

August 21, 2006

# At Comverse, Many Smart Business Moves and Maybe a Bad One

By [JULIE CRESWELL](#)

To many, Jacob Alexander is the Larry Ellison of Israel — minus the flash and dazzle.

Like his counterpart Mr. Ellison, the chief executive of the software giant [Oracle](#), Mr. Alexander transformed a communications software company, [Comverse Technology](#), from a start-up to a market leader with annual sales of more than \$1 billion.

That made Mr. Alexander, known as Kobi, a pioneer and hero in Israel's emerging high-tech industry. These days, though, Mr. Alexander is also referred to by another title: fugitive.

Mr. Alexander, 54, is believed to have fled the United States after he and two other former Comverse executives were charged earlier this month with securities, mail and wire fraud by federal prosecutors in Brooklyn. A warrant has been issued for his arrest.

Yet the odds are that it will be a long time before Mr. Alexander explains himself in a courtroom, if ever.

Mr. Alexander's lawyer, Robert G. Morvillo, said he last heard from his client more than two weeks ago and he believed that Mr. Alexander and his family were on vacation in Israel. Mr. Alexander is an Israeli citizen and is a former military officer there. And in late July, according to prosecutors, Mr. Alexander wired \$57 million to an account in Israel.

While the United States has an extradition treaty with Israel, it is unclear whether the treaty covers the crimes that Mr. Alexander is accused of, law professors said. Furthermore, given Mr. Alexander's stature and record of military service, Israel may be reluctant to readily hand him over, they add.

While Mr. Alexander is widely known in Israel, his profile in the United States is lower.

Former colleagues describe him as a meticulous, highly intelligent man who often asked about their family members and enjoyed watching sports and trading stocks. Yet the criminal complaint portrays a man who treated options as if they were free for the taking.

Options give an employee the right to buy a stock at some point in the future at the price of the stock on the day the option was granted, commonly referred to as the strike price. The higher the stock price climbs, the more valuable the option becomes.

Many executives became fabulously wealthy by exercising options during the technology boom, and Comverse executives were no different.

Comverse stock soared on an adjusted basis from about \$13 in early 1997 to a peak of \$121.63 in 2001, when the tech bubble was deflating. It closed Friday at \$21.24.

Top executives and members of Comverse's board, including Mr. Alexander's father and his sister, who were directors for several years, exercised options for Comverse for profits of more than \$295 million since 1997, according to an analysis of regulatory filings by Thomson Financial.

Mr. Alexander alone accounted for half the options-related profits — about \$140 million. In addition, Mr. Alexander received about \$28 million in salary, bonuses and other perks during those years, according to Equilar, a compensation analysis firm in San Mateo, Calif.

At Comverse, favored employees were given options that could be exercised overnight for millions in profits, prosecutors said. And when the options began to lose some of their value, Mr. Alexander and the other executives scrambled to make them more valuable by changing the grant dates of the options, a practice known as backdating, according to court papers.

Prosecutors said Mr. Alexander had made about \$6.4 million in profits from backdating, while the chief financial officer, David Kreinberg, and general counsel, William F. Sorin, each made about \$1 million. All three resigned from the company in late April.

One former colleague struggled to explain why Mr. Alexander might have risked his name and future for such a relatively paltry amount.

"The one thing about Kobi is that he did have a sense of entitlement," said Stephen R. Kowarsky, who was an executive at Comverse from 1985-97. "Most people are a little bit shy or self-effacing about asking for something, but not Kobi. It was easy for him to say, 'I want that. I deserve that.' "

A spokesman for Comverse, Paul D. Baker, declined to comment for this article.

Mr. Alexander grew up in Tel Aviv. His father is Zvi Alexander, who spent 40 years in the oil industry in Israel. After serving as an officer in the Israeli defense forces, the younger Mr. Alexander earned a degree in economics from the Hebrew University of Jerusalem in 1977.

He moved to New York, where he worked as an investment banker at Shearson Loeb Rhoades while attending courses at night for his master's in business administration at [New York University](#).

It was in New York that Mr. Alexander met an engineer named Boaz Misholi. Mr. Misholi had a revolutionary idea about a voice- and fax-messaging system. The two men, along with Mr. Alexander's brother-in-law, Yechiam Yemini, returned to Israel to create a company called Efrat.

The start-up was financed in part with subsidies from the Israeli government, which was trying to stimulate its high-tech industry.

In 1984, Mr. Alexander returned to New York to establish headquarters for Comverse, which would become a holding company for Efrat and other subsidiaries. The name was a blend of "communication" and "versatility."

By the early 1990's, Mr. Alexander had survived a power struggle over control of the company that led to Mr. Misholi's departure. Mr. Alexander had already made several major decisions that positioned Comverse extremely well for the telecommunications boom to come.

While most telecommunications equipment manufacturers were focusing their efforts on telecom giants in the United States, Mr. Alexander steered Comverse toward Europe and its wireless phone markets.

"We decided to do a lot of deals with the small and medium telecoms in Europe and then leverage the experience we had in the U.S. market," said Mark E. McIlvane, who joined the company in 1986 as a sales and marketing executive and left in 1997.

One of Comverse's earliest and biggest customers was [Deutsche Telekom](#), but the company eventually landed contracts with several European, Latin American and Far Eastern companies before it pushed into the United States market. That was achieved largely through the 1997 acquisition of Boston Technology.

Mr. Alexander had ambitious plans for Comverse and his growing wealth. He talked of turning Comverse into the [Nokia](#) of Israel. He once bragged to a reporter that he could borrow money with little more than a business plan scribbled out on a napkin.

In 2000, he cashed in more than \$80 million worth of options. He then fulfilled a longtime fantasy by buying a stake in Tel Aviv's basketball team. And when he found an apartment building in New York that he liked on West 57th Street, he bought several units in the building.

Yet Mr. Alexander faced a common problem for companies in the tech boom — hiring and retaining important talent.

It was around that time that Mr. Alexander, along with Mr. Kreinberg, then the chief financial officer, and Mr.

Sorin, Comverse's legal counsel, started a plan to alter the dates when options had been granted to employees, backdating them to a time when the stock price was lower so that the recipient could earn even bigger profits, according to the criminal complaint filed by federal prosecutors.

Prosecutors say Mr. Kreinberg, with Mr. Sorin's knowledge, engaged in a similar backdating scheme at [Ulticom](#), a subsidiary of Comverse that went public in 2000 and provides about 4 percent of Comverse's revenues.

Another Comverse subsidiary, [Verint Systems](#), which provides more than 25 percent of Comverse's revenues, is also looking into its options practices.

Prosecutors said the doctoring of option grant dates began at Comverse when an assistant who is unnamed in the court filings took on the job of compiling lists of employees for whom stock option grants were being proposed, for consideration by the board's compensation committee. The assistant kept a record of the employee names, option awards and dates in a spreadsheet.

According to information provided to the government by the assistant, Mr. Alexander or Mr. Kreinberg instructed the assistant at various times to insert earlier, incorrect dates — when Comverse's stock traded a lower price — as the dates the stock options had been granted. Mr. Sorin would then call members of the three-person compensation committee to discuss the number of options that were to be awarded. Prosecutors said two members of the compensation committee (not identified in court filings) said they assumed that the option grants were dated on the date of the telephone calls. In fact, the calls came after the dates of the grants, prosecutors said.

But the backdating of options was only part of the plan at Comverse.

Around 1999, Mr. Alexander and Mr. Kreinberg instructed the assistant to create a secret account for options that the two could give to employees at Mr. Alexander's discretion, as incentives for recruitment and retention. (The assistant, who had recently seen "Phantom of the Opera," named the pool of options "I. M. Fanton," in a misspelled rendering of "phantom," according to court documents.) Mr. Alexander later transferred the options from this secret account to employees.

When the tech bubble burst and telecom spending around the globe stopped seemingly overnight, Comverse executives found another way to give themselves and their employees and directors more profits.

As Comverse stock sank, options across the company that were granted during the boom years were becoming worthless. So, in 2002, the board recommended and shareholders approved a plan to reprice the worthless options.

For Mr. Alexander, who was sitting on more than 1.9 million options that were worthless, the plan permitted him to exchange those for options with a new exercise price. Since then, he has exercised options on more than 1.1

million shares for a profit of \$16 million, according to Thomson Financial.

[Copyright 2006 The New York Times Company](#)

[Privacy Policy](#) | [Search](#) | [Corrections](#) | [XML](#) | [Help](#) | [Contact Us](#) | [Work for Us](#) | [Site Map](#)

---

-