

Return date: May 14, 2002

STATE OF CONNECTICUT)	
)	SUPERIOR COURT
Plaintiff,)	
)	JUDICIAL DISTRICT OF
)	HARTFORD
)	
vs.)	
)	
ARTHUR ANDERSEN L.L.P.)	
)	
Defendant.)	April 16, 2002

COMPLAINT

1. The Attorney General is filing this action to reclaim more than \$200 million in public funds that were lost as a result of Arthur Andersen concealing, misrepresenting, and misreporting relevant and material financial information about the Enron Corporation's declining and collapsing financial condition. Enron Corp. filed for bankruptcy in December 2001. As Enron's accounting, auditing and consulting firm, Andersen actively aided and abetted Enron's efforts to inflate its assets and earnings and conceal its liabilities during a period when Enron executives enriched themselves and Andersen reaped millions in consulting and other fees from Enron. Instead of disclosing and reporting the information accurately and truthfully, which would have alerted the public to Enron's true financial condition and its impending collapse, Andersen falsely and fraudulently misrepresented the facts, gravely damaging the State of Connecticut and its agencies, taxpayers, and the public. As a result of Andersen's acts and omissions, for example, the Connecticut Resources Recovery Authority directed payment of \$220 million to Enron, and most of that money was lost with Enron's bankruptcy, along with the promised \$2.375 million monthly stream of repayments by Enron. Andersen's work for Enron violated Generally Accepted Accounting Principles and Generally Accepted Auditing Standards, directly causing massive losses of public and private funds

through its negligence, recklessness, fraud and wrongful and willful deceptive acts and unfair trade practices.

BACKGROUND

2. This complaint concerns the loss of the bulk of \$220 million in public funds that were paid at the direction of the Connecticut Resources Recovery Authority (“CRRA”), a quasi-public state agency, to Enron Power Marketing, Inc., a subsidiary of the Enron Corp., a public company headquartered in Houston, Texas (collectively, “Enron”). In exchange, Enron was obligated to make monthly repayments of \$2.375 million to CRRA over 11 years. The transaction, which was executed in December 2000 and closed in March 2001, was not secured or guaranteed, other than through a guarantee of Enron Power Marketing’s obligations by the parent company. In April 2001, Enron began making its required monthly payments, until Enron filed for bankruptcy in December 2001, and since then, Enron has failed to make any monthly repayments to CRRA.

3. CRRA is a non-profit, quasi-public state agency, a political subdivision of the state with a legal status akin to that of a municipality, created by statute. See Conn. Gen. Stat. §§ 22a-257 et seq. (The Solid Waste Management Services Act). CRRA is composed of and operates for the benefit of the Connecticut member towns that have contracted to have their waste and recycling handled by CRRA, and for the benefit of all of the waste disposal customers in member towns, including state facilities located in those towns.

4. Starting in the 1990’s and continuing up to Enron’s bankruptcy, defendant Arthur Andersen L.L.P. (“Andersen”) performed lucrative auditing, accounting, consulting, and other services for Enron. Andersen, a massive, worldwide accounting and auditing concern, was deeply involved in every aspect of Enron’s business. Andersen was a duly licensed accounting and auditing partnership doing business in Connecticut, employing approximately 300 persons in its Hartford office. Andersen was key to enabling Enron to put up a false financial front to disguise Enron’s actual condition as a financial house of cards. To this end, Andersen produced numerous false, misleading, or erroneous documents, many of

which formed the basis for, or themselves were, public statements and filings. The allegations pertaining to Andersen in attached Exhibit A are herein incorporated by reference.¹

5. Andersen was involved in all aspects of Enron's business. Andersen was an active participant in, and aided and abetted, Enron in a scheme to disguise Enron's true financial condition from the public, Enron investors, and all parties doing business or considering doing business with Enron, including all parties making loans or considering making loans to Enron.

6. The acts of Andersen, in collusion with Enron, show a clear pattern of fraud and deception.

7. Andersen knew and expected that Enron's potential business partners would rely on Andersen's accounting and auditing of Enron, and these persons were entitled to rely on Andersen's work for Enron.

8. In entering into the ill-fated transaction with Enron, CRRA and its advisors assessing Enron's financial health and creditworthiness explicitly relied on Andersen's wrongful representations, including financial and audit statements and other documents or information produced by Andersen. These documents or data were false, misleading, incomplete, and inaccurate.

9. As explained further below, the initial \$220 million payment to Enron, and the now-ceased monthly payments to CRRA, belong to and are for the benefit of all waste disposal customers located in 70 municipalities across the state. (List of towns attached as "Exhibit B.") Residents and taxpayers in those towns, as well as all other Connecticut taxpayers, as well as the state government itself, have sustained and continue to sustain financial harm as a result of the loss of the money paid to Enron, and from the loss of Enron's monthly payments to CRRA. These losses were directly caused by Andersen's acts and omissions.

PARTIES

¹ Exhibit A is pp. 447-85 of the Consolidated Complaint in In re Enron Corporation Securities Litigation, Civil Action No. H-01-3624 (S.D. Texas).

A. Plaintiffs

10. The plaintiff is the sovereign State of Connecticut, represented by the Attorney General of Connecticut, Richard Blumenthal.

11. The state government maintains and operates numerous facilities located in the 70 towns composing CRRA's Mid-Connecticut Project (hereafter, the "Project," described further below). The Mid-Connecticut towns as part of their waste-hauling contracts have a contractual obligation to pay all the operating costs of the Mid-Connecticut Project, and also to produce minimum annual tonnages of waste to be sent to CRRA. The towns pay tipping fee increases as approved by the CRRA board. Most of the towns have in turn enacted ordinances or regulations that require all solid waste in the towns to be sent to town-designated sites, usually the Mid-Connecticut Project. These town-imposed requirements directing waste to CRRA's Mid-Connecticut Project apply to state facilities. CRRA's board of directors has approved plans to recover the loss by increasing fees charged to towns. The towns will pass on those costs to customers including the State of Connecticut. Thus, the state is being required to directly bear increased waste disposal costs caused by the loss of \$200 million dollars² in Mid-Connecticut Project monies.

12. The 70 towns in question are members of CRRA's Mid-Connecticut Project, and the Project under individual contracts with each of the towns handles solid waste and recycling generated by these towns. The towns during the terms of their contracts with CRRA have no control over the amount that is charged to consumers of waste disposal services, including state facilities located in the towns.

13. The \$200 million that CRRA lost to Enron, as well as the vanished monthly payments from Enron, by legislative intent were meant to benefit all of the Mid-Connecticut Project's waste disposal consumers, including the state, and the purpose of the money was to subsidize the per-ton tipping fee charged by CRRA to handle the towns' solid waste. To cover the loss, the CRRA board has approved a phased-in increase in the tipping fees that will

² This figure is approximately accurate. The initial payment to Enron totaled \$220 million; however, Enron made several monthly payments to CRRA before filing for bankruptcy, reducing the amount owed by Enron to CRRA, and the exact amount currently owed depends on complex issues of bankruptcy law.

take the tipping fee from the present \$51 per ton for Mid-Connecticut Project towns to \$80 per ton. The state facilities located in these towns cannot avoid these costs.

B. Defendant

14. Defendant Andersen is an Illinois limited liability partnership doing business in Connecticut and with partners who are citizens of Connecticut. The registered agent for service of process in Connecticut is Bruce M. Prouty, One Financial Plaza, Hartford, CT 06103.

GENERAL ALLEGATIONS

15. CRRA is a political subdivision of the state, and is a quasi-public agency with a legal status similar to that of a municipality. CRRA was created by statute, and its powers and responsibilities are set forth in the Solid Waste Management Services Act, Conn. Gen. Stat. §§ 22a-257 to -285k. CRRA's mission is to develop and implement a solid waste management system for the state, with an emphasis on recycling and using waste as a resource.

16. CRRA is a non-profit entity that was formed to benefit and serve the towns of Connecticut in managing solid waste and recycling. Most of Connecticut's 169 towns have signed exclusive solid waste management services contracts with CRRA. Under these contracts, the member towns are bound to pay CRRA's operating expenses, and the member towns also commit to providing minimum annual tonnages of waste and recyclables to CRRA. CRRA has no clientele other than the member towns and the consumers located therein.

17. CRRA has divided its solid waste management functions into four regional "Projects." (The Bridgeport Project, the Southeast Connecticut Project, the Wallingford Project, and the Mid-Connecticut Project.) Each member town is attached to one of the four Projects. Each Project operates financially independent of the other Projects. The Mid-Connecticut Project, the only Project pertinent to this complaint, serves 70 towns in the central and northwest part of the state.

18. CRRA has the authority to issue tax-exempt bonds to fulfill its statutory duties. Each bond series is earmarked for a specific function of a specific Project. The majority of the

bonds issued by CRRA is backed by a statutorily-created state-funded Special Capital Reserve Fund that must contain at all times enough money to pay one year's principal and interest bond payments. If the special capital reserve fund for any of CRRA's bond series falls below this amount, the amount needed to boost the fund back to the required level is automatically appropriated from state funds once per year, without the need for further legislative action.

19. The primary bond issue capitalizing the Mid-Connecticut Project has the Special Capital Reserve Fund feature. The \$2.375 million monthly payment to CRRA from Enron was to be used by CRRA to help pay off the principal and interest on the Mid-Connecticut Project bonds. The loss of these funds thus could at a later date contribute to triggering the Special Capital Reserve Fund.

20. Using bond capital, CRRA has created several trash-to-energy plants where trash is burned to create electricity. The electricity (or other form of energy such as steam) is then sold by CRRA, and the proceeds from the sale of energy are used to subsidize the per-ton trash hauling fee (the "tipping fee") that is charged to the member towns of the particular project, or to waste disposal customers located in those towns. CRRA's largest trash-to-energy facility, and the one pertinent to this complaint, is the Mid-Connecticut Project's plant located on the west bank of the Connecticut River at South Meadow in Hartford.

21. In 1998, Connecticut passed an electric industry deregulation law. Under this law, regulated electric distribution companies (utilities) that had hitherto offered all aspects of energy service, from generating power to distributing it, were required to focus on distributing power, and were required to make good-faith efforts to divest themselves of their power generation facilities. The two chief regulated electric utilities in Connecticut were Connecticut Light & Power (CL&P, a division of Northeast Utilities), and United Illuminating.

22. Before deregulation, CRRA owned a trash burning plant that generated steam at South Meadow. The CRRA steam-generation facility was located on an approximately 90-acre parcel of land owned by CL&P. The steam was sold by CRRA to CL&P, and CL&P

used the steam to make electricity at a CL&P-owned plant on the premises. CL&P paid CRRA for the steam at a rate equivalent to 8.5 ¢ per kilowatt-hour of electricity produced.

23. Under this contract, CL&P was obligated to buy the Mid-Connecticut Project steam at this price until 2012. Because the contract required CL&P to buy its power, it was advantageous to CRRA.

24. Under the electricity deregulation law passed in Connecticut in 1998, CL&P was required to make good-faith efforts to divest itself of power-generation facilities and to buy down or divest itself of power purchase contracts with generating facilities owned by third parties. As stated above, CL&P was obligated to buy steam from CRRA at South Meadow to produce electricity until 2012. In addition to the Mid-Connecticut contract, CL&P also had about 14 other above-market generation obligations that CL&P would not be able to modify or terminate without paying its business partners.

25. In order to help CL&P extricate itself from contracts with private power producers such as CRRA, the electric deregulation law included a provision for CL&P to issue tax-exempt Rate Reduction Bonds to provide the capital CL&P would need to attempt to buy its way out of these obligations. The Rate Reduction Bonds are financed by a separate line item charge on the monthly bills of all CL&P customers in Connecticut, also called ratepayers.

26. CL&P ultimately raised over \$1.4 billion by issuing Rate Reduction Bonds, and approximately \$290 million of this amount was earmarked for CL&P to use to buy down the CRRA Mid-Connecticut Project contract from 8.5 ¢ per kilowatt-hour to 3.0 ¢ - 3.3 ¢ per kilowatt-hour. (The \$290 million amount was based on a January 1, 2001, closing date for the restructured contracts; the final amount was decreased to around \$280 million due to the delay in closing until March 30, 2001.)

27. The pre-existing Mid-Connecticut Project structure was replaced with a three-way structure involving CRRA, Enron, and CL&P.

28. CL&P agreed with CRRA to pay a price of \$280 million to buy down CL&P's contract to buy steam from CRRA at 8.5 ¢ per kilowatt-hour of electricity produced from the steam. Approximately \$60 million of the \$280 million in bond proceeds went directly to

CRRA. CRRA used \$10 million of this direct \$60 million payment to purchase the CL&P-owned parts of the trash-to-energy plant at South Meadow, as well as the four twin-pack jet-engine generators owned by CL&P that were also on the South Meadow site. CRRA paid another \$27 million of the direct payment to a company that agreed to clean up and insure the substantial environmental contamination at the South Meadow site for that price. The remaining direct payment money, approximately \$23 million, was kept by CRRA.

29. CRRA instructed CL&P to pay the remaining \$220 million in Rate Reduction Bond proceeds directly to Enron, instead of paying this money to CRRA itself. For its part, Enron agreed to make two separate monthly payments for over 11 years to CRRA. One of these monthly payments was \$2.2 million, and the other monthly payment was for \$175,000, for a total monthly payment from Enron of \$2.375 million. CRRA did not procure any collateral, surety bond, or other risk-management instrument to secure the transaction with Enron, other than the guarantee of the Enron parent corporation.

30. The economic effect of this transaction -- a \$220 million dollar up-front payment to Enron, in exchange for an 11-year monthly repayment to CRRA of \$2.375 million -- was a loan by CRRA to Enron at just over seven percent, compounded monthly. Enron's role in the transaction was only as a borrower paying CRRA back with interest. Enron had no energy production or other obligations, and Enron made no money on any energy transfer. CRRA was looking for an entity that would pay CRRA back a fixed rate of interest, and Enron filled that role.

31. Before deciding to enter into the transaction with Enron, CRRA, and CRRA's advisers including the law firm of Hawkins, Delafield & Wood, reviewed and relied on extensive documentation prepared by Andersen for Enron, such as annual financial and audit statements. This documentation contained false, misleading, incomplete and inaccurate information. Andersen knew, or certainly should have known, that the information was false, misleading, inaccurate, and incomplete.

32. Andersen produced and caused to be disseminated in Connecticut false financial statement, audits, and other documents and data.

33. Andersen disseminated this false information with the purpose that, or knowing to a substantial certainty that, this information would be relied on by persons such as CRRA seeking to enter into a loan or other business transaction with Enron.

34. One specific example of how CRRA relied on Andersen is that CRRA throughout the negotiation of the transaction repeatedly focused on the fact that Enron's credit rating was at an investment grade, and in fact was slightly higher than the credit rating of CL&P at the time. Until Enron came on the scene, CRRA was considering investing the \$220 million by loaning it to CL&P, but Enron ultimately was chosen to perform that role.

35. Enron has now restated its year-end financial statements for 1997 to 2000 -- the very statements relied on by CRRA in entering the deal with Enron in December 2000 -- and Andersen's current position is that the year-end financial statements Andersen prepared for Enron for 1997-2000 "should not be relied on." (Exhibit A at 472.)

36. Enron's investment-grade rating, strongly relied on by CRRA, was undeserved. Andersen was intent on increasing the massive fees it was receiving from Enron, and "Andersen knew that the key to increasing its fees was to help Enron maintain its undeserved investment-grade credit rating." (Exhibit A at 451.)

37. Andersen falsely represented that the financial statements it prepared for Enron from 1997-2000 were prepared in accordance with Generally Accepted Accounting Principles ("GAAP"), and that Andersen's audits of these years for Enron were prepared in accordance with General Accepted Auditing Standards ("GAAS") guidelines promulgated by the American Institute of Certified Public Accountants ("AICPA"), the chief governing body for public accountants).

38. In fact, Enron's financial statements were not prepared in accordance with GAAP, and Andersen's audits of these statements were not prepared in accordance with GAAS, and neither the financial statements nor the audit work comported with AICPA or other generally accepted requirements.

39. Andersen did not prepare these materials with the required independence. Rather, Andersen operated under substantial conflicts of interest. In order to keep and grow its large

Enron fees, Andersen approved increasingly aggressive and ultimately foolhardy deal-making by Enron, and Andersen agreed to help Enron keep huge, debilitating debts off its balance sheets by the use of so-called “Special Purpose Entities,” including numerous off-the-books partnerships.

40. Internal Andersen documents show that Andersen partners were aware of the fact that its independence was compromised simply by the massive amount of fees Enron was generating for Andersen, including burgeoning amounts of non-auditing, non-accounting consulting fees. (Exhibit A at 452.) Despite this awareness that Andersen’s independence was compromised, Andersen not only kept Enron as a client, but aggressively pursued more Enron business, including the conflict-laden consulting work. (Exhibit A at 453-54.)

41. When Andersen partner Carl Bass, in charge of overseeing Enron audits, complained about and opposed the improper Enron accounting practices, Enron protested, and Bass was removed from his position overseeing Enron audits. (Exhibit A at 452-53; 462.)

42. Andersen knew that it had misled the public, and the parties who relied on Andersen’s numbers for investment and business guidance regarding Enron. For that reason, when Andersen learned in October of 2001 that a federal SEC investigation had begun, Andersen began a systematic document destruction program, calculated to deny the SEC and other interested parties such as CRRA and plaintiff the means to determine the full extent of Andersen’s acts and omissions regarding its work for Enron.

43. Andersen knew that its accounting practices with respect to Enron were improper and incomplete, and also understood that Enron was engaged in numerous improper related-party transactions, offshore tax-haven machinations, and other complex arrangements with no proper business purpose. (Exhibit A at 459-60.) These arrangements were put in place to hide Enron’s financial picture, and not only did Andersen know about them, Andersen in many cases helped Enron set them up, and collected generous fees for doing so, all the while failing to inform CRRA and others of the machinations that Andersen and Enron put in place.

44. The Special Purpose Entity partnership deals entered into by Enron were especially egregious. Under these deals, Enron would set up a partnership that it controlled to keep

debts off of its books, while still allowing Enron access to and control of partnership income. These off-the-books Enron assets at one point totaled \$17 billion -- 33 percent of Enron's assets. (Exhibit A at 468-69.) Andersen approved these transactions, and in some cases reaped large fees for helping set them up, while well knowing that under GAAP, if Enron retained control of the partnerships, the partnerships' financial results should be consolidated with Enron's. This proper consolidated booking of the partnerships never happened on the original financial statements. Andersen ultimately was forced to restate Enron's 1997-2000 financial statement, but not until in 2001, well after the CRRA-Enron deal closed.

45. Andersen knew that senior Enron executives were pillaging these off-the-books partnership, personally taking out huge false profits and management fees. (Exhibit A at 469.)

46. Andersen participated in this scam with Enron at least in part because it earned millions of dollars in fees from Enron to set up these Special Purpose Entities. (Exhibit A at 466-67, 467.)

47. Andersen and Enron were mutually dependent, and engaged in a joint venture calculated to hide Enron's deteriorating financial condition from the public, and further calculated to defraud and deceive Enron's investors and would-be business partners.

48. These acts and omissions by Andersen occurred before, during and after the CRRA-Enron negotiations, and occurred at a time Andersen well knew, or should well have known, of Enron's true perilous financial straits.

49. These failures and concealments by Andersen occurred before CRRA entered the transaction with Enron in December of 2000, and before the March 30, 2001, closing date of the CRRA-Enron transaction, in some cases well before. For instance, Andersen partner Carl Bass wrote e-mails to his partners: 1) protesting various gross Enron accounting irregularities in December 1999; 2) criticizing a Special Purpose Entity deal in February 2000; and 3) criticizing other Special Purpose Entity deals on March 4, 2001. (Exhibit A at 462, 463.) In fact, on February 5, 2001, senior Andersen partners had a teleconference call to discuss whether Enron should be kept as a client. (Exhibit A at 462.) The topics covered included Enron's tremendous exposure on related-party transactions engineered by Enron financial chief Andrew Fastow, insufficient disclosure in financial footnotes, overly aggressive

transactions, improper front-loaded “mark-to-market” recognition of income from long-term deals, and self-dealing by senior Enron executives such as Fastow. The Andersen partners decided to stick with Enron, and instead of dropping Enron as a client, issued another “clean” audit finding on Enron’s 2000 financial statement a few weeks later, (Exhibit A at 462-63), near the time the Enron-CRRA deal closed on March 30, 2001, with CRRA relying on Andersen information.

50. As with its accounting and financial work, Andersen’s auditing work for Enron was deceptive and inadequate. For instance, in 1997, Andersen’s accounting team identified accounting errors that should have reduced Enron’s reported net income -- \$105 million for 1997 -- by \$51 million, or almost half. Andersen asked Enron to make the adjustment, but when Enron refused, Andersen abdicated its auditing responsibility under GAAS by acquiescing. (Exhibit A at 471-72.)

51. In addition, as explained further below, Andersen during a one-month period in October and November 2001, and in reaction to learning of a federal government investigation into Enron’s accounting and finances, designed and executed a massive, worldwide document destruction campaign. The purpose of the document destruction was to hide evidence of the extent of Andersen’s complicity in Enron’s malfeasance from government investigators, as well as from Enron investors and business partners -- such as the state through its political subdivision CRRA -- with an interest in knowing the extent of how Andersen helped Enron disguise its financial situation.

52. The facts as set forth above and in each count below establish that the conduct of Andersen was wanton, willful, and malicious.

FIRST COUNT -- NEGLIGENCE

53. The state’s first count against Andersen sounds in negligence.

54. The allegations set forth above are hereby incorporated by reference.

55. Andersen owed a duty of care to the state of Connecticut, including CRRA, as well as to CRRA’s Mid-Connecticut Project customers, to exercise that degree of skill normally expected of accountants performing auditing services for public companies.

56. Andersen knew that Andersen's audits would form the basis for public filings, and would be relied on by parties -- such as the state through its subdivision CRRA -- entering into business transactions with Enron.

57. Andersen, in performing audits and other work for Enron, failed to exercise the degree of care, skill, and competence, exercised by competent members of the accounting profession. As a result, Andersen's audits of Enron, and other work for Enron, seriously misrepresented the financial condition of Enron.

58. Andersen's audits and other work for Enron were seriously flawed. Enron subsequently declared bankruptcy as a result of Enron's mismanagement, significant debt, and accounting irregularities, all of which should have been, but were not, disclosed by Andersen's negligent audits and other work.

59. The state and CRRA are among those for whose use and benefit Andersen intended to supply the audit and other financial data, and Andersen knew Enron intended to provide Enron's business partners such as CRRA with the Andersen audit and other financial data.

60. It was foreseeable to Andersen that CRRA, a political subdivision of the State, would rely upon data prepared by Andersen in entering and maintaining business relationships with Enron.

61. CRRA entered into contracts with Enron after Andersen performed the audits and other financial work for Enron, and in reliance upon the inaccurate and misleading audits and other financial data prepared by Andersen.

62. CRRA would not have negotiated the same unsecured deal with Enron if Andersen had properly informed CRRA of Enron's true financial condition.

63. The state, which will face increased trash hauling fees, has suffered actual damages as a result of CRRA's contracts with a financially unsound, and now bankrupt, company (Enron).

64. If Andersen had reasonably and properly performed its accounting, auditing, and other duties, and had correctly and fully represented the financial condition of Enron, CRRA

would not have entered into the contracts with Enron, which it did before the nature and extent of Enron's financial woes came to light, and before Enron's bankruptcy.

65. Andersen is liable for all losses of the state, including but not limited to increased trash removal costs, as a result of the above-described negligence and violations of Andersen's professional duties.

SECOND COUNT -- NEGLIGENT MISREPRESENTATION

66. The state's second count against Andersen sounds in negligent misrepresentation.

67. The allegations set forth above, including the allegations in the First Count, are herein incorporated by reference.

68. Andersen in the course of its accounting and audit business supplied false, misleading, or inaccurate information about Enron's finances.

69. Andersen failed to exercise reasonable care or competence in obtaining, developing, and disseminating accurate and complete financial information about Enron.

70. Andersen knew that the information Andersen provided to Enron, the federal government, and the public would be relied on by entities, such as CRRA, seeking to do business with Enron. Since Andersen held itself out as a competent, honest partnership, CRRA was justified in relying on the false, misleading, and incomplete information provided by Andersen.

71. CRRA did rely on Andersen's guidance, by paying Enron \$220 million dollars in March of 2001, after Andersen had made extensive inaccurate representations about Enron's financial health, and before Enron's failure. Now, Enron is bankrupt, and the bulk of that \$220 million as a consequence has been lost.

72. Andersen is liable for all losses, including but not limited to increased trash removal costs, to the plaintiff as a result of the above-described negligent misrepresentations.

THIRD COUNT -- RECKLESSNESS

73. Plaintiffs' third count against Andersen sounds in recklessness.

74. The allegations set forth above, including the allegations in the first two counts, are herein incorporated by reference.

75. Andersen knew, or reasonably should have known, that its failure to provide accurate, full, and truthful financial information about Enron created a risk of harm to the state, and others similarly dependent on Andersen's information. Moreover, Andersen knew, or reasonably should have known, that its acts and omissions with regard to Andersen's work for Enron helped place Enron in great peril, and simultaneously helped Enron to conceal that peril from entities seeking to do business with Enron. If properly informed by Andersen, CRRA would not have entered into the transaction with Enron on behalf of the state.

76. Particularly egregious and demonstrative of recklessness is Andersen's reckless disregard of questionable financial transactions between Enron and its insiders. Andersen's failure to disclose and deal with such questionable insider activity, goes beyond negligence, and beyond a mere failure to exercise the degree of care, skill and competence demanded of the accounting profession.

77. As a long-time sophisticated accounting and auditing firm that had watched many former clients, including Colonial Realty in Connecticut, fail by deceiving the public or because of failure to properly report the company's true financial condition, Andersen knew or reasonably should have known that its acts and omissions created a high degree of probability that the plaintiff would be substantially harmed when Enron proved unable to meet the obligations Andersen's accounting work indicated Enron could meet. Andersen showed a reckless disregard for the highly probable consequences of its acts and omissions.

78. Andersen is liable for all losses, and increased trash removal costs, to the state as a result of the above-described recklessness.

FOURTH COUNT -- FRAUD

79. The state's fourth count against Andersen sounds in fraud.

80. The allegations set forth above, including the allegations in the first three counts, are herein incorporated by reference.

81. Andersen, in performing audits and other work for Enron on which CRRA relied on behalf of the plaintiff, either recklessly or intentionally failed to exercise the degree of care, skill and competence exercised by competent members of the accounting profession, or, alternatively, conspired with representatives of Enron to fraudulently misrepresent Enron's financial condition in documents intended for public dissemination, or intended to support documents intended for public dissemination. As a result, Andersen's audits, financial statements, and other work for Enron fraudulently misrepresented the financial condition of Enron.

82. At the time of its audits and other work for Enron, Andersen knew that Enron's chief financial officer was operating partnerships involving Enron that allowed Enron to hide at least \$500 million in liabilities off its books, and therefore undisclosed to the public in Enron's public filings.

83. Andersen knew that Enron financial statements from at least 1997 onward were intentionally falsified, resulting ultimately in a restatement and reduction of reported earnings for 1997 forward of over \$500 million. Andersen intentionally did not consolidate onto Enron's books the financial results of a number of so-called "special purpose entity" partnerships. These off-the-books special purpose entities were responsible for a large percentage of the just-mentioned restatement of Enron's earnings. Andersen at all times pertinent to this complaint knew that the financial data from the special purpose entities should have been consolidated with Enron's, but Andersen fraudulently and intentionally failed to do so.

84. Andersen incredibly failed to take any ameliorative steps, such as: 1) warning the state or federal government; 2) warning the public; or 3) withdrawing from representing Enron.

85. These failures were the result of and in furtherance of a conspiracy by Andersen with Enron to disguise Enron's true financial condition.

86. The facts stated in this complaint show that Andersen either directly conspired with Enron insiders and others to fraudulently misstate Enron's earnings during much of the period at issue, or knew and acquiesced in, or actively participated in Enron's perpetration of

a fraud on the state and CRRA (a political subdivision of the state), and CRRA's Mid-Connecticut trash removal customers, by intentionally failing to investigate or disclose internal accounting irregularities, insider dealing and off-book partnerships and other entities, and misstatement of earnings by Enron.

87. The state, and CRRA, a political subdivision of the state, are among those for whose guidance Andersen intended to supply audit and other financial data, and Andersen also knew that Enron intended to supply the audit data to parties such as these. Andersen, in failing to inform these parties properly, acted with the intent to deceive.

88. The state and CRRA actually relied on Andersen's audit data and other information in order to decide whether to do business with Enron. This reliance caused loss to the state, including CRRA. This loss was foreseeable by Andersen.

89. The state has suffered and will continue to suffer actual damages as a result of CRRA's entering into contracts with Enron for the state's benefit. CRRA would not have entered into these contracts but for the fraudulent or intentionally false and misleading misrepresentations and omissions in Andersen's audits and other work for Enron.

90. Andersen is liable for all losses and increased costs to the state as a result of the aforementioned violations of professional duties, and fraudulent misrepresentations and omissions.

91. Andersen is liable for all losses to the taxpayers of Connecticut and the townspeople as a result of the above-described fraud.

FIFTH COUNT -- CUTPA

92. The allegations set forth above are hereby incorporated by reference.

93. This Fifth Count is brought at the request of the Commissioner of Consumer Protection of the State of Connecticut, pursuant to Conn. Gen. Stat. § 42-110m(a).

94. The defendant has acted, as alleged herein, in the conduct of trade or commerce as defined in Conn. Gen. Stat. § 42-110a(4).

95. Defendant has made or caused to be made, directly or indirectly, explicitly or by implication, representations and omissions which have been and are material, false and likely to mislead, including, but not limited to the following:

a. That Enron's financial health was sufficient to justify credit rating agencies (such as Standard & Poor's, Moody's, and Fitch) in granting Enron an investment-grade credit rating.

b. That Enron's year end financial statements for the years 1997 through 2000 as reported by Andersen were complete, accurate, and truthful.

c. That Enron's financial statements for the years 1997 through 2000 prepared by Andersen were prepared in accordance with Generally Accepted Accounting Principles and that Andersen's audits of Enron for these years were prepared in accordance with Generally Accepted Auditing Standards.

d. That in preparing Enron's financial statements and audits for the years 1997 through 2000, Andersen exercised appropriate and required independence from Enron.

e. That Andersen, in fact, believed that the financial statements and audits it prepared for Enron for the years 1997 through 2000 were complete, accurate, truthful, prepared in accordance with GAAP and GAAS, and prepared using appropriate and required independence from Enron.

96. Contrary to defendant's representations,

a. Enron's credit rating of "investment grade" was undeserved, and Enron would have had a lower credit rating if not for Andersen's acts and omissions.

b. Andersen's year end financial statements of Enron for the years 1997 through 2000 were unreliable and understated Enron's liabilities by over \$500 million dollars; failed to disclose Enron's use of "special purpose entities," including numerous off-the-books partnerships used to conceal hundreds of millions of dollars of Enron debt; failed to disclose

hundreds of improper related-party transactions, offshore tax-haven schemes, and other complex arrangements with no proper business purpose; failed to disclose that senior Enron executives were pillaging these off-the-books partnerships, personally taking out huge false profits and management fees.

c. The financial statements and audits prepared for Enron by Andersen and disseminated to the public were not prepared in accordance with GAAP and GAAS, and the audit work did not comply with other generally accepted requirements.

d. The financial statements and audits of Enron prepared by Andersen were not prepared with appropriate and required independence. Andersen acted in concert with and aided and abetted Enron's scheme to defraud the public, including lenders and others doing business with Enron such as CRRA. Andersen made tens of millions of dollars in consulting and other fees for assisting Enron in establishing its fraudulent financial and accounting schemes at the same time it was preparing Enron's financial statements and audits to be used by those considering entering into business relationships with Enron.

e. Andersen knew that Enron's financial statements and audits were fraudulent. Andersen senior partners had discussed among themselves the fraudulent nature of these reports, and had considered ending its professional association with Enron. Andersen elected, however, to continue to act in concert with and to aid and abet Enron in its preparation and distribution of fraudulent financial statements and audits to the public. Further, Andersen partners were aware of the fact that Andersen's independence was compromised by the massive amount of fees it was generating from assisting Enron in non-auditing and non-accounting consulting activities.

97. Defendant's deceptive representations and actions have been and are material, false, and likely to mislead, and therefore constitute deceptive acts or practices in violation of Conn. Gen. Stat. § 42-110b(a).

98. Defendant's course of wrongful conduct, as alleged herein, violates the public policy of the State of Connecticut in several respects, including the following:

a. The public policy requiring good faith and fair dealing;

b. The public policy against independent auditors preparing for public release financial statements and auditing reports when these auditors are riddled with impermissible conflicts of interest;

c. The public policies imbedded in GAAP and GAAS.

d. The public policies prohibiting the destruction of evidence and obstruction of justice.

99. Defendant's acts and practices, as alleged herein, have been and are unethical, oppressive and unscrupulous, and cause substantial injury to consumers and others.

100. Defendant's acts and practices, as alleged herein, constitute unfair acts or practices in violation of Conn. Gen. Stat. § 42-110b(a).

101. Defendant's unfair and/or deceptive acts or practices have limited the ability of numerous consumers, business entities and others to obtain or evaluate information material to their decision about entering into financial transactions, including but not limited to unsecured loans, with Enron.

102. As a further result of the defendant's unfair and/or deceptive acts or practices, numerous Connecticut residents and municipalities have suffered and will, in the future, suffer an increase in the fees they must pay for trash removal and disposal.

103. As a further result of the defendant's unfair and/or deceptive acts or practices, the CRRA has suffered economic loss and damage.

104. As a result of the defendant's unfair and/or deceptive acts or practices, the defendant Andersen has reaped ill-gotten profits and gains which it otherwise would not have received, and which, in equity, it should be required to disgorge.

SIXTH COUNT -- WILLFUL UNFAIR DECEPTIVE TRADE PRACTICE

105. The allegations set forth above are hereby incorporated by reference.

106. The Defendant has engaged in the unfair and/or deceptive acts or practices alleged herein although it knew or should have known that its conduct was and is unfair or deceptive in violation of Conn. Gen. Stat. § 42-110(b).

107. Defendant is liable, pursuant to Conn. Gen. Stat. § 42-110o, for civil penalties for not more than \$5,000.00 for each of its aforesaid violations.

PRAYER FOR RELIEF

108. **WHEREFORE**, plaintiff requests the court to enter judgment against Andersen:

A) On the first count for the following relief:

1. Damages caused by Andersen's negligence;
2. Punitive damages to the extent allowed by law;
3. Costs and pre- and post-judgment interest, as provided by law;
4. Any other legal or equitable relief deemed proper by the court;

B) On the second count for the following relief:

1. Damages caused by Andersen's negligent misrepresentation;
2. Punitive damages to the extent allowed by law;
3. Costs and pre- and post-judgment interest, as provided by law;
4. Any other legal or equitable relief deemed proper by the court;

C) On the third count for the following relief:

1. Damages caused by Andersen's recklessness;
2. Punitive damages to the extent allowed by law;
3. Costs and pre- and post-judgment interest, as provided by law;
4. Any other legal or equitable relief deemed proper by the court;

D) On the fourth count for the following relief:

1. Damages caused by Andersen's fraud;
2. Punitive damages to the maximum extent allowed by law;
3. Costs and pre- and post-judgment interest, as provided by law;
4. Any other legal or equitable relief deemed proper by the court;

E) On the fifth count for the following relief:

1. Permanently enjoining the defendant from continuing the deceptive and/or unfair acts or practices complained of herein.

2. Ordering the defendant to disgorge all profits and gains achieved in whole or in part through the unfair and/or deceptive acts or practices complained of herein.
3. Ordering the defendant to pay restitution.
4. Awarding the State reasonable attorneys' fees and costs, pursuant to Conn. Gen. Stat. § 42-110m(a).
5. Granting such other and further relief as this Court deems equitable and proper.

F) On the sixth count:

1. Civil penalties in the amount of \$5,000 for each willful violation of Conn. Gen. Stat. § 42-110b pursuant to Conn. Gen. Stat. § 42-110o.
2. Awarding the State reasonable attorneys' fees and costs pursuant to Conn. Gen. Stat. § 42-110m(a).

Dated at Hartford, Connecticut this 16th day of April, 2002.

THE PLAINTIFF
STATE OF CONNECTICUT

By: _____
RICHARD BLUMENTHAL
Attorney General

ARNOLD I. MENCHEL (Juris 85482)
THEODORE M. DOOLITTLE (Juris 419449)
Assistant Attorneys General
55 Elm Street
Hartford, Connecticut 06141
Tel: (860) 808-5355
Fax: (860) 808-5391

STATEMENT OF AMOUNT IN DEMAND

109. The plaintiff claims monetary damages against the defendant in excess of Fifteen Thousand (\$15,000) dollars, together with the costs of this action.

Dated at Hartford, Connecticut this 16th day of April, 2002.

THE PLAINTIFF
STATE OF CONNECTICUT

By: _____
RICHARD BLUMENTHAL
Attorney General

ARNOLD I. MENCHEL (Juris 85482)
THEODORE M. DOOLITTLE (Juris 419449)
Assistant Attorneys General
55 Elm Street
Hartford, Connecticut 06141
Tel: (860) 808-5355
Fax: (860) 808-5391

EXHIBIT A

**Pp. 447-85 of the Consolidated Complaint in In re Enron Corporation Securities
Litigation, Civil Action No. H-01-3624 (S.D. Texas)**

Exhibit B: List of 70 Mid-Connecticut Project Towns

Avon, Town of	Canaan, Town of
Barkhamsted, Town of	Cornwall, Town of
Beacon Falls, Town of	Coventry, Town of
Bethlehem, Town of	Guilford, Town of
Bloomfield, Town of	Hebron, Town of
Bolton, Town of	Madison, Town of
Canton, Town of	Norfolk, Town of
Chester, Town of	North Canaan, Town of
Clinton, Town of	Portland, Town of
Colebrook, Town of	Roxbury, Town of
Cromwell, Town of	Salisbury, Town of
Deep River, Town of	Sharon, Town of
Durham, Town of	Southbury, Town of
East Granby, Town of	South Windsor, Town of
East Hampton, Town of	Suffield, Town of
East Hartford, City of	Thomaston, Town of
East Windsor, Town of	Torrington, Town of
Ellington, Town of	Tolland, Town of
Enfield, Town of	Vernon, Town of
Essex, Town of	Waterbury, City of
Farmington, Town of	Watertown, Town of
Glastonbury, Town of	Westbrook, Town of
Goshen, Town of	Wethersfield, Town of
Granby, Town of	Winchester, Town of
Haddam, Town of	Windsor Locks, Town of