\$4,542,000	112.48%
FYE 1/31/05	\$2,939,000	3.66%
FYE 1/31/06	\$3,709,000	5.05%

40. Comverse also published (or incorporated by reference) materially false and misleading financial information about its quarterly and annual pre-tax earnings and net income in registration statements on Forms S-3 and S-4 for various offerings between fiscal years 1991 and 2002.

41. Through the misconduct of its three former executives, Comverse knew or was reckless in not knowing that the net income and earnings figures reported in these documents was materially misleading as a result of its improper options-granting practices.

42. Additionally, from fiscal years 1996 through 2002, in its annual reports on Form 10-K, Comverse, at the direction of the three former Comverse senior executives, made the following statements (in a footnote to its financial statements) regarding its option grants and its accounting for stock options:

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.

Similarly, Comverse's Form 10-K for 1991 affirmatively represented that Comverse had granted incentive stock options at exercise prices equal to fair market value on the date of grant. The statements in each of the respected Forms 10-K mentioned above were materially false and misleading because Comverse had granted stock options at prices that were below fair market value on the date of grant. For each grant, the corporate action necessary to formally approve stock option grants was taken after the "as of" date. As alleged previously, APB 25 required Comverse to record compensation expense for options that were in-the-money on the date of grant.

43. Comverse sent shareholders proxy statements in connection with its annual shareholder meetings and periodically for special shareholder meetings during the period 1991 through 2002. Each proxy statement sent to shareholders during this period contained materially false and misleading disclosures or omitted material information about Comverse's stock option practices.

44. Each proxy statement made false representations and/or was materially misleading in that it: (1) falsely represented in the "Executive Compensation" section that options that had been granted to the Company's top executives in the prior fiscal year had an exercise price that was "equal to the fair market value of the underlying shares on the date of grant;" (2) failed to disclose that the exercise price of incentive stock options had been granted at less than 100% of the fair market value of the common stock on the date of grant; (3) failed to disclose that the Company, at the direction of the three former Comverse senior executives, routinely changed grant recipients and grant awards after approval of the grant by the Committee; (4) failed to disclose that in some instances awards of options had been made to

individuals who were not employed by the Company at the time of the award; and (5) failed to disclose that in certain instances awards of options had been made to fictitious employees.

45. By virtue of this stock options backdating scheme, Comverse's books and records falsely and inaccurately reflected, among other things, the compensation and income tax expense associated with the Company's grants of stock options to its employees, the Company's net income and EPS, and its general financial condition. Comverse also failed to maintain a system of internal accounting controls sufficient to provide assurances that its stock option grants were recorded as necessary to permit the proper preparation of financial statements in conformity with GAAP.

B. Comverse's Fraudulent Accounting Scheme

46. From at least 1995 to October 2003, Comverse, through its senior-management at that time, also engaged in various fraudulent accounting practices to smooth earnings and present a false financial picture to investors and the public. These fraudulent practices included (1) the improper build up and subsequent release of reserves to improperly boost income when necessary to meet earnings targets and decrease income when necessary to smooth earnings; (2) the improper reclassification of expenses to manipulate certain performance metrics; and (3) the manipulation of sales backlog data.

47. The manipulation of earnings allowed Comverse to meet or exceed Wall Street analyst consensus earnings estimates in every quarter between 1996 and the first quarter of 2001. As a result of the accounting fraud, Comverse understated its pre-tax income in fiscal years 1996 through 1999, overstated its pre-tax income in fiscal years 2000 to 2003, and made materially false and misleading disclosures about its operating margins and sales backlog.

1. Comverse's Improper Reserves Practices

48. At the end of each fiscal quarter between fiscal 1996 and at least 2002, in preparation for reporting the consolidated financial results for Comverse and its subsidiaries, reserve analyses were prepared. Two former Comverse senior executives typically reviewed these analyses with the intent of meeting specific EPS targets.

49. It was a long-standing practice at Comverse to improperly establish, maintain, or release reserves as necessary to meet its financial objectives. Comverse engaged in this activity, which did not conform with GAAP, in part to build a stockpile of reserves to reduce income, thereby smoothing earnings and in the event an earnings boost was needed in the future when the Company was underperforming or to close the gap between Comverse's actual and projected earnings.

50. In order to meet EPS targets, two former Comverse senior executives typically directed that top-down adjustments to specific reserves be made at Comverse and at several of its main operating subsidiaries, including Verint and Ulticom. The adjustments were made with little or no supporting documentation and improperly created, increased, or released excess reserves.

51. Such adjustments, for the most part, were unrelated to the underlying liability for which any reserve had initially been created and were not in conformity with GAAP, including Statement of Financial Accounting Standards No. 5, Accounting for Contingencies ("SFAS 5"), at ¶ 8, and Accounting Principles Board Opinion No. 20, Accounting Changes ("APB 20"), at ¶¶13 and 36-38.

52. Comverse used an Excel spreadsheet to monitor its excess reserves. The spreadsheet listed for each reserve (i) the reserve balance (in one column), (ii) the amount of the balance that was in excess and thus available for release (in an adjacent column), and in some

instances, a third column reflecting the amount of excess that could be taken back into income. The formats varied, but the excess amounts were typically referred to as “real reserves,” or as “take back.”

53. These excess reserve amounts, essentially “reserves for general contingencies” or for “[g]eneral or unspecified business risks,” were not in conformity with GAAP, including SFAS5 at ¶14.

54. Between 1996 and 2002, approximately forty reserve accounts were improperly inflated and later improperly released into income to achieve quarterly results. The largest releases typically occurred in the fourth quarter, but they also occurred throughout the year in the other quarters.

55. In nearly every quarter from 2000 to 2002, Comverse improperly released into income excess reserves, such as agent commissions, royalties, and accrued payables. As a result, Comverse artificially inflated its income in those reporting periods.

56. In 2000, two former Comverse senior executives directed that a portion of the excess reserves be transferred from Comverse’s U.S. operating division, CNS, to CNS’s Israeli operating division (“CNS-Israel”). CNS-Israel subsequently released the excess reserves, thereby inflating its operating income and enabling it to meet its operating targets. This resulted in an improper boost of approximately \$10 million to Comverse’s reported pre-tax income.

57. In 2003 and 2004, Comverse improperly released another \$34.7 million and \$24.7 million, respectively, of excess reserves into income, thereby overstating its net income and smoothing its earnings during both reporting periods.

58. Comverse’s improper releases of excess reserves did not conform with the requirements of GAAP. Specifically, its improper releases of excess reserves to manage

earnings did not conform with FASB Concepts Statement No. 6, Elements of Financial Statements (“CON 6”), at ¶ 42, which requires that, once established, a reserve can be released only upon the occurrence of a triggering event, such as when a company determines the underlying liability is no longer probable, or the estimate of the liability has decreased.

2. Expense Reclassification at Converse

59. Rather than presenting Converse’s true operating performance to the market – as a company with rapid growth but with fluctuating operating performance metrics – two former Converse senior executives instead manipulated certain expenses to project a pattern of performance metrics that were consistent and measured. In this regard, from at least the first quarter of fiscal year 1998 through the quarter ended October 31, 2003, the Company manipulated its financial statements by making improper and unsupported expense reclassifications. Generally, expenses were shifted between selling, general and administrative (“SG&A”), cost of goods sold (“COGS”), and research and development (“R&D”). These improper reclassifications allowed Converse to manipulate its gross profit margins and present better operating performance metrics than what it had actually realized.

60. Two former Converse senior executives routinely directed the reclassifications of certain expenses from one category to another, at times, without adequate support, and in some cases, without any support at all for these adjustments. Such adjustments were not in conformity with GAAP.

3. Underreporting of Sales Backlog Figures at Converse

61. From 1998 to 2002, Converse also sought to improperly portray its growth by underreporting its sales backlog figures, which consisted of the total value of sales orders to be filled in the next 12 months. Two former Converse senior executives were concerned about the size of the sales backlog because they believed that the market would not react

favorably to excessively fast growth in the telecom industry, of which Comverse was a part. They were also concerned that increases in sales backlog at a greater rate than increases in revenue could call into question the Company's ability to sustain such growth in the future.

62. To address these concerns, Comverse, through two former senior executives, manipulated Comverse's sales backlog figures by underreporting the sales backlog numbers, which were included in the Management Discussion and Analysis ("MD&A") section of the Company's Forms 10-K, in earnings releases, and in quarterly conference calls with analysts.

63. In order to track the sales backlog figures, a former senior Comverse executive maintained a schedule containing an unlabeled column and a column labeled "real." The "real" column represented the correct or actual amounts of sales backlog, while the unlabeled column contained the incorrect amounts reported to the public.

64. From at least the third quarter of 2000 until the second quarter of 2002, a senior Comverse executive placed tick marks on the backlog report next to items to exclude from the numbers to be reported to the public.

65. In nine of the eleven quarters between the fourth quarter of 1998 and the second quarter of 2001, Comverse underreported its sales backlog figures in varying amounts, from a low of \$42 million in 2001 to a high of \$203 million in 1999 (a range of 19% to 90%).

4. Comverse's Materially Misleading Financials And Disclosures Resulting from Its Financial Scheme

66. Due to the misconduct related to this financial scheme, Comverse published materially false and misleading financial information about its quarterly and annual pre-tax earnings, net income, operating income, liabilities, cost of goods sold, research and development expense, and sales order backlog in, among other things, its annual and quarterly reports on Forms 10-K and 10-Q for fiscal years 1995 through at least 2005.

67. Through the actions of its senior executives at that time, as detailed herein, Comverse filed numerous registration statements with the Commission on Forms S-3 and S-4 in connection with various securities and debt offerings by the company, including Verint and Ulticom's IPO and follow-on stock offerings. These registration statements were materially false and misleading because they incorporated by reference materially false and misleading financial statements, as well as materially false and misleading disclosures from Comverse's annual and quarterly reports on Forms 10-K and 10-Q. Among other things, the documents that were incorporated by reference contained misstatements regarding quarterly and annual pre-tax earnings, net income, operating income, liabilities, cost of goods sold, research and development expense, and sales order backlog.

68. Comverse also filed numerous current reports with the Commission on Form 8-K. These filings were materially false and misleading as they included the materially false and misleading financial data previously described.

69. Because the impact of the improper reserve and accrual practices remained on the Company's books and records for several fiscal periods, Comverse materially misstated its quarterly and annual pre-tax earnings, net income, operating income, liabilities, cost of goods sold, research and development expense, and sales order backlog through Fiscal Year 2002. Comverse's annual and quarterly reports on Forms 10-K and 10-Q for fiscal years 2003 and 2004, and the first three quarters of 2005 contained materially false and misleading financial statements for this reason, and also because of the inclusion of materially false and misleading financial statements from prior fiscal periods.

70. Through the misconduct of former Comverse senior executives, as detailed herein, Comverse knew or was reckless in not knowing that certain expenses, liabilities, net

income, and EPS reported in such documents were materially misleading as a result of improper accounting practices at the Company.

71. By virtue of Comverse's accounting fraud, the Company's books and records falsely and inaccurately reflected, among other things, certain expenses, liabilities, net income, EPS, and its general financial condition. Excluding the effects of the financial frauds at Comverse's subsidiaries, Ulticom, Starhome, and Verint, the anticipated effect of Comverse's accounting fraud on its reported pre-tax income is depicted below.

Reporting Period	Overstatement/ (Understatement) of Annual Pre-Tax Income	Overstatement/ (Understatement) as a Percentage of Annual Pre-Tax Income
FYE 12/31/96	(\$1,802,000)	(5.54%)
FYE 12/31/97	(\$1,466,000)	(3.57%)
Month Ending 1/31/1998	(\$20,766,000)	26.74%
FYE 1/31/99	(\$35,581,000)	(22.21%)
FYE 1/31/00	\$7,450,000	4.59%
FYE 1/31/01	\$21,317,000	8.66%
FYE 1/31/02	(\$18,579,000)	(23.35%)
FYE 1/31/03	\$24,122,000	(16.30%)
FYE 1/31/04	\$15,940,000	(216.58%)
FYE 1/31/05	(\$2,482,000)	(2.90%)
FYE 1/31/06	\$1,076,000	1.42%

Additionally, through the misconduct of its executives at that time, Comverse failed to maintain a system of internal accounting controls sufficient to provide assurances that reserves, expenses, net income and EPS were recorded as necessary to permit the proper preparation of financial statements in conformity with GAAP.

FIRST CLAIM
Violations of Securities Act Section 17(a)

72. The Commission realleges and incorporates by reference each and every allegation contained herein.

73. Comverse, directly or indirectly, knowingly, recklessly, or negligently, in the offer or sale of Comverse securities, by use of the means or instruments of transportation or communication in interstate commerce, or by use of the mails, has: (a) employed devices, schemes, or artifices to defraud; (b) obtained money or property by means of untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or (c) engaged in transactions, practices, or courses of business which operated or would have operated as a fraud or deceit upon purchasers of Comverse securities.

74. By engaging in the conduct alleged above, Comverse violated Securities Act Section 17(a) [15 U.S.C. § 77q(a)].

SECOND CLAIM
Violations of Exchange Act Section 10(b)
and Exchange Act Rule 10b-5 Thereunder

75. The Commission realleges and incorporates by reference each and every allegation contained herein.

76. Comverse, directly or indirectly, by use of the means or instruments of interstate commerce, or of the mails, or of a facility of a national securities exchange, knowingly or recklessly: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of a material fact or omitted to state a material fact, necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or (c) engaged in acts, transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon any person, in connection with the purchase or sale of securities.

77. By engaging in the conduct alleged above, Comverse violated Exchange Act Section 10(b) [15 U.S.C. § 78j (b)] and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5].

THIRD CLAIM
Violations of Exchange Act Section 14(a)
and Exchange Act Rule 14a-9 Thereunder

78. The Commission realleges and incorporates by reference each and every allegation contained herein.

79. Comverse directly or indirectly, by the use of the mails or by any means or instrumentality of interstate commerce or of any facility of a national securities exchange or otherwise, knowingly, recklessly, or negligently, solicited by means of a proxy statement, form of proxy, notice of meeting or other communication, written or oral, containing statements which, at the time and in light of the circumstances under which they were made, were false and misleading with respect to material facts, or omitted to state material facts necessary in order to make the statements therein not false or misleading or necessary to correct statements in earlier communications with respect to the solicitation of the proxy for the same meeting or subject matter which was false or misleading.

80. By engaging in the conduct alleged above, Comverse violated Exchange Act Section 14(a) [15 U.S.C. § 78n(a)] and Exchange Act Rule 14a-9 [17 C.F.R. § 240.14a-9].

FOURTH CLAIM
Violations of Exchange Act Section 13(a)
and Exchange Act Rules 12b-20, 13a-1, 13a-11, and 13a-13 Thereunder

81. The Commission realleges and incorporates by reference each and every allegation contained herein.

82. Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 13a-1, 13a-11, and 13a-13 [17 C.F.R. §§ 240.13a-1, 240.13a-11, and 240.13a-13] thereunder, require issuers of registered securities to file with the Commission factually accurate annual and quarterly reports. Exchange Act Rule 12b-20 [17 C.F.R. § 240.12b-20] further provides that, in addition to the information expressly required to be included in a statement or report, there

shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they were made not misleading.

83. By engaging in the conduct alleged above, Comverse violated Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Exchange Act Rules 12b-20, 13a-1, 13a-11, and 13a-13 [17 C.F.R. §§ 240.12b-20, 240.13a-1, 240.13a-11, and 240.13a-13].

FIFTH CLAIM

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

84. The Commission realleges and incorporates by reference each and every allegation contained herein.

85. Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)] requires issuers to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of its assets. Section 13(b)(2)(B) of the Exchange Act [15 U.S.C. § 78m(b)(2)(B)] requires issuers to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain the accountability of assets.

86. By engaging in the conduct alleged above, defendant Comverse violated Exchange Act Sections 13(b)(2)(A) and 13(b)(2)(B) [15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B)].

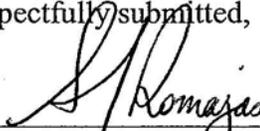
PRAYER FOR RELIEF

87. WHEREFORE, the Commission respectfully prays that this Court permanently enjoin defendant Comverse from violating Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)], Sections 10(b), 13(a), 13(b)(2)(A), 13(b)(2)(B), and 14(a) of the Exchange Act [15 U.S.C. §§ 78j(b), 78m(a), 78m(b)(2)(A), 78m(b)(2)(B), and 78n(a)] and Exchange Act Rules

10b-5, 12b-20, 13a-1, 13a-11, 13a-13, and 14a-9 [17 C.F.R. §§ 240.10b-5, 240.12b-20, 240.13a-1, 240.13a-11, 240.13a-13, and 240.14a-9].

Dated: June 8, 2009
Washington, DC

Respectfully submitted,



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