

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

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IN RE COMVERSE TECHNOLOGY, INC.
SECURITIES LITIGATION

No. 06 CV 1825 (NGG)(RER)

**THIRD-PARTY
COMPLAINT**

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WILLIAM F. SORIN,

Third-Party Plaintiff,

-against-

DELOITTE & TOUCHE LLP,

Third-Party Defendant.

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Defendant and third-party plaintiff William F. Sorin, by and through his attorneys, the Law Offices of Thomas P. Puccio and the Law Office of Solomon N. Klein, hereby submits this third-party complaint and alleges, on personal knowledge as to his own acts and on information and belief as to the third-party defendant's acts, as set forth below. Mr. Sorin's information and belief is based upon investigation by his attorneys, including review of the public filings of Comverse Technology Inc., and review of documents produced and filed in this action and other related actions.

Nature of the Action

1. This is an action by William F. Sorin against Deloitte & Touche LLP ("D&T") for equitable contribution and for contribution under Section 21D of the Securities Exchange Act of 1934. The Revised Second Consolidated Amended

Complaint (“Revised SAC”) of Lead Plaintiffs Menorah Insurance Company, Ltd. and Mivtachim Pension Funds, Ltd., individually and on behalf of all other persons similarly situated (“Plaintiffs”), asserts claims against Comverse Technology Inc. (“Comverse”), Mr. Sorin, and several others, alleging violations under Rule 10b-5 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 relating to misrepresentations or omissions concerning backdated stock option grants. Mr. Sorin has denied and continues to deny any such liability.

2. To the extent, however, that Mr. Sorin is found to be liable and any allegations in the Revised SAC are established, Sorin hereby incorporates those allegations by reference and asserts that any liability by Sorin is due to the acts and omissions of D&T. Thus, if Mr. Sorin is liable in monetary damages to Plaintiffs, then Mr. Sorin is entitled to contribution from D&T for all or part of such damages.

Jurisdiction

3. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331, 15 U.S.C. § 78aa, and Rule 14 of the Federal Rules of Civil Procedure.

The Parties

4. Mr. Sorin served as legal counsel to Comverse from its incorporation in 1984 until 2006 in various capacities, including General Counsel until 2002. He also was a Director and Secretary of Comverse from its incorporation until his resignation in 2006. In 2002, Mr. Sorin’s title was changed to Senior General Counsel, which reflected the fact that he had retired from his active legal representation of Comverse.

5. D&T is a worldwide firm of certified public accountants, and consultants. D&T's website states that it is "[a]n organization of member firms around the world devoted to excellence in providing professional services and advice, focused on client service through a global strategy executed locally in nearly 150 countries. With access to the deep intellectual capital of 120,000 people worldwide, D&T delivers services in four professional areas – audit, tax, consulting, and financial advisory services – and serves more than one-half of the world's largest companies, as well as large national enterprises, public institutions, locally important clients, and successful, fast-growing global growth companies."

6. Through its New York, New York and Jericho, New York offices, D&T served as Comverse's outside independent auditor since at least 1994, rendering allegedly independent review of Comverse's reported financial statements. D&T conducted audits pursuant to engagement letters whereby it contracted with Comverse to perform audits of Comverse's financial statements in accordance with Generally Accepted Audit Standards ("GAAS").

7. In addition to auditing the annual financial statements of Comverse and issuing unqualified audit opinions thereon, D&T conducted review of the quarterly financial statements of Comverse. D&T was highly compensated for the accounting and auditing services it provided to Comverse.

8. Further, D&T was asked for advice by Comverse regarding a variety of accounting matters, including issues regarding the pricing and appropriate procedures for option grants.

Factual Allegations

The Options Granting Process at Comverse

9. Pursuant to various stock option plans, Comverse issued options to its employees. These options were part of Comverse's efforts to attract and retain its employees and were of critical importance for the growth and success of the company, particularly during the "telecom boom" in the 1990s and early 2000s.

10. The options-granting process culminated in formal approval by the Compensation Committee (also referred to as the "Remuneration and Stock Option Committee") when its members signed a Unanimous Written Consent ("UWC") form. The Compensation Committee signed every UWC form that was submitted to them.

11. The UWC forms that were used by Comverse were provided to D&T in connection with its annual audits and quarterly reviews of Comverse's financial statements. Each UWC form clearly reflected that it was dated "as of" an earlier date and many UWCs bore facsimile lines reflecting that the Compensation Committee members had returned them to Comverse well after the "as of date." Mr. Sorin was therefore comfortable (a) that the Compensation Committee had ratified the granting of the options "as of" the earlier date; and (b) that the subsequent Compensation Committee's approval of the grants was clear to D&T on the face of the UWCs. The delay between formal approval of the option grants and the "as of" date of the grant was not unusual because of administrative factors that would delay compiling the list of the grantees, which sometimes numbered in the thousands.

12. D&T gave its approval for the option granting process employed by Comverse and its subsidiaries in an email relating to option grants at a Comverse

subsidiary, Verint Systems, Inc. (“Verint”). In early 2002, Mr. Sorin was asked by Comverse’s in-house counsel, Harris Oliner, to sign a unanimous written consent that retroactively approved option grants as far back as 1999 by Verint. Because the option grants being ratified occurred so far back in time, Mr. Sorin directed the in-house counsel to get approval from outside counsel (Weil Gotshal & Manges LLP) and the accountants (D&T) to confirm that it was appropriate.

13. In response, Mr. Oliner wrote to Mr. Sorin: “As you can see from the email below, Weil and Deloitte believe that there is no issue having the Verint Board of Directors ratify the stock option grants.”

14. Further evidence of D&T’s knowledge and involvement in the options-granting process exists in the November 30, 2000 options grant. In that grant, the exercise price was \$85 a share, although the closing price for Comverse stock on November 30, 2000 was higher.

15. The choice of the \$85 exercise price was reached by Kreinberg using the median between the high and low trading prices for the day of November 30, which was \$85 a share. Kreinberg chose this method in consultation with a senior manager at D&T.

16. On December 1, 2000, Kreinberg informed Sorin that D&T had given its approval to use this method. Upon information and belief, the same senior manager at D&T left Kreinberg a voicemail on November 30, 2000 regarding the pricing of this option grant.

17. D&T knew that the unanimous written consent for the November 30, 2000 grant was not formally signed until later, but nonetheless approved the Company's accounting treatment of these and other option grants.

18. Upon information and belief, D&T and the Special Committee, which have worked together to investigate the allegations of options backdating at Comverse, hid these facts from the Government and the Shareholders and failed to disclose the evidence of D&T's involvement.

19. Upon information and belief, the evidence of these communications was in the possession of D&T and the Special Committee and they did not notify the Government, nor did they report D&T's involvement and knowledge of the options-granting process to the Shareholders in the Special Committee's Report.

20. In fact, in September 2006, an executive at Comverse expressed concern that documents being collected by the Special Committee were not being properly handled. D&T forensic experts were then tasked by the Special Committee to verify the Special Committee's process and that the document collection was being performed properly.

D&T's Audit of Comverse

21. D&T was required to audit Comverse's financial statements in accordance with GAAS, and to report the audit results to Comverse, the board of directors, the audit committee, and the members of the investing public, including Plaintiffs. D&T certified the financial statements of Comverse, and provided unqualified Independent Audit Reports, which were included in the SEC filings and publicly

disseminated statements. D&T also performed quarterly reviews of Comverse's financial statements.

22. As one of the largest audit firms in the world, D&T was well aware of the strategies, methods, and procedures required by GAAS to conduct a proper audit. Also, D&T knew of the audit risks inherent in the industry in which Comverse operated because of the comprehensive services it provided to Comverse.

23. During its annual audits and quarterly reviews of Comverse's books, records, and financial statements, D&T had virtually limitless access to information concerning Comverse's financial condition and the stock option grant dates. D&T was present at Comverse's headquarters frequently, had unfettered access to the company's confidential internal corporate financial records, business records, and employees, and had conversations with Comverse management and employees regarding the company's financial reporting and accounting practices, including with respect to stock option grants. This was especially the case given D&T's long history and close relationship with David Kreinberg, its former senior manager who had become Comverse's CFO.

24. D&T issued nearly identical audit opinions for fiscal 1994 to 2003. D&T's opinions stated that such Comverse financial statements were presented in conformity with GAAP and that D&T's audit was performed in accordance with GAAS.

For example in fiscal 1994, D&T issued the following opinion:

We have audited the accompanying consolidated balance sheets of Comverse Technology, Inc. and subsidiaries (the "Company") as of December 31, 1993 and 1994, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1994. 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 generally accepted auditing standards. 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 December 31, 1993 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles.

25. D&T issued its audit opinion for fiscal 2004 which stated that Comverse's financial statements were presented in conformity with GAAP and that D&T's audit was performed in accordance with GAAS and in accordance with the standards of the Public Company Accounting Oversight Board (United States):

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.

FIRST CLAIM FOR RELIEF

26. Third-party plaintiff William F. Sorin repeats and realleges the allegations contained in Paragraphs 1 through 25, as though fully set forth here.

27. The Revised Second Consolidated Amended Complaint alleges violations under Rule 10b-5 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 relating to purported misrepresentations or omissions concerning backdated stock option grants. Mr. Sorin has denied and continues to deny any such liability.

28. To the extent, however, that Mr. Sorin is found to be liable in monetary damages to Plaintiffs, then Mr. Sorin is entitled to contribution from D&T for all or part of such damages. Such contribution is premised on the fact that, *inter alia*, D&T (a) was fully knowledgeable of, and had full access to all relevant information concerning, the stock option granting process at Comverse; (b) knew the appropriate financial reporting for such stock options or recklessly disregarded such reporting

