

Criminal Charges Filed In Comverse Options Probe

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Three former top executives of **Comverse Technology** Inc. were charged with criminal fraud in an options-backdating case.

In a federal complaint unsealed in U.S. District Court in Brooklyn, N.Y., the government alleged that co-founder and former chief executive Kobi Alexander, former finance chief David Kreinberg, and former general counsel William Sorin participated in a conspiracy to backdate their own stock options, and options for other employees, to reap millions of dollars in extra compensation.

Messrs. Alexander and Kreinberg, who resigned their positions at the company in May, also created a hidden "slush fund" with phony employee names in order to dole out extra grants to favored workers, according to an affidavit sworn by Kevin Riordan, a Federal Bureau of Investigation special agent. When the alleged backdating scheme and slush fund came to light, the affidavit says, the men hurried to disavow and cover up their activities.

Stock options are intended to give their recipient the chance to profit from a rise in company's shares; backdating the grant to an earlier time when the share price was lower hands the recipient instant potential for extra profit.

Comverse executives "routinely created false paperwork" to boost value of options grants, said Deputy Attorney General Paul McNulty at an afternoon press conference. He said options backdating constituted "theft" from shareholders.

The government says that between 1991 and 2005 Mr. Alexander realized profits of about \$138 million from stock options. Around \$6.4 million of these profits stemmed from the illegal backdating, Mr. Riordan alleges in the affidavit, which says the estimate is preliminary. In 2000, the government estimates Mr. Alexander took in about \$1.3 million as result of backdating.

In a separate action, prosecutors sought to freeze accounts held by Mr. Alexander at a New York financial institution, claiming that in July he wired \$57 million out of the accounts to Israel. "These transfers were designed to conceal the tainted funds from U.S. authorities," prosecutors charged.

A spokesman for the U.S. Attorney's Office for the Eastern District of New York, which is prosecuting the case, said Messrs. Sorin and Kreinberg surrendered this morning and are scheduled to be arraigned in federal court in Brooklyn today. It wasn't clear when Mr. Alexander would appear. Lawyers for the men couldn't immediately be reached. A lawyer for Mr. Sorin declined to comment.

It also wasn't immediately clear what particular counts the men would be charged with. Comverse, which has a market capitalization of about \$4 billion and is based in New York, is a leader in voice-mail and voice-messaging software.

The Comverse executives are the second group to be charged in recent weeks in the scandal over options manipulation that's roiling corporate suites. Last month, two former officials of Brocade Communications Systems Inc. were each charged with a count of criminal securities fraud in a backdating case. The two officials, one of whom is former CEO Gregory Reyes, were charged with backdating options given to employees.

The charges against Messrs. Alexander, Kreinberg and Sorin center on the personal profit the men reaped from the allegedly backdated grants. The government says Mr. Alexander was "awarded by far the most options every year" and that Messrs. Kreinberg and Sorin "typically ranked in the top ten."

The affidavit says Mr. Sorin handled options paperwork until 1997 or 1998, when Mr. Alexander turned the duties over to an unnamed assistant, who worked in "coordination" with Mr. Sorin.

Either Mr. Alexander or Mr. Kreinberg selected the day to which grants would be backdated, and the assistant -- using a template created by Mr. Sorin -- would send consent forms to the company's compensation committee directors bearing the backdated "as of" date, the affidavit says.

Compensation committee directors told Mr. Riordan that Mr. Sorin assured the directors that they had in fact given their "oral consent" on the "as of" dates by telephone, despite nothing actually happening on the dates, the affidavit says.

A 1998 grant, according to the affidavit, was backdated by at least six days; a 1999 grant by more than a month. That translated into big profits: The stock price on the backdated day in 1999 was at least \$35 lower than on the earliest day the option really could have been granted.

"The defendants backdated every company-wide grant from 1998 through 2001," the affidavit says.

After questions about the grants were raised by The Wall Street Journal in early March, Mr. Alexander and Mr. Kreinberg lied to a company attorney, saying that the grants had been fortuitous, not backdated, the government says. With this information, the company falsely told the Journal that grants had been approved on the day the company said they had, according to the affidavit.

Later, the affidavit says, after more questioning from company lawyers, Mr. Alexander and Mr. Kreinberg began to backtrack. After they said there might be "some issues" because "hypothetically speaking" the calls to the compensation committee were not made on the dates of the grant, the board sprung into action, ordering a special investigation into the matter, according to the affidavit. Days later, in a statement to the Journal, company retracted its claims, and said it was reviewing its option-grant practices. Mr. Alexander and Mr. Kreinberg promised the company's lawyer they would "come clean," the affidavit says.

Mr. Alexander later defended the backdating because everyone in Silicon Valley was "doing it" and Comverse stock was going crazy, the affidavit says.

The affidavit says the slush fund began in 1999, at the direction of Messrs. Alexander and Kreinberg. An assistant created a "secret account" for a fake employee named "I.M. Fanton," it says. The slush fund got larger, the affidavit says, with "dozens of fictitious names." The phony names were sprinkled into the list of real employees slated to receive stock options, so that directors would be duped into approving excess options that could be used in the slush fund, the affidavit says.

The options granted to these phantom workers -- hundreds of thousands in total -- were handed out by Messrs. Alexander and Kreinberg to favored employees, the affidavit says. The account was closed in 2002.

Mr. Kreinberg also lied in March to the company's outside auditors, Deloitte & Touche, the government says. Mr. Kreinberg attributed any discrepancies in stock-option grant dates to the "sloppy" work habits of the company's former CFO. In a conversation with a company lawyer, he also blamed Mr. Alexander, saying the backdating happened before Mr. Kreinberg's arrival at the company, the government said. Mr. Kreinberg says the slush fund was Mr. Alexander's idea, the affidavit says.

After the Journal's March inquiries, Mr. Kreinberg used an assistant's password to change the date of the phantom account's closing to a day when hundreds of other accounts were closed, so investigators would be less likely to notice it, the affidavit says.

Later, Mr. Kreinberg admitted to lawyers that he'd manipulated the options database, and said he'd tried to undo the changes, the affidavit says.