RETURN DATE: DECEMBER 17, 2002	:	SUPERIOR COURT
	:	
CONNECTICUT RESOURCES RECOVERY AUTHORITY, Plaintiff,	:	JUDICIAL DISTRICT OF HARTFORD
	:	
v.	:	AT HARTFORD
	:	
KENNETH L. LAY, JEFFREY K. SKILLING, ANDREW S. FASTOW, RICHARD A. CAUSEY, RICHARD B. BUY, JAMES V. DERRICK, JR., JEFFREY McMAHON, JOSEPH W. SUTTON, LAWRENCE GREG WHALLEY, BEN F. GLISAN, KEN L. HARRISON, ROBERT A. BELFER, NORMAN P. BLAKE, JR., RONNIE C. CHAN, JOHN H. DUNCAN, WENDY L. GRAMM, ROBERT K. JAEDICKE, JOHN MENDELSOHN, JEROME J. MEYER, PAULO V. FERRAZ PEREIRA, JOHN A. URQUHART, JOHN WAKEHAM, CHARLES E. WALKER, CHARLES A. LeMAISTRE, JOE H. FOY, FRANK SAVAGE, BRUCE G. WILLISON, HERBERT S. WINOKUR, JR., REBECCA MARK-JUSBASCHE, ARTHUR ANDERSEN, LLP, JOSEPH F. BERARDINO, DAVID B. DUNCAN, DEBRA A. CASH, DAVID STEPHEN GODDARD, JR., GARY B. GOOLSBY, MICHAEL M. LOWTHER, BENJAMIN S. NEUHAUSEN, MICHAEL C. ODOM, JOHN E. STEWART, (continued)	:	

COMPLAINT

MICHAEL L. BENNETT, WILLIAM E.	:	
SWANSON, ROGER D. WILLARD,	:	
GREGORY W. HALE, JOHN E. SORRELLS,	:	
DANNY D. RUDLOFF, VINSON & ELKINS,	:	
LLP, KIRKLAND & ELLIS, J. P. MORGAN	:	
CHASE & CO., CITIGROUP, INC., MERRILL	:	
LYNCH & CO., BARCLAYS CAPITAL, INC.,	:	
STANDARD & POOR'S RATINGS SERVICES,	:	
MOODY'S CORPORATION, and FITCH, INC.	:	
Defendants.	:	OCTOBER 29, 2002

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I. INTRODUCTION

1. Richard Blumenthal, Attorney General of the State of Connecticut, acting on behalf of the Connecticut Resources Recovery Authority ("CRRA"), brings this action to recover approximately $200 million in public funds that were lost when Enron Corporation, and its subsidiary, Enron Power Marketing, Inc. (collectively, "Enron"), stopped making payments owed to CRRA and filed for protection under the bankruptcy laws on December 2, 2001. This action is against:

(a) Certain of Enron's officers and directors (the "Enron Defendants"):

Kenneth L. Lay
Jeffrey K. Skilling
Andrew S. Fastow
Richard A. Causey
Richard B. Buy
James V. Derrick, Jr.
Jeffrey McMahon
Joseph W. Sutton
Lawrence Greg Whalley
Ben F. Glisan
Ken L. Harrison
Robert A. Belfer
Norman P. Blake, Jr.
Ronnie C. Chan
John H. Duncan
Wendy L. Gramm
Robert K. Jaedicke
John Mendelsohn
Jerome J. Meyer
Paulo V. Ferraz Pereira

John A. Urquhart
John Wakeham
Charles E. Walker
Charles A. LeMaistre
Joe H. Foy
Frank Savage
Bruce G. Willison
Herbert S. Winokur, Jr.
Rebecca Mark-Jusbasche

(b) Enron's accountants (the "Andersen Defendants"):

Arthur Andersen, LLP
Joseph F. Berardino
David B. Duncan
Debra A. Cash
David Stephen Goddard, Jr.
Gary B. Goolsby
Michael M. Lowther
Benjamin S. Neuhausen
Michael C. Odom
John E. Stewart
Michael L. Bennett
William E. Swanson
Roger D. Willard
Gregory W. Hale
John E. Sorrells
Danny D. Rudloff

(c) Enron's lawyers (collectively "Enron's Lawyers"):

Vinson & Elkins, LLP
Kirkland & Ellis

(d) Certain of Enron's banks (collectively "Enron's Bankers"):

J. P. Morgan Chase & Co.
Citigroup, Inc.
Merrill Lynch & Co.
Barclays Capital, Inc.

(e) Enron's credit rating agencies (collectively the "Credit Rating Agencies" or the "Agencies"):

Standard & Poor's Ratings Services
Moody's Corporation
Fitch, Inc.

II. PARTIES

2. Plaintiff, CRRA, is a body politic and corporate, constituting a public instrumentality and political subdivision of the State of Connecticut pursuant to Conn. Gen. Stat. § 22a-257 *et seq.* (the Solid Waste Management Services Act). CRRA maintains an office and principal place of business at 100 Constitution Plaza, 17th Floor, Hartford, Connecticut.

3. Enron was a Houston, Texas-based growth company, incorporated under the laws of the State of Oregon, engaged in the business of providing and trading wholesale energy resources and services, operating power plants and water supply facilities, providing retail energy and management services to companies, providing financial and other deal-making services, and ostensibly building a large broadband fiber optic communication network. Enron is not named as a defendant in this action, having filed for protection under

the bankruptcy laws on December 2, 2001. At the time of its bankruptcy filing Enron was, by certain measures, the seventh largest publicly traded corporation in the United States, reporting over $100 billion in gross revenues annually and employing more than 20,000 employees worldwide. CRRA has filed an adversary complaint against Enron in proceedings before the United States Bankruptcy Court for the Southern District of New York captioned *In Re Enron Corp.*, Case No. 01-16034 (AJG).

4. Defendant Kenneth L. Lay ("Lay") resides at 1400 Smith Street, Houston, Texas 77002. Lay was Chief Executive Officer for Enron from February 1986 until February 2001, and from August 2001 until January 2002. Lay was a Director of Enron from 1985 through December 2001, and a member of the Executive Committee of the Board of Directors from 1995 through December 2001. At all relevant times, Lay was Chairman of the Enron Board of Directors.

5. Defendant Jeffrey K. Skilling ("Skilling") resides at 10 Briarwood Court, Houston, Texas 77019-5802. Skilling was President and Chief Operating Officer of Enron from January 1, 1997 until February 2001. From February 2001 until August 2001 when he resigned, Skilling was Chief Executive Officer of Enron. Skilling was also a Director of Enron from 1997 through December 2001 and a member of the Executive Committee of the Board of Directors from 1998 through December 2001.

6. Defendant Andrew S. Fastow ("Fastow") resides at 1831 Wroxton Road, Houston, Texas 77005-1719. Fastow was Chief Financial Officer of Enron from July 1999 until October 2001, when he was fired. Fastow was indicted in October, 2002 for his role in the Enron scandal detailed in this Complaint.

7. Defendant Richard A. Causey ("Causey") resides at 39 North Regent Oak, Spring, Texas 77381-6442. Causey was Chief Accounting Officer and Executive Vice President of Enron.

8. Defendant James V. Derrick, Jr. ("Derrick") resides at 1824 Larchmont Road, Houston, Texas 77019. Derrick served as Senior Vice President and General Counsel of Enron from June 1991 to July 1999. From July 1999 through December 1999, Derrick was Executive Vice President of Enron.

9. Defendant Richard B. Buy ("Buy") resides at 246 South Post Oak Lane, Houston, Texas 77056-1056. Buy was Chief Risk Officer of Enron from March 1999 until February 2001, when he was fired. Buy was Senior Vice President of Enron from March 1999 to July 1999 and Executive Vice President of Enron from July 1999 to February 2001. Buy was a member of the Board of Directors from 1998 through December 2001.

10. Defendant Jeffrey McMahon ("McMahon") resides at 5123 Braeburn Drive, Bellaire, Texas 77401. McMahon was Treasurer of Enron from July 1998 to March 2000.

McMahon was Senior Vice President, Finance and Treasurer from July 1998 to July 1999 and Executive Vice President, Finance from July 1999 to June 2002. McMahon was Chief Financial Officer of Enron Europe from 1994 to July 1998.

11. Defendant Joseph W. Sutton ("Sutton") resides at 107 Lake Estates Drive, Montgomery, Texas 77356. Sutton was Vice Chairman of Enron from July 1999 to November 2000.

12. Defendant Lawrence Greg Whalley ("Whalley") resides at 11110 Claymore Road, Houston, Texas 77024. Whalley was President and Chief Operating Officer of Enron from January 2000 to January 2002.

13. Ben F. Glisan ("Glisan") resides at 15322 Baybrook Drive, Houston, Texas 77062-3408. Glisan was Managing Director and Treasurer of Enron from May 2000, and upon information and belief was terminated in October 2000.

14. Defendant Frank Savage ("Savage") resides at 87 Ridgecrest Road, Stamford, Connecticut 06903-3120. Savage was a Director of Enron and a member of the Finance Committee of the Board of Directors from 2000 through December 2001.

15. Defendant Rebecca P. Mark-Jusbasche ("Mark-Jusbasche") resides at 4016 Inverness Drive, Houston, Texas 77019. Mark-Jusbasche was a senior executive of Enron and a Director of Enron during 2000.

16. Defendant Ken L. Harrison ("Harrison") resides at 580 E. 3225 N. Ogden, Utah 84414. Harrison was a member of the Enron Management Committee, a Vice-Chairman of Enron, and a Director of Enron from 1997 through 2000.

17. Defendant Robert A. Belfer ("Belfer") resides at 767 5th Avenue, Apartment 46, New York, New York 10153. Belfer was a Director of Enron from 1983 through 2001, a member of the Executive Committee of the Board of Directors from 1995 through 2001, and a member of the Finance Committee from 1997 through 2001.

18. Defendant Norman P. Blake, Jr. ("Blake") resides at 4925 Longwood Point, Colorado Springs, Colorado 80906. Blake was a Director of Enron from 1993 through 2001, a member of the Audit Committee of the Board of Directors from 1995 through 1996, and a member of the Finance Committee from 1995 through 2001.

19. Defendant Ronnie C. Chan ("Chan"), upon information and belief, resides in Hong Kong. Chan was a Director of Enron from 1996 through 2001, and a member of the Audit and Finance Committees of the Board of Directors from 1997 through 2001.

20. Defendant John H. Duncan ("John Duncan") resides at 16902 Point Rock, Friendship, Texas 75790. John Duncan was a Director of Enron from 1985 through 2001, and chair of the Executive Committee of the Board of Directors from 1995 through 2001.

21. Defendant Wendy L. Gramm ("Gramm") resides at 1402 Post Oak Circle, College Station, Texas 77840. Gramm was a Director of Enron from 1993 through 2001, and a member of the Audit Committee of the Board of Directors from 1995 through 2001.

22. Defendant Robert K. Jaedicke ("Jaedicke") resides at 8799 Cottonwood Road, Bozeman, Montana 59718. Jaedicke was a Director of Enron from 1985 through 2001, chair of the Audit Committee of the Board of Directors from 1995 through 2001, and a member of the Finance Committee from 1995 through 1996.

23. Defendant Charles A. LeMaistre ("LeMaistre") resides at 7 Bristol Green, San Antonio, Texas 78209-18460. LeMaistre was a Director of Enron from 1985 through 2001, and a member of the Executive Committee from 1995 through 2001.

24. Defendant Joe H. Foy ("Foy") resides at 404 Highridge Drive, Kerrville, Texas 78028-6048. Foy was a Director of Enron from 1985 through 2000, a member of the Executive Committee of the Board of Directors from 1995 through 2000, and a member of the Audit Committee from 1997 through 2000.

25. Defendant John Mendelsohn ("Mendelsohn") resides at 1412 South Boulevard, Houston, Texas 77006-6333. Mendelsohn was a Director of Enron from 1999 through 2001, and a member of the Audit Committee of the Board of Directors from 2000 through 2001.

26. Defendant Jerome J. Meyer ("Meyer") resides at 1199 Hillsboro Mile, Pompano Beach, Florida 33062. Meyer was a Director of Enron from 1998 through 2001, and a member of the Finance Committee of the Board of Directors from 1998 through 2001.

27. Defendant Paulo V. Ferraz Pereira ("Pereira"), upon information and belief, resides in Rio de Janiero, Brazil. Pereira was a Director of Enron from 2000 through 2001, and a member of the Audit and Finance Committees from 2000 through 2001.

28. Defendant John A. Urquhart ("Urquhart") resides at 1127 Sasco Hill Ctg. Rd. B, Fairfield, Connecticut 06430. Urquhart was a Director of Enron from 1990 through 2001, and a member of the Finance Committee of the Board of Directors from 1995 through 2001.

29. Defendant Charles E. Walker ("Walker") resides at 10120 Chapel Road, Potomac, Maryland 20854-4143. Walker was a Director of Enron from 1985 through 2000, and a member of the Finance Committee of the Board of Directors from 1995 through 1999.

30. Defendant Bruce G. Willison ("Willison") resides at 162 South Burlingame Avenue, Los Angeles, California 90049-2642. Willison was a Director of Enron from 1998

through 2001, and a member of the Audit and Finance Committees of the Board of Directors from 1998 through 2001.

31. Defendant John Wakeham ("Wakeham"), upon information and belief, resides in Hampshire, England. Wakeham was a Director of Enron from 1994 through 2001, and a member of the Audit Committee of the Board of Directors from 1995 through 2001.

32. Defendant Herbert S. Winokur, Jr. ("Winokur") resides at 341 North Street, Greenwich, Connecticut 06830. Winokur was a Director of Enron from 1985 through 2001, a member of the Executive Committee of the Board of Directors from 1995 through 2001, and chair of the Finance Committee from 1995 through 2001.

33. The Enron Defendants each derived substantial revenue from interstate and international commerce, including from business within the State of Connecticut. In addition, the Enron Defendants reasonably expected, or should have expected, that their acts and omissions would have consequences within the State of Connecticut or, at a minimum, outside of the State of Texas.

34. Defendant Arthur Andersen L.L.P. ("Andersen") was a worldwide so-called "Big Five" accounting and consulting firm with headquarters in Chicago, Illinois. Andersen maintained offices and conducted business in Connecticut, employing

approximately 300 persons in its Hartford, Connecticut office. One or more individual Andersen partners resided in Connecticut. At all times material hereto, Andersen was engaged by Enron to provide "independent" auditing, accounting, and management consulting services, tax services, examination and review of filings with the SEC, audits and/or reviews of financial statements that were included in Enron's SEC filings, including audited and unaudited information, and other such services.

35. Defendant Joseph F. Berardino ("Berardino") resides at 4 Avon Lane, Greenwich, Connecticut 06830. Berardino was the Chief Executive Officer and Managing Partner of Andersen Worldwide until his resignation on March 26, 2002. At all times material hereto Berardino had contact with senior level partners on the Enron engagement, including Defendant David B. Duncan. Berardino was also involved in the removal of Andersen partner Carl Bass from the Enron engagement at the request of Enron, when Bass challenged Enron's financial disclosures and the accounting and auditing procedures employed by the Andersen Defendants on the Enron auditing and consulting engagement. Berardino was aware of, and participated in, the creation of Enron special purpose entities as well as the review and approval of Enron's off-balance sheet transactions that are the subject of this Complaint.

36. Defendant David B. Duncan ("Duncan") resides at 19011 Wickwild Street, Houston, Texas 77024-7615. Duncan was the lead Andersen partner on the Enron engagement.

37. Defendant Debra A. Cash ("Cash") resides at 2906 Forest Garden Drive, Apartment D, Humble, Texas 77345-1409. Cash was an Andersen partner, head of the energy unit in the Houston office, and a member of the Enron audit and consulting engagement.

38. Defendant David Stephen Goddard, Jr. ("Goddard") resides at 5 Lazy Wood Lane, Houston, Texas 77024-7542. Goddard was the managing partner for Andersen's Houston office, and a member of the Enron audit and consulting engagement.

39. Defendant Gary B. Goolsby ("Goolsby") resides at 1602 Kings Castle Drive, Katy, Texas 77450-4300. Goolsby was an Andersen partner and a member of the Enron audit and consulting engagement.

40. Defendant Michael M. Lowther ("Lowther") resides at 19122 Foxtree Lane, Houston, Texas 77094. Lowther was an Andersen partner, a concurring partner on the Enron audit, and a member of the Enron audit and consulting engagement.

41. Defendant Benjamin S. Neuhausen ("Neuhausen") resides at 2111 Tennyson Lane X13E, Highland Park, Illinois 60035-1637. Neuhausen was an Andersen partner and a member of the Enron audit and consulting engagement.

42. Defendant Michael C. Odom ("Odom") resides at 1945 W. Bell Street, Houston, Texas 77019-4817. Odom was an Andersen partner and a member of the Enron audit and consulting engagement. Odom was also involved in the removal of Andersen partner Carl Bass from the Enron engagement at the request of Enron, when Bass challenged Enron's financial disclosures and the accounting and auditing procedures employed by the Andersen Defendants on the Enron audit and consulting engagement.

43. Defendant John E. Stewart ("Stewart") resides at 1560 N. Sandburg Terrace, Apt. 2702, Chicago, Illinois 60610. Stewart was an Andersen partner and a member of the Enron audit and consulting engagement.

44. Defendant Michael L. Bennett ("Bennett") resides at 711 Louisiana Street, #1300, Houston, Texas 77002-2716. Bennett was an Andersen partner and a member of the Enron audit and consulting engagement.

45. Defendant William E. Swanson ("Swanson") resides at 2701 Cason Street, Houston, Texas 77005. Swanson was an Andersen partner and a member of the Enron audit and consulting engagement.

46. Defendant Roger D. Willard ("Willard") resides at 3723 Maroneal Street, Houston, Texas 77025. Willard was an Andersen partner and a member of the Enron audit and consulting engagement.

47. Defendant Gregory W. Hale ("Hale") resides at 15332 Dawnbrook Drive, Houston, Texas 77068. Hale was an Andersen partner and a member of the Enron audit and consulting engagement.

48. Defendant John E. Sorrells ("Sorrells") resides at 703 Langwood, Houston, Texas 77079. Sorrells was an Andersen partner and a member of the Enron audit and consulting engagement.

49. Defendant Danny D. Rudloff ("Rudloff") resides at 13526 Raven Hill, Cypress, Texas 77429. Rudloff was an Andersen partner and a member of the Enron audit and consulting engagement.

50. The Andersen Defendants each derived substantial revenue from interstate and international commerce, including from business within the State of Connecticut. Indeed, Arthur Andersen LLP maintained offices in Hartford and Stamford, Connecticut. In addition, the Andersen Defendants reasonably expected, or should have expected, that their acts and omissions would have consequences within the State of Connecticut.

51. Defendant Vinson & Elkins LLP ("Vinson & Elkins") is a limited liability partnership organized under the laws of the State of Texas. Vinson & Elkins has its main office and principal place of business at 2300 First City Tower, 1001 Fannin, Houston, Texas. At all times material hereto, Vinson & Elkins was Enron's outside general counsel and tax counsel.

52. Vinson & Elkins derives substantial revenue from interstate and international commerce, including from business within the State of Connecticut. In addition, Vinson & Elkins reasonably expected, or should have expected, that its acts and omissions would have consequences within the State of Connecticut.

53. Defendant Kirkland & Ellis ("Kirkland & Ellis") is a general partnership having its main office and principal place of business at 200 East Randolph Drive, Chicago, Illinois and an office at Citigroup Center, 153 East 53rd Street, New York, New York. At all relevant times Kirkland & Ellis was outside general counsel to various partnerships and special purpose entities established by Kirkland & Ellis at the direction of Enron.

54. Kirkland & Ellis derives substantial revenue from interstate and international commerce, including from business within the State of Connecticut. Moreover, upon information and belief, at least two (2) individual partners of Kirkland & Ellis reside in

Connecticut. In addition, Kirkland & Ellis reasonably expected, or should have expected, that its acts and omissions would have consequences within the State of Connecticut.

55. Defendant J. P. Morgan Chase & Co. ("J. P. Morgan") is a financial services institution providing commercial and investment banking services, commercial loans and advisory services to clients in Connecticut and throughout the world. J. P. Morgan is incorporated under the laws of the state of Delaware, and maintains an office and principal place of business at 270 Park Avenue, 39th Floor, New York, New York 10017-2014. J. P. Morgan regularly transacts business in the State of Connecticut and derives substantial revenue from business within the State of Connecticut.

56. Defendant Citigroup, Inc. ("Citigroup") is a financial services institution providing commercial and investment banking services, commercial loans and advisory services to clients in Connecticut and throughout the world. Citigroup is incorporated under the laws of the state of Delaware, and maintains an office and principal place of business at 153 East 53rd Street, New York, New York 10043-0001. Citigroup regularly transacts business in the State of Connecticut and derives substantial revenue from business within the State of Connecticut.

57. Defendant Merrill Lynch & Co. ("Merrill Lynch") is a financial services institution providing commercial and investment banking services, commercial loans and

advisory services to clients in Connecticut and throughout the world. Merrill Lynch is incorporated under the laws of the state of Delaware, and maintains an office and principal place of business at 250 Vesey Street, New York, New York 10281. Merrill Lynch regularly transacts business in the State of Connecticut and derives substantial revenue from business within the State of Connecticut.

58. Defendant Barclays Capital, Inc. ("Barclays") is a financial services institution providing commercial and investment banking services, commercial loans and advisory services to clients in Connecticut and throughout the world. Barclays is incorporated under the laws of the state of New York, and maintains an office and principal place of business at 222 Broadway, New York 10038. Barclays regularly transacts business in the State of Connecticut and derives substantial revenue from business within the State of Connecticut.

59. Defendant Standard & Poor's Corp. ("S & P") is a major United States securities rating agency. S & P is in the business of collecting and analyzing information on securities issuers, and issuing opinions as to the credit worthiness of different types of securities. S & P transforms these opinions into ratings that are published and distributed to paying subscribers and users in Connecticut and elsewhere. S & P is incorporated under the laws of the state of New York, and maintains an office and principal place of business at 55

Water Street, Floor 47, New York, New York 10041-0004. S & P regularly transacts business in the State of Connecticut and derives substantial revenue from business within the State of Connecticut.

60. Defendant Moody's Corporation ("Moody's") is a major United States securities rating agency. Moody's is in the business of collecting and analyzing information on securities issuers, and issuing opinions as to the credit worthiness of different types of securities. Moody's transforms these opinions into ratings that are published and distributed to paying subscribers and users in Connecticut and elsewhere. Moody's is incorporated under the laws of the state of Delaware, and maintains an office and principal place of business at 99 Church Street, New York, New York 10007-2707. Moody's regularly transacts business in the State of Connecticut and derives substantial revenue from business within the State of Connecticut.

61. Fitch, Inc. ("Fitch") is a major United States securities rating agency. Fitch is in the business of collecting and analyzing information on securities issuers, and issuing opinions as to the credit worthiness of different types of securities. Fitch transforms these opinions into ratings that are published and distributed to paying subscribers and users in Connecticut and elsewhere. Fitch is incorporated under the laws of the state of Delaware, and maintains an office and principal place of business at 1 State Street Plaza, New York,

New York 10004-1505. Fitch regularly transacts business in the State of Connecticut and derives substantial revenue from business within the State of Connecticut.

III. STRUCTURE AND PURPOSE OF CRRA

62. Established in 1973 by the Connecticut legislature, CRRA is a quasi-public state agency, created with limited powers specified by statute, to undertake the planning, design, construction, financing, management, ownership, operation and maintenance of solid waste disposal in the state of Connecticut.

63. CRRA was formed to serve Connecticut municipalities in managing, recycling and disposing of solid waste. Most of Connecticut's 169 towns have voluntarily signed exclusive solid waste management services contracts with CRRA. Under these contracts, the towns are obligated to pay CRRA's operating expenses, and provide minimum annual tonnages of waste and recyclables to CRRA. CRRA runs several plants that burn solid waste and use the resulting waste heat to generate steam or electricity. Revenues from the sale of steam or electricity are used to defray the per-ton garbage hauling fees ("tipping fees") that CRRA charges its towns.

64. CRRA is authorized by statute, Conn. Gen. Stat. § 22a-269, to issue state tax-exempt bonds to construct, operate and maintain the Projects, including the Mid-

Connecticut Project. These bonds are secured by the contracts that CRRA has entered into with its member towns, as well as certain other assets owned by CRRA.

65. Using funds derived from the issuance of bonds, CRRA has created several "trash-to-energy" plants where trash collected from member towns is burned to create steam. CRRA's operating expenses with respect to a particular project, as well as the principal and interest payments due on CRRA's bonds, are paid out of: (a) the proceeds from the sale of CRRA's electric or steam energy under certain energy purchase agreements; and (b) the per-ton trash tipping fees that are charged to the towns under contracts entered into between CRRA and each individual town.

66. Before the energy deregulation law was passed in Connecticut, CRRA, as part of its Mid-Connecticut Project, owned a trash burning plant that generated steam at South Meadow in Hartford, Connecticut. The steam was provided to an adjacent electric generating facility owned and operated by the Connecticut Light & Power Company ("CL&P"), where it was converted to electricity. In 1985, CL&P and CRRA entered into a long-term energy purchase agreement (the "1985 EPA") with a term running to May 2012, for the production and sale of steam from the Mid-Connecticut Project. The 1985 EPA required that: (a) CRRA sell the steam produced by the Mid-Connecticut Project to CL&P, and CL&P convert the steam to electricity; and (b) CL&P pay CRRA for the steam at a rate

equivalent to 8.5 cents per kilowatt-hour of electricity produced. At all times pertinent to this Complaint, 8.5 cents per kilowatt-hour was an above-market price compared to the prevailing New England regional wholesale electricity market price.

IV. ENERGY DEREGULATION

67. In 1998, the Connecticut General Assembly passed an energy deregulation law, P.A. 98-28 (the "Deregulation Act"). Under this law, regulated electric companies (utilities), such as CL&P, that had previously owned and operated electric generation, transmission, and distribution plants were required to focus on distribution and transmission rather than the generation of power. As a result, CL&P was encouraged by the legislature to divest itself of power generation facilities, and to make good faith efforts to divest itself of contracts to purchase power, including the above-market 1985 EPA, through buyouts, buydowns, or other restructuring of contractual obligations.

68. As contemplated by the Deregulation Act, the buy-down of an above-market power purchase contract would entail an up-front lump-sum payment by CL&P to the energy supplier such as CRRA to compensate the supplier for the above-market value of the energy purchase agreement that it was losing.

69. In order to facilitate CL&P's buy-downs and to cover the associated cost to CL&P, the Deregulation Act provided for the issuance of state-tax exempt Rate Reduction

Bonds to supply the capital needed by CL&P to accomplish the buy-downs. The Rate Reduction Bonds were issued by CL&P Funding LLC, an entity established by CL&P for this purpose, and were funded by a line item charge on the monthly bills of all CL&P electric customers.

70. The Connecticut Department of Public Utility Control ("DPUC") approved an issue of more than $1.4 billion in Rate Reduction Bonds for use by CL&P in buying down over a dozen above-market power purchase obligations in Connecticut. Approximately $290 million of this amount was earmarked to buy down the 1985 EPA. (The $290 million amount was decreased to approximately $280 million because of a delay in the transaction closing date.)

V. THE ENRON TRANSACTION

71. On or about March 31, 1999, CRRA and CL&P entered into a memorandum of understanding (MOU) preliminarily establishing the elements of the buy-down transactions finally entered into, subject to the execution of final contracts. To satisfy its obligations under the 1985 EPA and complete the buy-down, the MOU contemplated that CL&P would pay approximately $280 million to CRRA to end CL&P's obligation to buy steam from CRRA at the above-market rate of 8.5 cents/kilowatt-hour until 2012.

72. In 2000, before CRRA and CL&P finalized the definitive agreements contemplated by the MOU, Enron became involved in the transaction. As a result, the 1985 EPA between CRRA and CL&P was replaced with a three-way package of transactions involving CRRA, Enron, and CL&P (the "Enron Transaction"). Enron was to have no substantive role in this transaction of benefit to CRRA other than to repay a loan and make the deal look like an energy transaction rather than a loan. From Enron's standpoint, however, it would receive a substantial cash infusion, which it could then show on its financial statements. These agreements were dated as of December 22, 2000, and were executed on December 28, 2000. While the five main contracts embodying the key elements of the Enron Transaction covered 169 pages, the main effect of the CRRA-Enron part of the deal was a loan of $220 million by CRRA to Enron, and a promise by Enron to make fixed monthly payments to CRRA of $2.375 million per month until May 2012.

73. CRRA did not procure any collateral, surety bond, or other risk-management instrument to secure the transaction with Enron, other than a contractual guarantee by the Enron parent corporation of these payment obligations.

74. Enron had no operational responsibilities related to the production or delivery of power to CL&P. Enron made no profit on its ostensible purchase and resale of the power from CRRA to CL&P, had no physical control or custody of the power, and

assumed no risk related to the production of the power by CRRA or its delivery to CL&P. Enron's only obligation was to repay CRRA the $220 million over more than 11 years at an effective interest rate of approximately seven (7%) percent.

75. CRRA instructed CL&P to pay $220 million directly to Enron, rather than pay this money directly to CRRA. For its part, Enron agreed to make two separate monthly payments for over 11 years to CRRA. One of these monthly payments was for $2.2 million, and the other monthly payment was for $175,000, for a total monthly payment from Enron to CRRA of $2.375 million.

76. Enron began making its monthly payments to CRRA under the Enron Transaction in April 2001. These payments continued until Enron Corporation and Enron Power Marketing, Inc. ("EPMI") filed for protection under the bankruptcy laws on December 2, 2001, when more than 11 years of payments remained outstanding under the agreements composing the Enron Transaction. No further payments have been made.

VI. THE ENRON FRAUD

77. The Enron Transaction, as originally negotiated, was scheduled to close on or before the end of December, 2000. When the Enron Transaction failed to close by the originally scheduled date, EPMI purchased a two-month hedge on the transaction to protect EPMI from any decline in interest rates through the end of February, 2001. Thereafter,

when it appeared that the closing would be further delayed, EPMI demanded that CRRA, at CRRA's expense, purchase an additional one month extension to EPMI's hedge transaction at a cost to CRRA of $750,000, without which EPMI would withdraw from the transaction.

78. As described further below, in order to coerce and induce CRRA to make this $750,000 payment and thereafter to fund the $220 million loan to EPMI, Enron officers and employees who were engaged in the negotiation process with CRRA not only threatened in February 2001 to withdraw EPMI from the transaction, but falsely stated that Enron was undertaking a disproportionate risk in the transaction in light of its superior credit rating, borrowing capacity, financial success and long-term stability. Enron's officers and employees further supported their false statements by reference to Enron's then recent fraudulent public filings and artificially inflated credit ratings, which were among the factors upon which these officers and employees knew CRRA relied in determining whether to consummate the Enron Transaction.

79. In reliance upon these false representations by Enron, CRRA bowed to Enron's threats and paid an additional $750,000 to EPMI or for EPMI's benefit.

80. Thereafter, on March 30, 2001, in further reliance upon the false representations by Enron, CRRA caused $220,179,887.00 to be delivered by wire transfer (the "Wire Transfer") from CL&P to EPMI's bank account at Bank of America – Global

Finance, Dallas, Texas, Account No. 375-046-9312. The Wire Transfer was made to EPMI pursuant to the terms of the agreements composing the Enron Transaction.

81. In particular, CRRA relied upon: (i) falsely inflated credit ratings derived from false representations made by Enron in its 10-K, 10-Q and other public Securities and Exchange Commission ("SEC") filings which reflected false financial statements for the period from January 1, 1996 through the first quarter of 2001 (the "Relevant Period"); (ii) false financial statements and SEC filings made by Enron during the Relevant Period; (iii) false representations made by Enron representatives throughout the Relevant Period in press releases and other publications concerning, among other things, Enron's operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity; and (iv) false statements about Enron's profitability, operations, debt and borrowing capacity made by two Enron representatives directly to the President of CRRA to induce CRRA to enter into the Enron Transaction, which false statements were made throughout the period of CRRA's negotiations with Enron and which ended with the consummation of the Enron Transaction.

82. The Enron Defendants knew or should have known: (i) that these representations to the business community and investing public, as well as to CRRA directly, made in the several years prior to and throughout the period of Enron's

negotiations with CRRA, were false when made; (ii) that Enron's favorable credit and bond ratings were based upon falsely inflated financial reports, false and misleading public statements and otherwise concealed fraudulent transactions spanning several years prior to and including the period of its negotiations with CRRA; (iii) that these false representations would induce CRRA to enter the Enron Transaction; and (iv) that these same false representations would be relied upon by CRRA in connection with CRRA's decision to execute and fund the Enron Transaction to the extent of $220 million.

83. Shortly after CRRA funded the Enron Transaction, Enron's financial frauds began to come to light as evidenced by: (i) the sudden resignation of Jeffrey Skilling, Enron's Chief Operating Officer; (ii) the posting in October 2001 by Enron of a surprise third quarter loss and the announcement of investment and asset write-downs of $1.2 billion; (iii) disclosure of SEC probes of Enron's extensive related party transactions, which had been concealed from the public; (iv) Enron's restatement in November 2001 of its financial statements for the prior three years and the first three quarters of the current year; and (v) the filing in December 2001 by the Enron estates of their petitions for relief in the Bankruptcy Court for the Southern District of New York.

84. During the Relevant Period, including without limitation the period of negotiations with CRRA which culminated in the execution of the agreements composing

the Enron Transaction and CRRA's payment of $220 million to Enron, Enron made false and misleading statements and participated in a scheme to defraud, and a course of business that operated as a fraud or deceit on the business community, including CRRA. Enron consistently and intentionally painted a false picture of its profitability and liquidity, overstating its revenues and concealing billions of dollars in debt.

85. During this period, Enron reported strong profits and profit growth and a strong balance sheet which enabled it to maintain an investment grade credit rating on which CRRA relied, among other factors, in entering into the Enron Transaction.

86. Enron's fraud was accomplished, in part, through clandestinely controlled partnerships and so-called special purpose entities ("SPEs") that Enron created, structured, financed and used to do transactions with itself, to inflate its profits and hide its debt and, thus, perpetrate the fraud by violating Generally Accepted Accounting Principles ("GAAP"), Generally Accepted Auditing Standards ("GAAS"), and principles of "fair presentation" of financial results.

87. During the Relevant Period Enron incorporated into its SEC filings financial statements which falsely reported or completely concealed numerous fraudulent transactions and a pattern of improper accounting. Enron understated its total debt by billions of dollars; overstated its earnings by hundreds of millions of dollars; distorted its

debt-to-equity ratio; misrepresented shareholder equity and failed to consolidate SPEs and partnerships that were controlled by Enron, lacked sufficient outside equity investors, or otherwise were shams.

88. Through its financial statements, SEC filings, credit ratings, press releases, and other publications and disclosures, Enron intentionally and knowingly falsely represented to the financial community and the world at large that it was financially strong. Enron continued to make these false representations throughout 2000, while negotiating the Enron Transaction with CRRA, and up to and through the execution, delivery and funding of the Enron Transaction.

89. The Enron fraud stemmed from Enron's illegitimate financial statement goals of hiding debt and inflating earnings. To do this Enron employed a number of strategies including, but not limited to, the following:

a. the use of so-called "prepays" in which Enron was paid a large sum of cash in advance to deliver natural gas or other energy products over a period of years;

b. the use of "hedges" to reduce the risk of long-term energy delivery contracts;

c. pooling energy contracts and securitizing them through bonds or other financial instruments sold to investors;

d. the use of disguised loans to inflate earnings rather than show debt; and

e. shedding, or increasing immediate returns on, the company's capitol intensive energy projects like power plants that had traditionally been associated with low returns and persistent debt on the company's books; known as Enron's "asset light" strategy.

90. Enron's strategy for shedding an asset typically took one of the following two (2) forms:

a. an outright sale of the entire asset; or

b. so-called "syndication" or "monetization" of the assets through the sale of interests to investors, with Enron recording the income as earnings.

91. Enron's various strategies, however, encountered one significant problem inasmuch as Enron had great difficulty finding legitimate counterparties willing to invest in Enron's underperforming assets or share significant risks associated with long-term energy production facilities and delivery contracts.

92. To address this problem Enron, through active participation of the Enron Defendants and/or with the knowing approval of the Enron Defendants, devised a plan to sell or syndicate Enron assets, not to independent third parties, but to "unconsolidated affiliates" such as Whitewing, LJM, JEDI, Hawaii 125-0 Trust and others that were not included in Enron's financial statements, but were so closely associated with, controlled by, and financed by Enron, that Enron considered their assets to be part of Enron's own

holdings. Nonetheless, Enron intentionally and fraudulently failed to consolidate these entities on its financial statements and reports, failed to accurately report the nature of the transactions it did with these entities, and concealed from the business community and investing public the precarious financial picture that honest accounting would have clearly revealed.

A. <u>Improper Recognition of Revenue From The Chewco Investments</u>

93. In December, 1997, Enron began to recognize revenue arising from investments in Chewco, an SPE controlled by Enron. The financial results of Chewco were required to be consolidated with those of Enron, but were not. Enron improperly recognized as income a $10 million "guarantee fee," and improperly recognized $25.7 million in income in March, 1998 with respect to Chewco. The foregoing revenues were derived from a partnership called Joint Energy Development Investment Limited Partnership ("JEDI"), in which Chewco was a limited partner. Enron, through the first quarter of 2000, improperly recorded $126 million in revenue from the appreciation of its own stock held by JEDI.

94. Enron failed to record losses from debt attributed to Chewco in the amounts of: $45 million for 1997; $107 million for 1998; $153 million for 1999; and $91 million for

2000. Enron also failed to record debt related to Chewco in the amounts of $711 million in 1997; $561 million in 1998; $685 million in 1999 and $628 million in 2000.

B. Fraudulent Transactions With The LJM Partnership

95. Enron conducted 24 business transactions with LJM Cayman LP ("LJM1") and LJM2 Co-Investment LP ("LJM2"), two investment limited partnerships formed in 1999 and controlled by Enron. The financial results from these transactions were required to be consolidated with Enron, but were not. These entities generated supposed "earnings" for Enron of $229 million in the second half of 1999 out of total earnings for that period of $549 million.

96. However, by failing to properly consolidate these results, Enron overstated earnings by $95 million in 1999 and $8 million in 2000 on Enron's financial statements. The failure to consolidate also caused Enron to improperly report $222 million in assets, which it was not entitled to report in 1999. Enron improperly recorded an additional $1 billion in income from LJM2.

97. Further, Enron, through LJM1, effected an invalid hedge on its investment in "Rhythms NetConnections" stock ("Rhythms"). The hedge, which permitted Enron to improperly report gains and losses on its income statement with respect to Rhythms, was not a true economic hedge because it depended on the value of Enron stock, which had

been used to capitalize a company called Swap Sub., the entity that provided the hedging transaction. These transactions occurred in 1999 and in the year 2000.

98. Enron improperly recognized $34 million of mark-to-market income in the third quarter of 1999 and $31 million of mark-to-market income in the fourth quarter of 1999 with respect to the sale by Enron to LJM1 of Enron's 13% stake in Cuiaba, a company building a power plant in Cuiaba, Brazil. In this transaction Enron had agreed to make LJM1 whole for its investment but did not. Enron was required by applicable accounting rules to consolidate LJM1's interest in Cuiaba, but did not. Accounting rules also prohibited Enron from recognizing any mark-to-market gains in this transaction, but it did.

99. In 1999 Enron sold tranches of notes called collateralized loan obligations ("CLOs"), to Whitewing Associates, LP ("Whitewing") and LJM2. LJM2 paid $32.5 million for its interests in the CLOs and Whitewing loaned LJM2 $38.5 million. Whitewing investors were assured by Enron that they would be made whole on the transaction. There was no economic substance to LJM2's investments in the loans, however, and therefore Enron should not have recorded the sale of the loans as income in 1999, but it did.

100. In December, 1999, Enron sold LJM2 a 75% interest in Nowa Sarzyna, a power plant under construction in Poland. LJM2 paid $30 million to Enron in the form of a

loan plus equity and Enron recognized a gain of $16 million on the transaction. The sale, however, was only intended to be temporary since Enron was required to hold at least 47.5% of the equity in the project until completion. Enron bought out LJM2's interest on March 29, 2000 for $31.9 million. Since LJM2 was only a temporary holder of the asset, Enron was not permitted to recognize income on this transaction, but it did.

101. On December 29, 1999, in order to avoid reporting an impaired asset in its year-end financials, Enron sold LJM2 a 90% equity interest in MEGS LLC, the owner of a natural gas system in the Gulf of Mexico. Enron made the sale after attempting, without success, to sell the interest to an independent third party. On March 6, 2000 Enron repurchased LJM2's interest in MEGS, LLC. Enron's Treasurer noted, in connection with the buy back transaction, that the transaction made no economic sense. This transaction was a sham, designed to avoid disclosure of an impaired asset that Enron should have disclosed, but did not.

102. In order to avoid reporting in its year end financial statements its one-half interest in "Yosemite," a certificate of trust that Enron had purchased in November, 1999 for $37.5 million, Enron structured a "sale" of Yosemite to LJM2 on December 29, 1999. LJM2 intended to sell Yosemite to Condor, another SPE, within a week. The actual

transaction, however, occurred on February 28, 2000. The transaction was a sham to allow Enron to avoid reporting its interest in Yosemite in its year-end financial statements.

103. Enron improperly recognized $54 million in income from the sale of inactivated "dark" fiber owned by Backbone, a telecommunications entity. Unable to find a legitimate buyer and with the quarter-end approaching, EBS Content Systems LLC ("EBS"), an Enron partnership formed in connection with Enron's deal with Blockbuster, sold the fiber to LJM2.

104. On October 16, 2001, Enron announced that it was taking a $544 million after-tax charge against earnings related to transactions with LJM2. Enron also announced a reduction of shareholders' equity of $1.2 billion related to transactions with LJM2. Less than one month later Enron announced that it was restating its financial statements for the period 1997 through 2001 due to accounting irregularities relating to transactions with LJM1 and Chewco Investments, L.P.

105. The LJM1 and Chewco-related restatement reduced Enron's reported net income by $28 million in 1997, $133 million in 1998, $248 million in 1999, and $99 million in 2000. The restatement increased reported debt by $711 million in 1997, $561 million in 1998, $685 million in 1999, and $628 million in 2000. The effect on reported

shareholders' equity was to reduce it by $258 million in 1997, $391 million in 1998, $710 million in 1999, and $754 million in 2000.

C. <u>Fraudulent Transactions Involving The Raptors</u>

106. Another series of transactions involving four SPEs known as the Raptors contributed to Enron's misstatement of its financial position. The purpose of the Raptors was to create the illusion that hedges had been created to offset declines in Enron's merchant investments. However these "hedges" were shams.

107. Raptor I was used by Enron to improperly lock in gains from Enron's ownership of Avici Systems stock. A "hedge" was set up with Talon LLC, which received a $50 million promissory note and restricted stock of Enron. Enron received a note from Talon with an initial principal amount of $400 million, and bought a put option from Talon for $41 million. On August 3, 2000, Talon returned $4 million of the $41 million to Enron. Talon then entered into a hedging transaction with Enron. All of the documents were backdated to August 13, 2000. By dating the swap as of August 13, 2000, Enron avoided recognizing losses of nearly $75 million on its third quarter 2000 financial statements. When the amounts owed by Talon under the "hedge" increased and Talon became unable to pay Enron the amount owed, Enron created a "costless collar" limiting the risks and

rewards to Talon in order to avoid reporting as loss. Even so, the value of Enron's investment was rapidly declining, so Talon's credit capacity was still in jeopardy.

108. In a series of transactions known as Raptor II and Raptor IV, Enron paid two SPEs, “Timberwolf” and “Bobcat,” $41 million each for put options and the proceeds were distributed to LJM2. After the distributions were made, Timberwolf and Bobcat engaged in derivative transactions with Enron as hedges. However, Enron created "costless collars" on Enron stock contracts which had been entered into to provide a specified number of Enron shares for Timberwolf and Bobcat. The purpose of the collars was to provide credit capacity support to Timberwolf and Bobcat but as in the case of Raptor I, the collar was inconsistent with the premise on which the stock contracts had been discounted when they were originally transferred to Timberwolf and Bobcat.

109. In a series of transactions known as Raptor III, Enron improperly recorded a gain of $370 million in the fourth quarter of 2000. This time, the hedging entity, "Porcupine", did not hold Enron's stock but rather stock of The New Power Company ("New Power"). If New Power's value decreased, Porcupine's obligation to Enron would increase, but its ability to pay Enron would decrease. Enron sold a portion of its holding to an SPE called "Hawaii 125-0", then entered into swaps under which Enron retained most of the risks and rewards of the holding it sold. After the IPO of New Power, its stock value

dropped. Enron had owned 78% of New Power at the time of the IPO with a zero basis and recorded large gains in the fourth quarter of 2000 from the sale of New Power stock. To hedge its exposure, LJM2 contributed $30 million to "Porcupine" and was to receive $39.5 million back. The $39.5 million was received by LJM2 only one week later. Enron and Porcupine then executed a total return swap on $18 million in shares of New Power at $21 a share. Enron improperly recorded the accounting gain related to the Hawaii 125-0 transactions of approximately $370 million in the fourth quarter of the year 2000.

110. Enron improperly took certain steps to avoid having to reflect a $500 million credit reserve regarding the Raptors transactions, thus artificially increasing its reported net worth. The Raptors were cross-collateralized and there was an infusion of Enron stock contracts to reduce the credit reserve to $36.6 million. Raptors III and IV increased their payables to Enron by $850 million and Enron improperly recorded an increase to notes receivable and to equity instead of offsetting the notes against equity as required by GAAP. Further, in the first and second quarters of 2000, Enron issued $1.2 billion in common stock in exchange for a note receivable to capitalize Raptors I, II, III, and IV. Enron improperly recorded the notes receivable as assets.

111. The Raptor transactions were structured so that Enron appeared to be contracting with a creditworthy independent third party, which would take on the economic

risk of the investment, so that if the investment declined, the third party would bear the loss. In reality, however, Enron transferred no economic risk, but instead retained this risk of loss at all times. This strategy was employed by Enron to claim false gains and avoid recognizing losses in 1999, 2000, and 2001 as the value of its merchant investments declined.

112. In the Raptor transactions Enron transferred its own stock to an SPE in exchange for a note and the SPE used the stock to fund the hedge. If the value of the hedged investment declined at the same time as the value of Enron stock declined, the SPEs would be unable to meet their obligations and the hedge would fail. This is exactly what happened in late 2000 and early 2001.

113. Enron's year-end 2000 financial statements included overstated assets of $172 million for notes receivable that should have been recorded as an offset to equity. Enron has admitted that shareholders' equity and notes receivable were overstated by a total of $1 billion in its unaudited financial statements at March 31 and June 30, 2001.

114. As the value of Enron’s merchant investments continued to fall in 2001 Enron was forced to terminate the SPEs. This resulted in the October 16, 2001 announcement of a $544 million after-tax charge against earnings and a $1.2 billion reduction in shareholders equity.

115. Moreover, because the Raptor vehicles lacked sufficient outside equity to qualify for non-consolidation they were not legitimate off-balance sheet entities. Nonetheless, Enron failed to consolidate them thereby fraudulently inflating Enron's reported income and concealing massive amounts of debt.

D. Misuse of Other SPEs

116. Enron further concealed billions of dollars in debt by using other SPEs as vehicles into which it placed debt obligations to keep them off its balance sheet.

117. In 1998 and 1999 Enron acquired a controlling interest in a Brazilian utility called Elektro. J. P. Morgan loaned approximately $1.25 billion to Enron for this purchase. But, this debt would have negatively impacted Enron's credit ratings, so Enron and CS First Boston structured a special purpose entity called Firefly, by which Enron kept $435 million in debt off its balance sheet. The magnitude of Enron's fraudulent concealment of debt associated with Elecktro was then compounded by Enron's excessive payment for its interest in this poorly performing entity, its carrying of Elecktro on its books at $1.7 billion when, by 2001, Enron could not even find a buyer at a $1 billion discount, and the failure of Enron to account in any way for the huge losses sustained by Elecktro.

118. Enron formed JV Co., another SPE, to monetize an energy service outsourcing transaction with Owens-Illinois. Enron recognized over $10 million in earnings from the transaction and kept $24 million in capital expenditures off its books.

119. In 2000 Enron structured transactions with Osprey Trust and Marlin Trust to keep debt off its books by improperly treating transfers of assets to these related entities as sales rather than as loans. Enron guaranteed Osprey's and Marlin's obligations through promises to issue stock if the partnership assets of Osprey and Marlin turned out to be worth less than promised. Enron failed to report the huge liabilities presented by these guarantees on its balance sheet. The guarantees also had price triggers, which required Enron to pledge additional shares if Enron's stock price dropped below a certain point. The trigger insured the SPE underwriters and securities holders that if Enron stock declined to the trigger price, the credit of the SPE would be restored by a new infusion of Enron stock (or equivalent cash). If Enron did not shore up the amount of its stock, the SPE would be liquidated and the contents would be returned to the Enron balance sheet. These guarantees, using Enron stock to shore up related entities, violated GAAP and contributed significantly to Enron's ultimate failure.

120. An SPE called Whitewing had 75 subsidiaries that were used by Enron to generate income and conceal debt. The assets and investments that were transferred to

Whitewing were the product of Enron's day-to-day businesses, including energy, natural gas, electricity, and oil. It was well known within Enron and by Enron’s top management that many of these assets had decreased in value by the second half of 2000. Despite this knowledge, Enron failed to record charges to reflect the liabilities Enron had incurred and continued to record income from transactions with these entities. Moreover, Enron manipulated its results by improperly treating transfers of assets to Whitewing as sales rather than as loans, in clear violation of GAAP since, (i) the transferred assets were never beyond Enron's reach; (ii) the transferred assets were not bankruptcy remote; and (iii) Enron never relinquished effective control of the assets.

E. <u>Improper Reporting of Broadband Transactions</u>

121. Enron engaged in improper accounting practices involving (i) a deal with Blockbuster; (ii) improper recognition of income from inflated swaps of fiber optic capacity with other telecom companies; and (iii) the improper use of mark-to-market accounting for broadband transactions.

122. In July 2000, Enron announced a partnership with Blockbuster to allow customers to choose movies from Blockbuster and watch the movies on Enron's yet to be completed fiber optic telecommunications network. During the initial stages of development of this deal, Enron formed a partnership, EBS Content Systems LLC (Project

"Braveheart"). Enron used Braveheart to improperly record revenue from the Blockbuster deal. But (i) Braveheart was not independent of Enron as Enron guaranteed the full amount of a CIBC loan of $115.2 million; (ii) EBS had not earned the revenue it monetized as there was no way EBS could even provide the service it promised; (iii) the revenue was not realizable (collectible) as most of the customers did not even exist yet and were not likely to pay for the service, and the revenue was certainly not earned; and (iv) EBS improperly used mark-to-market accounting because there was no reasonable basis to estimate future revenue streams. Thus, it was improper for Enron to record any revenue from the Blockbuster deal. By March 2001, Blockbuster terminated the deal, but Enron did not write off the improperly reported income until the 3rd quarter of 2001 when it recognized $110.9 million in losses from the Blockbuster deal.

123. Enron also manipulated its results through broadband trading and dark fiber (fiber optic cables which have been laid out but have not been put into use) swaps. In dark fiber swaps, the counterparties agree to lease a portion of another broadband company's fiber optic network in exchange for leasing a portion of that company's network to the counterparty. A broadband trade is the delivery of data content through the fiber optic network. Many of the trades and swaps were undertaken primarily to give the illusion of trading activity and to report fictitious income. Most of the $120 million in 1999 revenue

which Enron attributed to broadband was from dark fiber swaps. Not only was Enron's accounting for these swaps and trades improper, but the actual value of the assets exchanged was greatly overstated. The cost of the acquired capacity was booked as an asset while the sale of capacity was reported as revenue, such that the financial statements of both companies involved in the swaps were improved by inflating the price. Enron completed at least one dark fiber deal with LJM2 and one with LJM1. Additionally, broadband traders actually traded among other Enron entities, and turned a single broadband transaction into eight transactions just to show investors an increasing volume of deals.

F. <u>Abuse of Mark-to-Market Accounting</u>

124. Enron also inappropriately applied mark-to-market accounting to various of the transactions that it structured.

125. Enron entered into a demand side energy deal with Eli Lilly resulting in Enron improperly accelerating $44 million in income. Enron did not disclose the fact that, to win the contract, it had to pay huge up-front costs which would ultimately result in huge losses. Despite the fact that Enron knew it would lose money, Enron recognized approximately $44 million of the energy supply portion of the contract as revenue, using the mark-to-market method. Enron had no legitimate basis for the $44 million figure and

the assumptions used to arrive at that figure were not supportable. Because these deals were commoditized, using unrealistic projections and accounted for by inappropriately using mark-to-market, Enron was able to book huge, illusory profits up front on the Lilly contract, as well as on the DSM contract with J.C. Penney, the IBM deal, the Citigroup contract and a deal between Owens Illinois and EES, an Enron subsidiary.

126. Enron used mark-to-market accounting for broadband contracts. This was improper because Enron could not reasonably estimate the amount (if any) of future revenue streams to be derived from the contracts and it was not a proven market. Enron improperly used mark-to-market accounting for a broadband deal with Rice University in which Enron recognized $14 million dollars up front (instead of over the 10-year life of the contract during which time Enron was to provide broadband services to Rice's sister university in Germany). The contract was cancelled in early 2001; thus, the revenue stream was neither earned nor collectible at the time the income was recognized.

127. In transactions with 15 Quaker Oats plants Enron used mark-to-market accounting and created a new category of "allocated revenues," which were based on figures that Enron claimed reflected the open market value of the energy commodities and service contracts, rather than on what Quaker Oats had paid historically for commodities and services. This revaluation significantly inflated the reported worth of the contracts

because revenue allocation allowed Enron to claim an immediate profit on the deal. Enron improperly recorded mark-to-market $85 million in profits from a dozen deals, including the Quaker Oats deal.

G. <u>The Use Of Disguised Loans</u>

128. Well before Enron designed and engaged in its fraudulent loan transaction with CRRA, Enron established a pattern of engaging in sham sales contracts, hedging investments or derivative transactions that were merely loans to Enron disguised to benefit Enron's balance sheets. Through this pattern of engaging in disguised loans, Enron concealed from the public billions of dollars of debt incurred between 1997 and early 2001. Had Enron disclosed the true nature and amount of its debt, the credit industry, the business community, the investing public, and CRRA would have known that Enron was a troubled company, unworthy of the acclaim accorded by analysts, investment bankers, and the credit rating agencies. Further, it would have been clear to CRRA and others that business transactions entered into with Enron were risky ventures.

129. Between 2000 and 2001, during the very period that the Enron Transaction was negotiated and executed, and in order to conceal its need for a substantial infusion of cash to cover huge declines in the value of its merchant investments, as well as other losses, and inflate revenues to meet projected earnings, Enron engaged in a pattern of disguising

millions of dollars as energy transactions producing revenue so that it would not have to report these loans as debt on its financial statements and reports.

130. Between December 1997 and December 2000, Enron entities, as sellers, entered into six agreements ostensibly for the sale of crude oil and natural gas to Isle of Jersey (United Kingdom) corporations known as Mahonia and Mahonia Gas (collectively, "Mahonia"), with Mahonia's payments to Enron financed by J. P. Morgan to the extent of $2.2 billion. At the outset of these transactions, Enron received approximately $330 million from Mahonia while simultaneously purporting to pay approximately $394 million to Stoneville Aegean Limited ("Stoneville"), essentially an alter ego of Mahonia, to buy the same quantities of gas for the same delivery dates as required by the Mahonia agreements, with payment to Stoneville due on a specified future date. The gas contracts were shams. At no time did any gas change hands, nor were arrangements ever made to deliver the subject gas to the contracting parties or to third party end-users. Rather, Enron continued throughout the period of the six agreements to borrow hundreds of millions of dollars from Mahonia and roll over its obligations to repay the sums to Mahonia's alter ego Stoneville, with what amounted to a loan at 7% interest, until the outstanding debt owed amounted to approximately $2.2 billion. Enron, however, overstated its revenues and earnings before taxes throughout the period of the Mahonia transactions by failing to disclose the

transaction records and record the $2.2 billion debt obligation. It instead improperly recorded these three-way loans as forward sales contracts.

131. From 1999 through 2001, Citigroup loaned Enron $2.4 billion in a series of transactions disguised as prepaid swaps (trades on the future returns on investments over a set period of time). Throughout these transactions, Citigroup immediately paid an estimate of its portion of the swaps amounting to hundreds of millions of dollars each time, while Enron was obliged to repay the cash over five years, thus incurring billions in undisclosed debt to Citigroup through the life of the swaps.

132. In 2000, CS First Boston loaned Enron $150 million using trades in derivatives, to be repaid over two years. While the transaction had the appearance of a swap, CS First Boston booked the transaction as a loan. Enron, however, booked this loan transaction as various types of assets, accounts receivable, and minimal amounts of accounts payable.

133. By mischaracterizing billions of dollars in loans from J. P. Morgan/Mahonia, Citigroup and CS First Boston, Enron dramatically reduced its indebtedness as reported on its balance sheets.

H. <u>Inflation of Revenues from Long Term Construction Projects</u>

134. Enron used non-recourse debt to finance plant building projects including numerous projects commenced between 1997 and 1998. Under GAAP, Enron could have recognized as revenue from these projects approximately 5% of the contract value for construction services provided by Enron. Enron instead recognized 10% of the construction services contract value - for contracts valued at hundreds of millions of dollars - as revenue upon signing.

135. Projects for which Enron's accounting overstated the value include, among others: Cuiaba Integrated Energy Project, contract value $400 million; Sarlux Power Project, contract value $550 million, Elektrocieplownia Nowa Sarzyna Project, contract value $120 million; and, Enron Piti Power Project, contract value $110 million.

136. Not only was Enron's accounting for these long term construction projects in violation of GAAP, but it was false and misleading and overstated its revenues during the Relevant Period.

I. Snowballing Costs of Unsuccessful Bids

137. During 1997 and 1998, Enron improperly capitalized, rather than expensed, in excess of $130 million in costs associated with failed project proposals over the preceding several years. In the first quarter of 1999, Enron ultimately wrote off approximately $131 million of these improperly capitalized costs which it had been

carrying over for years, but concealed the underlying nature of the write-off, attributing it to a recent change in internal accounting policies.

J. **Failure to Record Depreciation And Impairment of Long Term Assets and Investments**

138. Enron falsified financial statements throughout the Relevant Period by failing to record losses for the impairment of certain long-term assets and investments.

139. Between 1994 and 2000, Enron acquired or invested in many trouble-plagued, unsuccessful power and broadband businesses in the United States, Britain, India, Nicaragua, Argentina, Brazil and Columbia, all of which were cumulatively overvalued on Enron's books by hundreds of millions of dollars upon Enron's initial investment in the same. They then declined precipitously in value due to a variety of factors known contemporaneously to Enron, including unrealistic or unfeasible business plans, poor services, successful established competitors, regulatory and political problems, overvalued assets and collateral, improper guarantee obligations incurred by Enron, and phony transactions booked to reflect illusory revenues and improper or bogus hedge transactions between related Enron entities. In each case, Enron for years carried the troubled assets or investments at an inflated value, failed to record deterioration in value, and severely

minimized the cause and cost of the impairment, thereby concealing from the public in excess of $1 billion in losses to Enron incurred between 1994 and October 2001.

K. Fraudulent Asset Sales

140. Near the end of the third and fourth quarters of 1999, Enron purported to sell assets to LJM1 and LJM2. These transactions were designed and implemented at the close of financial reporting periods so that Enron could show strong financial results and meet analysts' projections for those periods. In numerous instances, however, Enron had agreed in advance to buy back the assets after the close of the reporting period. In at least of five of seven instances Enron did, in fact, buy back the assets after the close of the financial reporting period, and in some cases within a matter of months, allowing the LJM1 and LJM2 partnerships to make a profit on every transaction, even when the assets involved had declined in market value. These transactions were shams, but allowed Enron to fraudulently report at least $229 million of improper earnings in the second half of 1999.

L. False Statements to The Media

141. On January 18, 2000, Enron issued a press release announcing its financial results for the fourth quarter of 1999 and fiscal year 1999. Enron reported that for fiscal year 1999 it earned $957 million, a 37% increase in net income, and had revenues of $40 billion, a 28% increase in net income. The press release also stated that "Our strong

results in both the fourth quarter and full year 1999 reflect excellent performance in all of our operating businesses."

142. On January 19, 2000, The Wall Street Journal reported that:

> The company said it booked a profit of $7 million on its retail energy business for the quarter, compared with a loss of $26 million a year earlier. Enron President Jeffrey Skilling said fixed costs of $170 million a year were hard to overcome during the past three years, but "we've crossed that line now and this business will be a big factor for us in the future."
>
> Mr. Skilling said Enron marketers brought in business contracts valued at $8.5 billion during 1999 ... generating significant income for the company.
>
> Mr. Skilling expects profit from retail energy services to rise "significantly" from a projected $50 million for 2000 .... "As we look to 2000, we see momentum building in every one of our businesses," Mr. Skilling said.

143. On January 20, 2000, Enron issued a press release reporting on its annual equity analyst conference: "Ken Lay, Enron chairman and chief executive officer, opened the conference by highlighting Enron's tremendous growth across all businesses and the outstanding 700 percent return to shareholders over the past decade."

144. On or about March 31, 2000, Enron issued its 1999 Report to Shareholders, which stated:

> In 1999 we witnessed an acceleration of Enron's staggering pace of commercial innovation .... We reported

> another round of impressive financial and operating results. In 1999 revenue increased 28 percent to $40 billion, and net income before non-recurring items increased 37 percent to reach $957 million ...
>
> We believe the future will be even more rewarding. We remain the world's leader in wholesale and retail energy services. Our new broadband subsidiary, Enron Broadband Services, is redefining Internet performance by designing and supplying a full range of premium broadband delivery services ...

145. On April 12, 2000, Enron issued a press release announcing its financial results for the first quarter of 2000, the period ending March 31, 2000. The Company reported net income of $338 million, a 34% increase, and revenues of $13.1 billion:

> "Enron's first quarter results confirm the very positive momentum of our high growth businesses," said Kenneth L. Lay, Chairman and CEO of Enron. "Wholesale volumes increased 43 percent to record levels, demonstrating the strength of our worldwide energy networks and the tremendous success of EnronOnline."
>
> ***
>
> "The overall strong quarterly results also reflect increased earnings from Enron's portfolio of energy assets and other investments. In addition, Enron experienced increases in equity earnings from its energy partnerships and a large contribution from worldwide energy asset operations."

146. On April 12, 2000, <u>Bloomberg News</u> reported on Enron's first quarter 2000 results:

> Enron ... said first-quarter earnings rose 34 percent ...
>
> Net income increased to $338 million, or 40 cents a share, from profit from operations of $253 million, or 34 cents, a year ago ....

147. On July 24, 2000, Enron issued a press release announcing its financial results for the second quarter of 2000, the period ending June 30, 2000. The Company reported net income of $289 million, an increase of 30 percent, and revenues of $16.9 billion:

> "Enron has completed another excellent quarter," said Kenneth L. Lay, chairman and CEO of Enron.... "Profitability of Enron Energy Services continued to escalate, and new contracts totaled $3.8 billion."

148. On October 17, 2000, Enron issued a press release announcing its financial results for the third quarter of 2000, the period ending September 30, 2000. The Company reported net income of $292 million, or $0.34 per share, and revenues of $30 billion:

> "Enron delivered very strong earnings growth again this quarter, further demonstrating the leading market positions in each of our major businesses," said Kenneth L. Lay, chairman and CEO of Enron. "Our wholesale and retail energy businesses have achieved record-setting levels of physical deliveries, contract originations and profitability. We operate in some of the largest and fastest growing markets in the world, and we are very optimistic about the continued strong outlook for our company."

149. On November 24, 2000, Enron issued a press release stating that:

Enron President Jeff Skilling stated today that rumors of a potential profit warning are not true. "All of our businesses are performing extremely well and we are very comfortable with consensus analyst earnings estimates of $0.35 per share in the fourth quarter of 2000, and $1.65 for the full year 2001."

150. On December 13, 2000, Enron issued a press release announcing that Skilling was named Enron's CEO to succeed Lay. Lay was quoted as saying:

> "The best time for succession is when the successor is ready and when the company is well positioned for the future," said Lay, currently Enron's chairman and CEO. "Jeff is a big part of Enron's success and is clearly ready to lead the company. With Jeff's promotion, succession is clear, our deep pool of management talent remains intact, and no other organizational changes need to be made to take the company to new levels of growth."

151. On January 22, 2001, Enron issued a press release announcing its financial results for the fourth quarter 2000 and fiscal year 2000, the period ending December 31, 2000. The Company reported earnings of $0.41 per share for the fourth quarter, an increase of 32 percent:

> "Our strong results reflect breakout performance in all of our operations," said Kenneth L. Lay, Enron's chairman and CEO. "Our wholesale services, retail energy and broadband businesses further expanded their leading market positions as reflected in record levels of ...

> profitability".... Enron also announced a very successful fourth quarter of 2000, generating recurring earnings of $0.41 per diluted share, an increase of 32 percent from $0.31 a year ago.

152. On January 22, 2001, Skilling appeared on CNN and stated: "[W]e had a strong quarter, really almost across the company . . . and it was across the board. . . . It was pretty much everything."

153. On January 25, 2001, Enron issued a press release announcing that, at its annual investor's conference, it will "discuss today its confidence in increasingly strong business prospects for 2001. The company is comfortable with estimates for 2001 recurring earnings of $1.70 to $1.75 per diluted share."

154. On January 31, 2001, Skilling appeared on National Public Radio and stated:

> "In summary, we had a tremendous year in the year 2000. Strong results reflect what we believe is breakout performance in all of our operations. The results also further demonstrate our leading market positions in each of our major businesses."

155. On March 5, 2001, <u>Fortune</u> published an article about Enron, questioning the quality of its reported earnings:

> "By almost any measure, the company turned in a virtuoso performance: Earnings increased 25% and revenues more than doubled to over $100 billion. Not surprisingly, the

> critics are gushing: 'Enron has built unique, and in our view, extraordinary franchises in several business units in very large markets,' says Goldman Sachs analyst David Fleischer.
>
> ... At a late-January meeting with analysts in Houston, the company declared that it should be valued at $126 a share, more than 50% above current levels.
>
> Enron vehemently disagrees with any characterization of its business as black box-like .... "We are not a trading company," CFO Andrew Fastow emphatically declares .... Both Skilling, who describes Enron's wholesale business as "very simple to model," and Fastow note that the growth in Enron's profitability tracks the growth in its volumes almost perfectly. "People who raise questions are people who have not gone through our business in detail and who want to throw rocks at us," says Skilling. Indeed, Enron dismisses criticism as ignorance or as sour grapes on the part of analysts who failed to win its investment-banking business. The company also blames short-sellers for talking down Enron. As for the details about how it makes money, Enron says that's proprietary information, sort of like Coca-Cola's secret formula. Fastow, who points out that Enron has 1,217 trading "books" for different commodities, says, "we don't want anyone to know what's on those books. We don't want to tell anyone where we're making money."

156. On or about March 31, 2001, Enron filed its 2000 Annual Report on Form 10-K with the SEC. The 10-K contained Enron's 1999 and 2000 fraudulent annual financial statements.

157. In early March 2001, Enron issued its Annual Report to Shareholders,

which contained a letter from Lay and Skilling, stating:

> Enron's performance in 2000 was a success by any measure .... In our largest business, wholesale services, we experienced an enormous increase of 59 percent in physical energy deliveries. Our retail energy business achieved its highest level ever of total contact value. Our newest business, broadband services, significantly accelerated transaction activity ... The company's net income reached a record $1.3 billion in 2000.
>
> Enron has built unique and strong businesses that have tremendous opportunities for growth. These businesses - wholesale services, retail energy services, broadband services ... can be significantly expanded within their very large existing markets and extended to new markets with enormous growth potential. At a minimum, we see our market opportunities company-wide tripling over the next five years.
>
> * * *
>
> Enron is increasing earnings per share and continuing our strong returns to shareholders. Recurring earnings per share have increased steadily since 1997 and were up 25 percent in 2000.
>
> ...Our results put us in the top tier of the world's corporations. We have a proven business concept that is eminently scalable in our existing businesses and adaptable enough to extend to new markets.
>
> Our talented people, global presence, financial strength ... have created our sustainable and unique businesses.

> We are positioned to dramatically increase our profitability in 2001. Retail energy earnings will be fueled by the rapid growth of our U.S. and European businesses and the strong execution and extension of existing contracts.

158. On March 22, 2001, Enron issued a press release in which it "reaffirmed today that the company continues to be confident with strong business prospects for 2001 and remains very comfortable with the previously announced targets for 2001 recurring earnings of $1.70 to $1.75 per diluted share."

159. The foregoing statements by Enron were all false, misleading and published in furtherance of a fraud on investors, the business community, and public at large, including CRRA.

VII. THE PARTICIPATION OF THE DEFENDANTS IN THE FRAUD

160. The Enron Defendants, the Andersen Defendants, Enron's Lawyers, Enron's Bankers, and Enron's Credit Rating Agencies, each knowingly participated in, aided and abetted, or otherwise facilitated the foregoing false and misleading statements by Enron.

A. THE ROLE OF THE ENRON DEFENDANTS

161. The Enron Defendants, collectively and individually, had the power to and did control the conduct of Enron, and participated in, guided, and/or controlled the activities of Enron, including the aforedescribed unlawful acts.

1. Officers

162. Defendants Lay, Skilling, Fastow, Causey, Buy, Derrick, McMahon, Sutton, Whalley, and Glisan (the "Enron Officers") each knowingly engaged in the foregoing high risk and fraudulent accounting, inappropriate conflict of interest transactions, extensive off-the-books financial transactions, excessive executive compensation and bonus schemes that created a drain on cash, and numerous other questionable business and accounting practices that should have been disclosed by Enron to the investing public, but which were concealed through various artifices, manipulations, and schemes.

163. The Enron Officers knowingly allowed, and in many cases participated in and executed the following:

a. Enron's "off-the-books" and "asset light" strategies and other actions taken by Enron to move billions of dollars in assets off its balance sheet to separate but affiliated companies. Indeed, as of October 2000, the Finance Committee of the Board of Directors was aware that Enron had a total of $60 billion in assets, of which $27 billion, or nearly 50 percent, were held by Enron's "unconsolidated affiliates."

b. The use of huge loans disguised as business deals to falsely portray inflated income and cash from operations rather than debt and to deceive Enron's investors and business partners;

c. The use of aggressive accounting practices that "pushed the limits" and were "at the edge" of acceptable accounting practices, including Enron's increasing reliance on complicated transactions with convoluted financing and accounting structures, multiple special purpose entities, hedges, derivatives, swaps, forward contracts, prepays, and other forms of structured finance.

d. The establishment of numerous special purpose entities, the issuance of Enron preferred shares, the pledge of Enron's stock to support Enron's massive off-the-books activities, and inadequate disclosure concerning the creation of special purpose entities, allowing Enron to move at least $27 billion off its balance sheet.

e. The use of questionable valuation methodologies to overvalue assets reported on Enron's financial statements.

f. The nature and purpose of Whitewing, LJM, and Raptor transactions.

g. The use of almost 3000 related entities, with over 800 of them organized in well-known offshore locations, including about 120 in the Turks and Caicos, and about 600 using the same post office box in the Cayman Islands.

h. The creation of LJM1 and LJM2 partnerships and the Rhythms stock hedge to move debt off Enron's financial statements, portray inflated earnings and cash flow, and protect Enron's income statement from loss if the value of Enron's stock were to drop in price.

i. Numerous transactions involving clear conflicts of interest in violation of Enron's code of conduct, including the LJM1, LJM2 and LJM3 partnerships, which allowed Defendant Fastow to reap tremendous profits at Enron's expense.

j. The change of Whitewing from a consolidated to an unconsolidated entity allowing Enron to pledge approximately $2.5 billion as collateral for Whitewing debt and Whitewing to purchase over $2 billion in Enron assets as part of an "asset light" strategy to reduce debt levels on Enron's financial statements and move assets with relatively low returns into unconsolidated affiliates that Enron controlled.

k. The creation of and use of Whitewing, Osprey Trust and Yosemite Trust as off-balance sheet vehicles to purchase Enron assets and create the appearance of increased equity investments and lower debt ratios.

l. Authorization of the Raptor hedge transactions despite high-risk accounting, no true independent third party, lack of economic substance, no assets other than Enron stock and stock contracts, and no counter-party creditworthiness.

m. Other extensive undisclosed off-the-books transactions and so-called "Balance Sheet Management" efforts involving numerous other sham entities including Hawaii 125-0 Trust, Black Hawk, and Osprey.

164. The Enron Officers, through affirmative acts and omissions, each actively participated in the foregoing artifices, manipulations and schemes as well as the foregoing false and misleading statements, aided and abetted the publication by Enron of statements that were materially false and misleading, or negligently allowed Enron to make the foregoing false and misleading statements.

2. **Directors**

165. Defendants Lay, Skilling, Harrison, Belfer, Blake, Chan, John Duncan, Gramm, Jaedicke, LeMaistre, Foy, Savage, Mendelsohn, Meyer, Ferraz Pereira, Urquhart, Wakeham, Walker, Willison, Winokur, and Mark-Jusbasche (the "Enron Directors"), knowingly allowed Enron to engage in high risk accounting, inappropriate conflict of interest transactions, extensive undisclosed off-the-books financial transactions, excessive executive compensation and bonus schemes that created a drain on cash, and numerous

other questionable practices. Alternatively, the Enron Directors failed to perform the functions of their office to oversee Enron's activities and ensure that Enron's financial picture was properly disclosed to the public.

166. The Enron Directors knowingly allowed, and in many cases explicitly approved, the following:

a. Enron's "off-the-books" and "asset light" strategies and other actions taken by Enron to move billions of dollars in assets off its balance sheet to separate but affiliated companies. Indeed, as of October 2000, the Finance Committee of the Board of Directors was aware that Enron had a total of $60 billion in assets, of which $27 billion, or nearly 50 percent, were held by Enron's "unconsolidated affiliates."

b. The use of huge loans disguised as business deals to falsely portray inflated income and cash from operations rather than debt and to deceive Enron's investors and business partners;

c. The use of aggressive accounting practices that "pushed the limits" and were "at the edge" of acceptable accounting practices, including Enron's increasing reliance on complicated transactions with convoluted financing and accounting structures, multiple special purpose entities, hedges, derivatives, swaps, forward contracts, prepays, and other forms of structured finance.

d. The establishment of numerous special purpose entities, the issuance of Enron preferred shares, the pledge of Enron's stock to support Enron's massive off-the-books activities, and inadequate disclosure concerning the creation of special purpose entities, allowing Enron to move at least $27 billion off its balance sheet..

e. The use of questionable valuation methodologies to overvalue assets reported on Enron's financial statements.

f. The nature and purpose of Whitewing, LJM, and Raptor transactions.

g. The use of almost 3000 related entities, with over 800 of them organized in well-known offshore locations, including about 120 in the Turks and Caicos, and about 600 using the same post office box in the Cayman Islands.

h. The creation of LJM1 and LJM2 partnerships and the Rhythms stock hedge to move debt off Enron's financial statements, portray inflated earnings and cash flow, and protect Enron's income statement from loss if the value of Enron's stock were to drop in price.

i. Numerous transactions involving clear conflicts of interest in violation of Enron's code of conduct, including the LJM1, LJM2 and LJM3 partnerships, which allowed Defendant Fastow to reap tremendous profits at Enron's expense.

j. The change of Whitewing from a consolidated to an unconsolidated entity allowing Enron to pledge approximately $2.5 billion as collateral for Whitewing debt and Whitewing to purchase over $2 billion in Enron assets as part of an "asset light" strategy to reduce debt levels on Enron's financial statements and move assets with relatively low returns into unconsolidated affiliates that Enron controlled.

k. The creation of and use of Whitewing, Osprey Trust and Yosemite Trust as off-balance sheet vehicles to purchase Enron assets and create the appearance of increased equity investments and lower debt ratios.

l. Authorization of the Raptor hedge transactions despite high-risk accounting, no true independent third party, lack of economic substance, no assets other than Enron stock and stock contracts, and no counter-party creditworthiness.

m. Other extensive undisclosed off-the-books transactions and so-called "Balance Sheet Management" efforts involving numerous other sham entities including Hawaii 125-0 Trust, Black Hawk, and Osprey.

167. The Enron Directors also, through affirmative acts and omissions, each actively participated directly in making the foregoing false and misleading statements, aided and abetted the publication by Enron of statements that were materially false and misleading, or negligently allowed Enron to make the foregoing false and misleading statements.

168. The Enron Directors allowed the independence of the Board of Directors as a whole, to be compromised by financial ties between Enron and certain Board members with the result that the Enron Directors a) failed to make adequate inquiry concerning transactions entered into by Enron, the substance behind certain of those transactions, and the reasons for those transactions; b) failed to challenge management's recommendations concerning the transactions entered into by Enron, the substance behind those transactions, and the reasons for those transactions; c) failed to understand and challenge the accounting principles and procedures employed by Enron; d) failed to ensure the independence of Enron's auditors; e) failed to prohibit accounting practices and procedures that did not comply with generally accepted accounting principles and resulted in misleading and inaccurate financial statements, SEC reports, press reports, and other disclosures; f) failed

to prohibit off-the-books transactions that made Enron's financial condition appear far better than it truly was; g) failed to ensure that Enron's financial statements and other public disclosures presented fairly and accurately the financial condition of Enron; and h) failed to adequately perform the oversight function of a properly formed and operating board of directors.

B. THE ROLE OF THE ANDERSEN DEFENDANTS

169. Starting in the 1990s 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 was deeply involved in every aspect of Enron's business, and assisted Enron to present many false and misleading statements about Enron's financial situation to the investing public, including all parties doing business or considering doing business with Enron, and all parties making loans or considering making loans to Enron.

170. Andersen examined and opined on Enron's financial statements for the fiscal years ended 1997 through 2000, and reviewed Enron's interim 1997 through 2001 results and press releases. As a result of the far-reaching scope of services provided by Andersen, it was intimately familiar with Enron's business affairs and its personnel were present at Enron's Houston headquarters on a year-round basis. Andersen's Houston and Chicago

offices were routinely involved in the development, consulting and accounting for the fraudulent deals and transactions at issue herein.

171. 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.

172. Before deciding to enter into the transaction with Enron, CRRA, and CRRA's advisers reviewed and relied on extensive documentation prepared by Andersen for Enron, such as annual audited financial statements, as well as 10K and 10Q reports filed with the SEC. 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.

173. Andersen falsely represented that Enron's financial statements for 1997, 1998, 1999 and 2000 were presented in accordance with GAAP and that Andersen's audits of Enron's financial statements had been performed in accordance with GAAS. Andersen also consented to the incorporation of its reports on Enron's financial statements in Enron's Form 10-Ks for those years and in Enron's Registration Statements for the Company's: (i) registration of $1 billion in Enron Debt Securities, Warrants, Preferred Stock and Depository Shares filed on 12/17/97; (ii) registration of 488,566 shares of common stock

filed on 1/12/98; (iii) registration of 34.5 million shares of common stock filed on 4/21/98; (iv) registration of $1 billion in Enron Debt Securities, Warrants, Preferred Stock and Depository Shares filed on 1/12/99; (v) registration of 7.6 million shares of common stock filed on 4/5/99; (vi) registration of ten million Exchangeable Notes filed on 7/23/99; (vii) registration of 4.9 million shares of common stock filed on 4/4/00; (viii) registration of 616,778 shares of common stock on 6/15/00; (ix) registration of $1 billion in Enron Debt Securities, Warrants, Preferred Stock and Depository Shares filed on 7/19/00; and (x) registration of $1.9 billion in Zero Coupon Convertible Senior Notes due 2021 filed on 6/1/01. Andersen also consented to the use of its name in each Prospectus filed and issued pursuant to these offerings, including the Prospectus for the Zero Coupon Notes filed on 7/25/01. Andersen's issuance of, and multiple consents to reissue, materially false reports on Enron's financial statements for the fiscal years ended 1997 through 2000 violated GAAS.

174. Andersen produced false financial statements, audits, and other documents and data, which it knew would be disseminated throughout the country, including the state of Connecticut.

175. Andersen disseminated this false information with the purpose that, or knowing to a substantial certainty that, this information would be relied upon by persons such as CRRA seeking to enter into loans or other business transactions with Enron.

176. With respect to Enron's financial statements for 2000, Andersen represented, in a report dated 2/23/01, the following:

> REPORT OF INDEPENDENT PUBLIC ACCOUNTS
>
> To the Shareholders and Board of Directors of Enron Corp.:
>
> We have audited the accompanying consolidated balance sheet of Enron Corp. (an Oregon corporation) and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of Enron Corp.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.
>
> We conducted our audits in accordance with auditing standards generally accepted in the 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, the financial statements referred to above present fairly, in all material respects, the financial position of Enron Corp. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations, cash flows and changes in shareholders' equity for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

177. This opinion was false and fraudulently or, at a minimum, negligently given by Andersen. Andersen issued nearly identical audit reports for 1997 (issued 2/23/98), 1998 (issued 3/5/99), and 1999 (issued 3/13/00).

178. Enron has now restated its year-end financial statements for 1997 to 2000--the very statements relied on by CRRA in entering into the Enron Transaction 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."

179. Andersen falsely represented that the financial statements it prepared for Enron from 1997-2000 were prepared in accordance with GAAP, and that Andersen's audits for those years for Enron were prepared in accordance with GAAS.

180. 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.

181. Andersen did not prepare the foregoing financial statements or conduct its audits with the degree of independence necessary and required. In order to keep and grow its large Enron fees, Andersen approved increasingly aggressive and ultimately unsupportable accounting procedures by Enron, and Andersen agreed to help Enron keep huge debts off its balance sheets by the use of numerous SPEs and off-the-books partnerships.

182. The Andersen Defendants were aware of the fact that their independence was compromised by the massive fees Enron was generating for Andersen, including non-auditing and non-accounting consulting fees. Andersen partners were aware that Andersen was operating under substantial conflicts of interest. Despite this awareness, Andersen not only kept Enron as a client, but aggressively pursued more Enron business, including the conflict-laden consulting work.

183. When Andersen partner Carl Bass, in charge of overseeing Enron audits, complained about and opposed the improper Enron accounting practices in 1999, 2000 and 2001, Enron protested, and Bass was removed from his position overseeing Enron audits.

184. The Andersen Defendants knew that Andersen's 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-shelters, and other complex arrangements with no proper business purpose. Andersen helped Enron create many of these artifices and did so with knowledge that Enron was using them to conceal debt and falsely inflate profits.

185. Andersen also approved transactions in which Enron set up partnerships, controlled by Enron, to keep debt off of its books, while still allowing Enron access to and control of partnership income. These off-the-books "assets" at one point totaled $17 billion—33 percent of Enron's assets. In some cases Andersen reaped large fees, and consequently the Andersen Defendants realized significant compensation, for helping set up these partnerships, knowing that under GAAP, if Enron retained control of the partnerships, the partnerships' financial results had to be consolidated with Enron's. Andersen ultimately was forced to restate Enron's 1997-2000 financial statement and include numerous SPEs as consolidated entities, but not until 2001, well after the Enron Transaction closed.

186. The Andersen Defendants knew that senior Enron-executives were taking out huge false profits and management fees from these SPEs and off-the-books partnerships.

187. The Andersen Defendants were actually aware of the following as a result of Andersen's close relationship with Enron:

a. Enron had developed a complex organizational structure including numerous highly complex partnerships with no business purpose other than to move debt off Enron's balance sheet and hide financial losses.

b. Enron engaged in numerous related party transactions which were designed to hide debt and inflate income. These related parties were not consolidated for purposes of Enron's financial reporting as relevant auditing standards required.

c. Enron established numerous offshore entities to shift income, minimize or avoid taxation, circumvent United States laws, and maintain secrecy.

d. Enron management's incomes and huge bonuses were tied to Enron's stock price, creating a tremendous incentive and risk to engage in overly aggressive accounting procedures and even fraud in order to achieve targets and goals.

e. Enron's supposed growth and profitability far surpassed that of other companies in the same industry.

f. Enron had engaged in, and continued to engage in, overly aggressive and fraudulent accounting practices.

g. Conflicts of interest relative to Fastow in his capacity as Chief Financial Officer and as head manager for LJM.

188. The Andersen Defendants not only knew that the foregoing were indicators of a high risk of fraud at Enron, they were also aware that fraud was actually occurring and that Andersen was participating in it. Despite their knowledge, Andersen issued an audit opinion indicating that "the financial statements . . . present fairly, in all material respects,

the financial position of Enron Corp. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations, cash flows and changes in shareholders' equity for each of the three years in the period ending December 31, 2000, in conformity with accounting principles generally accepted in the United States."

189. The Andersen Defendants were also aware of and approved--or at least failed to demand revision of--Enron's improper use of mark-to-market accounting with Enron's broadband transaction.

190. Andersen knew that Enron created Chewco with Barclays' help in late 1997 for the purpose of buying out an institutional investor's 50% stated interest in JEDI so that JEDI could still be considered independent. Significant red flags surrounded the creation of this SPE, raising significant questions regarding the legitimate business purpose of the transaction. Andersen provided substantial assistance in structuring and reviewing this transaction, and billed Enron $80,000 for its work. During Andersen's examination, including its review of Enron's November and December 1997 board minutes, Andersen recognized, or should have recognized, that virtually every aspect of the deal carried a red flag raising questions about Enron control, or the legitimacy of the business purpose and substance of the investment. Andersen knew that Chewco's general partners were senior financial employees at Enron. Andersen knew that a 3% minimum of independent,

at risk, controlling capital was not met, as Barclays required a reserve account deposit of $6.6 million to collateralize the loans. According to former Enron employees, Andersen was given documentation showing the reserve. Andersen knew that the funding of Chewco by Barclays that purportedly made up the "equity part" of the investment actually was more like a loan.

191. As a result of Andersen's involvement in the creation and review of the Chewco deal, the Andersen Defendants knew that practically every feature of Chewco's creation, funding, structure and wind-down raised red flags, yet Andersen ignored them. By ignoring these related-party connections and Enron's constructive control in the Chewco deal, Andersen helped Enron improperly keep the Chewco deal off the books. As a result, Andersen allowed Enron to improperly overstate profits by $405 million and understate debt by hundreds of millions of dollars.

192. Enron, with Andersen's approval, designed and entered into virtually all the LJM transactions for little purpose other than hiding debt and losses, and personally enriching certain Enron financial officers, including defendant Fastow. Details surrounding the LJM partnerships presented prominent warnings that Enron controlled the entities, but Andersen ignored them. In the course of performing tens of thousands of hours of work on the LJM partnerships, Andersen read the LJM2 private placement memorandum and

noticed that the document's first few pages clearly described that: (1) Enron would retain significant economic or operating interests in the investments; (2) the General Partner was owned and controlled by Fastow, Kopper and Glisan; (3) some of Enron’s Bankers were initial investors in LJM2 who were guaranteed the return of their investment and large profits before LJM2 entities could enter into hedging transactions with Enron; (4) LJM2 would be managed on a day-to-day basis by senior level Enron finance executives; and (5) LJM2 would invest in the assets "sold" by Enron, yet Enron would require that it retain significant economic or operating interests. The document even touted how superior the investment returns would be because the general partners were senior Enron finance executives, and as such, had access to Enron's inside information and resources. Additionally, when describing Enron as a whole, the LJM2 PPM disclosed that $17 billion (33%) of Enron’s assets - were "financed off-balance sheet," and that even though Enron might sell a portion of such investments, "in many cases, [Enron] s[ought] to maintain an active or controlling role in the underlying investment."

193. By Andersen’s work on the LJM2 structuring, the Andersen Defendants knew or should have known the following relative to LJM2 and the other SPEs:

a. Enron management controlled LJM2 and therefore, in accordance with accounting rules, the investment should have been consolidated, but was not;

b. Enron had at least $17 billion in assets and associated liabilities carried off balance sheet and as such, Andersen should have thoroughly investigated the business purpose and substantive reasons for accounting for as much as 33% of Enron's total assets on an "off-balance sheet" basis;

c. Enron made a practice of maintaining control in its off-balance-sheet investments despite the fact that accounting rules required consolidation if Enron maintained control;

d. Enron finance executives and insiders received tens of millions of dollars in management fees and quick profits;

e. Enron assets were purportedly sold to LJM, but then quickly repurchased within a very short period producing a gain, despite the fact that the value of the assets had declined; and

f. Enron's use of its own shares as security for supposed hedges of other Enron investments.

194. Defendants David Duncan, Cash, Stewart and Neuhausen and others were heavily involved in the structuring of LJM2, the decisions to allow Enron to improperly account for LJM2, and were aware of Bass's disagreement with the LJM2 accounting beginning in 2000.

195. Andersen also permitted Enron to improperly account for notes received for stock issued. Andersen billed Enron at least $335,000 in 2000 for its work on the Raptor deals (which ultimately resulted in a $1 billion reduction in shareholders' equity when Enron and Andersen's improper accounting was corrected).

196. The accounting employed by Andersen on the Raptor deals violated several accounting rules and Andersen knew it:

a. Accounting principles forbid a company from recognizing an increase in the value of its capital stock in its income statement except under limited circumstances not present here. The substance of the Raptors and other transactions effectively allowed Enron to report net income and gains on its income statement that were backed almost entirely by Enron stock, and contracts to receive Enron stock, held by the Raptors. In essence, the transactions created net income from thin air.

b. Andersen-Houston consulted Andersen's Professional Standards Group in Chicago frequently regarding the Raptor transactions. The Professional Standards Group initially required an analysis of whether there was a minimum 3% independent, at-risk equity investment not only at inception of a partnership, but also each time a derivative transaction was entered into. Later Andersen improperly agreed that the analysis only needed to be performed at inception, such that subsequent deterioration of the interest was not important.

c. Andersen also made the decision to allow Enron to improperly avoid recording individual impairment charges for Raptor investments that had significantly and permanently declined in value. Andersen e-mails between Cash, David Duncan and Stewart reveal that defendants David Duncan, Cash, Lowther, Odom, Stewart and others were deeply involved in this accounting decision, and were aware that Bass thought the Raptor accounting was improper.

197. The accountants at Andersen, who should have brought a measure of objectivity and perspective to these transactions, did not do so. The Andersen Defendants were in a position to understand all the critical features of the Raptors and offer advice on the appropriate accounting treatment. They allowed Andersen to offer Enron advice at every step, from inception through restructuring and ultimately terminating the Raptors. Enron followed that advice.

198. In the restatement of Enron's prior financial statements, Andersen improperly did not require revision of the $1 billion in prior earnings improperly derived from the Raptors.

199. During its audits of Enron's 1997 financial statements, Andersen staff auditors compiled $51 million of adjustments where Enron's accounting was identified as improper. Andersen knew that these adjustments, taken collectively, amounted to almost 50% of Enron's $105 million net income for 1997; were clearly material to the financial statements; and needed to be made in order for the financial statements to not be misleading. However, Enron told Andersen it did not want to make the adjustments, because they would dramatically reduce the $105 million in the net income figure Enron management was going to report to the public. The Andersen partners associated with the engagement acquiesced to Enron management and did not insist that the adjustments be made. However, the magnitude of the adjustments could not simply be waived by Andersen without some justification. Since $51 million in adjustments--which amounted to 50% of net income--were clearly material to the financial statements Andersen calculated the $51 million as a percentage of so-called “normalized earnings” instead of net income. By creating this new measure of materiality from whole cloth Andersen improperly declared that because the $51 million adjustment was only 8% of "normalized earnings"

(instead of a whopping 50% of net income) it was immaterial and no adjustment was necessary. As a result, Andersen improperly, but knowingly, allowed Enron to overstate income in 1997 by $51 million.

200. In accordance with GAAS, Andersen was required to consider whether Enron's disclosures accompanying its financial statements were adequate. SAS No. 32 as set forth in AU §431.02-.03 states:

> **.02** The presentation of financial statements in conformity with generally accepted accounting principles includes adequate disclosure of material matters. These matters relate to the form, arrangement, and content of the financial statements and their appended notes, including, for example, the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth. An independent auditor considers whether a particular matter should be disclosed in light of the circumstances and facts of which he is aware at the time.
>
> **.03** If management omits from the financial statements, including the accompanying notes, information that is required by generally accepted accounting principles, the auditor should express a qualified or an adverse opinion and should provide the information in his report, if practicable, unless its omission from the auditor's report is recognized as appropriate by a specific Statement on Auditing Standards.

201. The required disclosures include those concerning related parties. Auditors are required to gather sufficient evidence to ensure they understand the relationship

between parties and the effects of the transactions on the financial statements. The auditor should then satisfy himself that the transactions are adequately disclosed. AU §334.11 states:

> For each material related party transaction (or aggregation of similar transactions) or common ownership or management control relationship for which FASB Statement No. 57 [AC section R36] requires disclosure, the auditor should consider whether he has obtained sufficient competent evidential matter to understand the relationship of the parties and, for related party transactions, the effects of the transaction on the financial statements. He should then evaluate all the information available to him concerning the related party transaction or control relationship and satisfy himself on the basis of his professional judgment that it is adequately disclosed in the financial statements.

202. As detailed herein, Enron's disclosures with respect to its accounting practices and related parties were woefully inadequate. The Company failed to adequately disclose the transactions involving Chewco, the management involvement in LJM, the manipulative transactions involving the Raptors, the improper and abusive use of mark-to-market accounting, its improper use of its own stock to generate income, and the manipulative practices involving broadband and many other accounting manipulations. Andersen actually knew about many of these issues as it had helped develop the accounting

for them. Yet Andersen did not require notification of the disclosures and did not issue a qualified or adverse opinion on Enron's financial statements in violation of GAAS.

203. The acts, omissions, and misrepresentations by Andersen resulted from the acts and failure to act of the Andersen Defendants, who either knew or should have known that they were partners in a fraud and deception committed by Enron on the business community and investing public, including CRRA.

204. The acts, omissions and misrepresentations of the Andersen Defendants occurred before CRRA entered into the transaction with Enron in December of 2000, and before the March 30, 2001 closing date of the 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. On February 5, 2001, senior Andersen partners participated in a conference call to discuss whether Enron should be kept as a client. The topics covered included Enron's tremendous exposure on related-party transactions engineered by 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. Instead of terminating the relationship, however,

Andersen issued yet another “clean” audit finding on Enron’s 2000 financial statement a few weeks later, near the time the Enron Transaction closed on March 30, 2001, with CRRA relying on this information.

C. THE ROLE OF ENRON’S LAWYERS

1. Vinson & Elkins, LLP

205. Vinson & Elkins LLP advised and assisted Enron to establish the LJM and Chewco/JEDI partnerships and many of the related SPE entities. These partnerships and SPEs were then used by Enron to move debt off Enron’s financial statements and inflate income. Vinson & Elkins knew that these partnership and SPEs were not independent of Enron and were established to manipulate Enron’s reported financial results. Nevertheless, Vinson & Elkins repeatedly gave “true sale” and “non-consolidation” opinions, drafted and/or approved the adequacy of Enron’s press releases, shareholder reports and SEC filings, including 10Ks and Registration Statements, and wrote the disclosures regarding the related party transactions. Vinson & Elkins knew that these artifices were used by Enron to mislead and conceal material facts concerning those transactions.

206. Vinson & Elkins issued opinions to Enron, Mahonia and J. P. Morgan representing that billions of dollars in forward sales contracts of natural gas and oil by Enron were legitimate commodities trades when Vinson & Elkins knew the trades were designed to disguise loans from J. P. Morgan to Enron so that Enron could falsely inflate profits and conceal debt.

207. Vinson & Elkins also represented Enron in forming Chewco to buy the outside investor's interest in JEDI. Vinson & Elkins knew Chewco did not have an outside equity investor with at least a 3% interest, a necessary requirement to be treated as an independent third party. Enron failed to consolidate Chewco/JEDI, and falsely inflated 1997 profits. Vinson & Elkins "true sale" and "non-consolidation" opinions facilitated this transaction, which allowed Enron to move debt off its balance sheet and onto the books of Chewco. Vinson & Elkins also prepared documentation to finance Chewco and to make it appear that Chewco was a true independent entity. Thereafter, Vinson & Elkins assisted Enron in creating numerous other partnerships and entities to show billions of dollars of false profits for Enron and to conceal billions of dollars of Enron debt by moving it off Enron's balance sheet.

208. Vinson & Elkins also advised and assisted Enron in the formation of the LJM1 and LJM2 partnerships, through which Enron engaged in undisclosed related party

transactions, and created SPEs to hide Enron debt and artificially inflate Enron profits. Vinson & Elkins advised and assisted Enron to structure year-end transactions with the LJM partnerships designed to artificially boost results so that Enron could meet forecasts.

209. Vinson & Elkins also

a. advised Enron to create, and helped to create, a sham transaction in which LJM2 purchased Yosemite trust certificates for a single day before reselling them to another SPE, Condor, in order to reduce Enron's holdings in Yosemite and avoid having to disclose Enron's interest in Yosemite;

b. advised Enron to restructure, and helped to restructure and capitalize, the Raptor SPEs at year-end 2000 via artificial transactions that transferred rights to Enron shares to the Raptor SPEs thereby enabling Enron to avoid recording a huge credit reserve for the year ending December 31, 2000;

c. advised Enron to create, and helped to create, a phony profit of $370 million in the fourth quarter of 2000 by structuring an initial public offering of New Power Co. common stock while continuing to hold 13.6 million shares and warrants to purchase 42 million more shares which it thereafter transferred to Hawaii 125-0 to secure a loan from CIBC to Hawaii 125-0 to create a huge gain on the New Power warrants; and

d. advised Enron to restructure, and helped to restructure, the Raptor SPEs by transferring more than $800 million of contracts to receive Enron's stock to the Raptors before the end of the first quarter of 2001 thereby allowing Enron to hide huge losses and keep billions of dollars of debt off Enron's balance sheet.

a. Vinson & Elkins Involvement In JEDI/Chewco

210. In Enron's Form 10K reports for the years ended 1997 through 2000 Vinson & Elkins approved "disclosures" regarding JEDI that were false and misleading. Vinson and Elkins allowed Enron to describe JEDI as an unconsolidated affiliate only 50 percent owned by Enron without also disclosing the existence of Chewco, that Chewco was not independent, was not capitalized with outside equity at risk, but instead was capitalized by JEDI and an Enron guaranty. These disclosures were not made until Enron announced its massive restatement in late 2001. Similarly, Vinson and Elkins was aware that the JEDI transactions were not true commercial, economic transactions, comparable to transactions with independent third parties.

211. Vinson and Elkins failed to disclose or to advise Enron to disclose that Enron's buyout of Chewco's interest in JEDI was a deal between Enron, Kopper, and Fastow; that the buyout included a $2.6 million gift to Kopper and Dodson; and that Chewco was a limited partner in JEDI, or that Chewco was not independent and was not capitalized with outside equity at risk but instead was capitalized by JEDI and an Enron guaranty. These facts did not come to light until Enron announced its massive restatement on November 8, 2001.

212. Similarly, the effect of the JEDI buyout on Enron and the Company's financial statements was not disclosed. Enron, with Vinson & Elkins knowledge, characterized the transaction as having a net positive effect on Enron's financial statements, while it actually resulted in a massive reduction in Enron's reported net income and shareholders' equity and massive increase in Enron's reported debt.

b. Vinson & Elkins Involvement In LJM and Raptors

213. Vinson & Elkins participated in the negotiations for, prepared the transaction documents for, and provided legal advice in structuring the LJM and Raptors transactions. These transactions were designed to accomplish favorable financial statements, did not involve any independent third party, and did not achieve any *bona fide* economic purpose or transfer risk. Nonetheless, Vinson and Elkins drafted and approved Enron's 10-Q Report for August 16, 1999 that stated: "[m]anagement believes that the terms of the transactions were reasonable and no less favorable than the terms of similar arrangements with unrelated third parties." But Vinson & Elkins knew that Enron, Fastow or Kopper were in fact the parties to these transactions; that they, through LJM, would realize huge profits with little or no risk; and Enron would achieve favorable financial statement results and bear all risk.

214. Vinson & Elkins further drafted and approved related party disclosures for Enron's 10-Q Reports regarding Rhythms and Raptors that failed to disclose that there were

no true third parties involved in these transactions. These statements were false and misleading because had the identities of the parties behind these transactions been revealed it would have been clear that Enron was essentially dealing with itself and, if this were disclosed, Enron would have to consolidate the results into its financial statements.

215. Similarly, Vinson & Elkins drafted and approved related-party disclosures that gave the appearance that Enron was hedging its investments with a third party when in fact there was no such counterparty and no hedge. These statements, set forth in Enron's 10-Q Reports filed August 14, 2000 and November 15, 2000, were false and misleading because the purported "third parties" were the Raptors--entities which LJM2 and Enron created. LJM2 received its profits and capital out of the Raptors before the purported hedging occurred, Enron was the only entity with a stake in the purported counterparty, the Raptors were funded with Enron's stock, and the credit capacity of the Raptors rested almost entirely upon the price of Enron's stock. Thus, if the value of Enron's merchant investments and stock went down, there would be no money to pay the hedge, *i.e.*, Enron bore the ultimate risk of the investment. Enron used these transactions to overstate net income by over $1 billion in 2000 through 2001.

216. The related-party disclosures drafted and approved by Vinson & Elkins further failed to disclose that (1) Enron controlled the "entities" or "vehicles," and (2) the

transactions were structured such that LJM2 received its profits and capital up front in the transactions before any hedging, and Enron bore the ultimate risk of the investment. Had this been disclosed it would have been clear that Enron was not dealing with valid SPEs and there was no hedge.

217. The related-party disclosures in Enron's Report on Form 10-K filed March 30, 2000 state: "In the fourth quarter of 1999, LJM2, which has the same general partner as LJM, acquired, directly or indirectly, approximately $360 million of merchant assets and investments from Enron, on which Enron recognized pre-tax gains of approximately $16 million." The related-party disclosures in Enron's report on Form 10-K filed April 2, 2001 state: "In 1999, the Related Party acquired approximately $371 million, merchant assets and investments and other assets from Enron. Enron recognized pre-tax gains of approximately $16 million related to these transactions." And Enron's Proxy filed March 27, 2001 states: "[D]uring 2000, LJM2 sold to Enron certain merchant investment interests for a total consideration of approximately $76 million."

218. These disclosures, which were drafted and approved by Vinson & Elkins, are false and misleading because Enron was buying back the same assets and investments which it was selling to Fastow. In some cases the assets were bought back within a matter of months before Enron filed its Form 10-K Report on March 30, 2000 with the related-

party disclosures indicating Enron was selling those assets. The related-party disclosures drafted and approved by Vinson & Elkins further did not reveal that in each of the "buybacks," the LJM partnerships profited millions of dollars even when the assets lost value. As a result of these artifices Enron was able to falsely inflate its net income in 1999 by over $130 million.

219. Further, although Vinson & Elkins was aware of Fastow's financial interest in the LJM transactions, it failed to adequately disclose or to advise Enron to disclose this fact. Had Vinson & Elkins disclosed Fastow's interest in the LJM transactions, and had the transactions been properly presented in Enron's public disclosures, it would have been clear that Fastow and the LJM entities were being paid to move debt off of Enron's financial statements, and that these were not *bona fide* economic transactions with an independent third party.

220. Finally, Enron's disclosures, contained in Enron's Proxy filed May 2, 2000, which was drafted and approved by Vinson & Elkins, failed to provide material facts specifically called for by SEC regulations concerning the economic interest of Fastow in the LJM transactions. Before Enron's Proxy was filed on May 2, 2000, the Rhythms transaction was terminated pursuant to a $30 million payment to Fastow's Swap Sub. The structure of the undisclosed termination was as follows: (1) the Rhythms' options held by

Fastow's Swap Sub. were terminated; (2) Fastow's Swap Sub. returned to Enron 3.5 million Enron shares but kept $3.75 million cash received from LJM1; and (3) Enron paid Fastow's Swap Sub. $16.7 million. The $16.7 million payment included $30 million, plus $500,000 accrued dividends on Enron's stock held by Swap Sub., less $3.75 million cash in Swap Sub., less $10.1 million principal and interest on a loan Enron made to Swap Sub. just prior to the transaction's termination. The failure of Vinson & Elkins to disclose the economic interest of Fastow in these transactions made the disclosures false and misleading.

2. Kirkland & Ellis

221. Kirkland & Ellis was instrumental in assisting Enron to establish off balance sheet investment partnerships and SPEs, including LJM1, LJM2, Chewco and the Raptors, to enable Enron to engage in transactions designed to enhance or maintain Enron's credit rating by moving debt off Enron's balance sheet and falsely inflating profits.

222. Kirkland & Ellis knew that the partnerships and SPEs it created were not independent from Enron, but were established by Enron, controlled by Enron, and were designed to falsely portray Enron's financial strength.

223. Kirkland & Ellis also issued numerous legal opinions in connection with the formation of, and later transactions with, the LJMs and other related SPEs. These opinions

were false because the underlying transactions lacked economic substance and did not involve independent third parties, but were instead used to move debt off Enron's balance sheet and to artificially inflate Enron's reported financial performance. As a result, Enron was able to move billions of dollars of debt from its balance sheet and artificially inflate its income by hundreds of millions of dollars from 1997 through 2001.

224. In December 1997, Kirkland & Ellis, at the direction of Enron, created Chewco, Big River Funding and Little River Funding to allow the outside investor in JEDI to sell its interest in JEDI to Chewco. Kirkland & Ellis was supposed to provide independent representation of Chewco and Chewco's equity investors, but in fact, took direction from Enron and its top insiders.

225. Kirkland & Ellis also knew that Chewco did not have an outside equity investor with at least a 3% interest as required to be treated as an independent third party. Kirkland & Elkins knew that Barclays loaned $240 million to Chewco to buy out the partner's interest in JEDI and also loaned the money to two straw investors to provide the funds for the investment in Chewco. Kirkland & Ellis also knew that Enron had to guarantee Barclay's $240 million loan, and that Barclays required Chewco to deposit $6 million cash with Barclays to collateralize the loans Barclays made to the two straw

investors. Kirkland & Ellis knew that these artifices were used by Enron to avoid consolidation of JEDI and Chewco with Enron on Enron's financial statements.

226. Kirkland & Ellis knew that Chewco was not independent; that Kopper, who reported to Fastow, was to be installed as the manager for Chewco; that Enron would provide the necessary cash to fund Chewco, Big River Funding and Little River Funding; and that there was no outside equity used to fund Chewco. Thus, Kirkland & Ellis knew that Chewco was created for one purpose--to falsely inflate Enron's financial statements.

227. Kirkland & Ellis also prepared the necessary legal documents to change the partners of Chewco from a limited liability company to a limited partnership, and to establish Kopper, instead of Fastow, as the owner of the general partner. When Kopper expressed concern over his role and conflict of interest, Kirkland & Ellis transferred Kopper's ownership interest in Big River Funding to Kopper's domestic partner, Dodson. These steps were taken so that Enron could avoid consolidating Chewco/JEDI on Enron's financial statements at the end of 1997.

228. In 1999, Kirkland & Ellis, at the direction of Enron, helped to create two LJM partnerships controlled by Enron and Fastow. Thereafter, Kirkland and Ellis represented LJM1, LJM2 and other SPEs and partnerships in the purchase of assets from Enron on terms that no independent third party would ever have agreed to. Typically these

transactions occurred at the end of financial reporting periods to manipulate Enron's financial statements and/or to allow Enron to meet forecasts.

229. At the end of the third and forth quarters of 1999, Enron sold interests in seven assets to LJM1 and LJM2 in transactions structured and approved by Kirkland & Ellis. Enron repurchased five of the seven assets, after the relevant financial period closed, in deals whereby the partnerships made large profits, even when the assets had actually declined in value. These transactions generated "earnings" for Enron of $229 million in the second half of 1999 out of total earnings for that period of $549 million. In three of these transactions Enron had agreed in advance to protect the LJM partnerships against any loss. Kirkland & Ellis knew that the purpose of these transactions was to hide debt and take huge, but false, profits.

230. Kirkland & Ellis supposedly represented partnerships or SPEs at the direction of Enron in each of the following transactions:

a. In June 1999, in order to remove debt from Enron's financial statements relative to Enron's investment in a power plant in Cuiaba, Brazil, Kirkland & Ellis arranged for LJM1 to buy a 13% interest in the power plant from Enron for $11.3 billion. As a result, Enron reported total mark to market income of $65 million in the third and fourth quarters of 1999. Kirkland & Ellis knew that Enron did this deal to avoid having to consolidate its interest in the power plant on its financial statements. Kirkland & Ellis also knew that Enron had agreed to make LJM1 whole for its investment. Indeed, Enron later repurchased LJM's interest for $14.4 million. This deal was a sham because there was no true independent buyer in the deal, the buyer had no risk, the gains Enron realized were false, and the debt should have been consolidated on Enron's financial statements.

b. In June 1999 and again in 2000 and 2001, Kirkland & Ellis assisted Enron in structuring hedge transactions involving Rhythms and Raptors. These transactions were funded with Enron stock, but were not true economic hedges because Enron always held the risk of loss inasmuch as Enron provided the capital that the Rhythms and the Raptors would use to pay Enron if the SPE had to pay on the hedge. Kirkland & Ellis knew that Enron used these transactions to inflate reported income and improve financial results.

231. LJM2 became one of the primary vehicles controlled by Enron to create SPEs, such as the "Raptors," to falsely inflate Enron's profits and hide billions of dollars in debt. Kirkland & Ellis knew that LJM2 would provide lucrative self-dealing investment opportunities to Enron insiders and others with whom Enron did business such as Enron's Bankers. As a result, certain lenders and officers of those lenders and their clients were allowed to invest in LJM2. Kirkland & Ellis knew that this was so as evidenced by the invitation contained in the private placement memorandum ("PPM") which Kirkland & Ellis helped to write. Kirkland & Ellis further knew that LJM2 would be controlled by Enron and therefore was not a proper unconsolidated entity because that same PPM identified Fastow's position as Enron's CFO, and that LJM2's day-to-day activities would be managed by Enron insiders Fastow, Kopper, and Glisan. That PPM further stated that "[t]he Partnership expects that Enron will be the Partnership's primary source of investment

opportunities" and that it "expects to benefit from having the opportunity to invest in Enron-generated investment opportunities that would not be available otherwise to outside investors." It specifically noted that Fastow's "access to Enron's information pertaining to potential investments will contribute to superior returns."

232. Kirkland & Ellis worked with Fastow, Merrill Lynch, CS First Boston, Vinson & Elkins and Andersen to create and fund LJM2 at year end 1999 so that it could do deals with Enron such as Collateralized Loan Obligations, Nowa Sarzyna, MEGS, LLC, and Yosemite, enabling Enron to report strong earnings growth and eliminate certain assets. These year-end deals were essential for Enron to avoid financial disaster at the end of the fourth quarter of 1999. Kirkland & Ellis knew that these transactions, which it helped to design and close, were intended to falsely portray Enron as financially strong when such was not the case. Incredibly, these transactions were reversed in the beginning of 2000.

233. Kirkland & Ellis also helped design transactions to help Enron avoid disclosing its holdings in Yosemite. In order to give the appearance that Enron did not own Yosemite certificates, but rather that they were owned by a third party, Kirkland & Ellis had LJM2 buy the certificates for one day, and then resell them to Condor. This transaction was a sham because there was no legitimate independent third party to purchase the

Yosemite certificates, they were sold for only one day, and the deal documents were back-dated during February 2000 in order to conceal this transaction from Enron's shareholders.

234. On March 20, 2000, Kirkland & Ellis drafted the partnership agreement for a limited partnership called Southampton Place L.P., which was capitalized with $70,000 from several Enron employees, including Fastow, Kopper, Glisan, Mordaunt, Lynn and Patel, to acquire part of a limited partnership interest in LJM2. Notwithstanding the involvement of these Enron employees in the Southampton partnership and its transaction with LJM2, Enron did not disclose the existence of Southampton's investment in LJM2 as a related party transaction.

235. In May 2000, when Enron was unable to find a purchaser for its fiber optic cable lines, Kirkland & Ellis arranged for LJM2 to make the purchase. This transaction was not an arms length transaction and was engaged in by Enron solely to inflate earnings. Enron sold the fiber optic cable to LJM2 for $100 million, only $30 million of which was paid in cash. Enron recognized $67 million in pre-tax earnings in 2000 related to this sale, even though the cable sold was not worth $100 million. Thereafter, in the third quarter of 2000, a second sale of cable was structured by Kirkland & Ellis for $300 million. These deals were shams, designed solely to ensure that Enron met its earnings projections for the quarters in which Enron booked the income.

236. Kirkland & Ellis also assisted Enron in its use of mark-to-market accounting to create false income, which Enron then reported on its financial reports. The Raptor SPEs are examples of Kirkland & Ellis structures used by Enron to move assets and create the appearance of income.

237. It was important for Enron to keep its stock price high because Kirkland & Ellis had structured many Enron deals with SPEs as hedge transactions using Enron stock. But at year end 2000, two of Enron's Raptor SPEs lacked sufficient credit capacity to support existing obligations, let alone continue to engage in similar transactions with Enron. Enron therefore faced the likelihood that it would have to take a multi-million dollar charge against earnings. This, in turn, would expose the prior falsification of Enron's financial results, cause Enron's stock price to fall, activate stock "triggers," and cause a financial disaster for Enron. To address this, Kirkland & Ellis restructured and capitalized the Raptor SPEs by transferring even more shares of Enron stock to these entities. This enabled Enron to avoid recording a huge credit reserve for the year ending December 31, 2000 but also increased the need to keep Enron's stock price trading at artificially inflated levels.

238. Also in 2000, Kirkland & Ellis helped Enron create a huge phony profit through an initial public offering of New Power Common Stock, resulting in a gain to Enron on its stock holdings in New Power, which it could then hedge in a transaction with

LJM2. Enron held 13.6 million shares of stock and warrants to purchase 42 million more shares as a result of the New Power IPO. Kirkland & Ellis arranged a hedge by creating an SPE called Hawaii 125-0. CIBC (and several other of Enron's banks) made a "loan" of $125 million to Hawaii 125-0. Kirkland & Ellis knew, however, that CIBC received a "total return swap" guarantee from Enron to protect CIBC and the other banks against any loss. Enron transferred millions of its New Power warrants to Hawaii 125-0 to "secure" the banks' loan and thus created a huge $370 million false "profit" on the gain on the New Power warrants. Hawaii 125-0 then "hedged" the warrants with another entity created and controlled by Enron called "Porcupine." Although LJM2 put $30 million into Porcupine to facilitate the hedge of the New Power warrants, Porcupine paid the $30 million back to LJM2 plus a $9.5 million profit one week later. At the end of this "transaction" Porcupine had no assets.

239. In March 2001, so that Enron could avoid a pre-tax charge against earnings of more than $500 million resulting from a shortfall in credit capacity of the Raptor SPEs, Kirkland & Ellis restructured the Raptors by having Enron transfer more than $800 million of contracts to receive Enron's own stock to them just before quarter-end. This transfer was for no consideration and violated acceptable accounting procedures. As a result, Enron was

able to hide substantial losses in its merchant investments and avoid disclosing billions of dollars of debt.

D. THE ROLE OF ENRON'S BANKERS

240. J. P. Morgan, Citigroup, Merrill Lynch, and Barclays actively assisted Enron's deceptions and were aware of, and participated in, Enron's misleading accounting and financial reporting practices as aforedescribed.

241. Enron's Bankers understood fully Enron's accounting goals of increasing operating cash flow without having to report debt. Indeed, J. P. Morgan and Citigroup helped design and implement the financial structures to help Enron achieve its objectives.

242. Enron's Bankers further knew that the so-called "prepay" transactions were designed to achieve accounting objectives, not legitimate business objectives, and that Enron was booking "prepay" proceeds as trading activity not debt.

243. Enron's Bankers participated in Enron's scheme to create the illusion of a financially healthy company enabling Enron to artificially inflate the price of its stock and securities, and to fraudulently maintain its investment grade credit rating. Enron's Bankers used that illusion to reap millions of dollars in returns on investments in Enron-controlled entities, as well as millions of dollars of interest on loans, advisory fees, and underwriting fees.

244. Enron's Bankers assisted Enron to create secretly controlled partnerships and special purpose entities for the sole purpose of engaging in economically meaningless transactions solely to conceal debt and inflate revenues. Enron's Bankers purposefully made loans to Enron described as commodity transactions, underwrote public offerings of Enron stock and debt based on knowingly false representations about Enron's financial health, and assisted Enron in reversing financial arrangements, after the reporting periods passed, that the same financial institutions had participated in prior to the financial reporting period deadline.

245. Enron's Bankers, and their senior officers and executives, invested in Enron-controlled partnerships themselves in order to realize returns, or potential returns, far in excess of those available to the business community and investing public.

1. J. P. Morgan Chase & Co.

246. J. P. Morgan provided commercial and investment banking services to Enron, helped structure or finance one or more of Enron's off balance sheet partnerships or SPEs, and helped Enron hide almost $4 billion in debt that should have been disclosed on Enron's financial statements. In return J. P. Morgan received huge underwriting and consulting fees, interest payments, commitment fees and other payments, and top executives of J. P. Morgan invested at least $25 million in the LJM2 partnership.

247. In addition, J. P. Morgan helped arrange approximately $1.5 billion in syndicated loans so that Enron could finance numerous of the SPEs and partnerships that it used to improperly move billions of dollars of debt off its books and report millions of dollars of profits.

248. In addition, throughout the Relevant Period, J. P. Morgan issued numerous analysts' reports on Enron containing false and misleading statements concerning Enron's business, finances and financial condition and prospects. These statements helped to artificially inflate the trading prices of Enron's publicly traded securities.

249. J. P. Morgan knew that if Enron’s stock price fell below various "trigger" prices, Enron would be required to issue millions of additional Enron shares, which would substantially reduce Enron's shareholders' equity, endanger its investment grade credit rating, and its access to the capital markets. J. P. Morgan further knew that this result would be devastating, not only to Enron, but to J. P. Morgan and its top executives as well.

250. In order to assist Enron to engage in phony transactions, to hide debt and inflate profits, J. P. Morgan worked with Enron on a series of transactions involving Mahonia Ltd., an entity secretly controlled by J. P. Morgan. These transactions were structured to appear as natural gas futures contracts or commodity trades, but they were, in fact, loans from J. P. Morgan to Enron designed to boost Enron’s apparent liquidity

while concealing over $3.9 billion in debt that should have been reported on Enron's balance sheet. J. P. Morgan knew that Enron entered into these transactions at the end of financial reporting periods in order to manipulate its financial statements and make it appear as though Enron was financially strong and meeting or exceeding analyst projections when, in fact, just the contrary was true.

251. Indeed, J. P. Morgan introduced the idea of disguised commodity trades to Enron. Enron improperly benefited by hiding approximately $3.9 billion in loans, while J. P. Morgan profited by charging excessive interest rates and fees for its role in putting these transactions together.

252. J. P. Morgan also helped Enron structure and finance the LJM2 partnership. In return, J. P. Morgan executives invested $25 million in LJM2 so that it would have the cash to fund four SPEs to do deals with Enron at year-end 1999 to show huge false profits, enabling Enron to meet its 1999 profit forecasts.

253. J. P. Morgan also provided a $65+ million credit line to LJM2 enabling it to form and finance the Raptors and other SPEs, which Enron used to falsely report inflated profits, and again move billions of dollars in debt off Enron’s balance sheet and into the SPEs.

254. As Enron's lead lending bank, and based on the close relationship between top executives at J. P. Morgan and Enron's senior officers and employees, J. P. Morgan knew that Enron was providing false financial information in its public reports and disclosures, and that its true financial condition was far from what it was reporting to the public. J. P. Morgan assisted Enron in this deception.

2. Citigroup, Inc.

255. Citigroup provided commercial and investment banking services to Enron, helped to structure and finance one or more of Enron's off balance sheet partnerships or SPEs, and helped Enron hide billions of dollars of debt that should have been disclosed on Enron's financial statements. In return, Citigroup received huge underwriting and consulting fees, interest and commitment fees. In addition, top executives of Citigroup were invited to personally invest, and did invest, at least $15 million in the LJM2 partnership.

256. Citigroup knew that Enron's true financial condition was much less attractive than Enron had reported, and that Enron was falsifying its true financial condition and financial results. Accordingly, Citigroup created five-year credit derivatives or securities that functioned like an insurance policy for its credit exposure to Enron in an effort to provide protection from the losses it risked due to Enron's actual financial

condition. Under this arrangement, if Enron became insolvent or was otherwise unable to pay its debts, Citigroup would stop paying a return to the buyers of these derivatives or securities, would keep the invested principal, and would give the investors Enron's debt. Citigroup issued $1.4 billion of securities to cover potential losses between August 2000 and May 2001.

257. In addition, from late 1999 through early 2001, Citigroup loaned $2.4 billion to Enron in a series of so-called "prepaid swaps" through Delta, an entity established and controlled by Citigroup located in the Cayman Islands. These were not true "prepaid swaps," however, because Citigroup paid up front an estimate of the fair value of its portion of the swaps amounting to hundreds of millions of dollars and Enron was obliged to repay the cash over five years. These transactions were, in fact, loans, but Enron misrepresented them in its disclosures as "assets from price risk management" and as "accounts receivable." The repayments that Enron owed the banks were listed as "liabilities from price risk management."

258. In addition, Citigroup issued numerous analysts' reports on Enron which contained false and misleading statements concerning Enron's business, finances and financial condition and its prospects. These statements helped to artificially inflate the trading prices of Enron's publicly traded securities.

259. Citigroup knew that if Enron's stock price fell below various "trigger" prices, Enron would be required to issue millions of additional Enron shares, substantially reducing Enron's shareholders' equity, endangering its investment-grade credit rating, and its access to the capital markets. Citigroup further knew that this result would be devastating not only to Enron, but to Citigroup and its top executives as well.

260. Citigroup also helped structure and finance the LJM2 partnership. In return, its top executives invested at least $15 million in LJM2 so that it would have the cash to fund four SPEs to do deals with Enron at year-end 1999 to show huge, false profits for Enron enabling it to meet its 1999 profit forecasts.

261. As one of Enron's primary lenders, and based on the close relationship between top executives at Citigroup and Enron's senior officers and employees, Citigroup knew that Enron was providing false financial information in its public reports and disclosures and that its true financial condition was far from what it was reporting to the public. Citigroup assisted Enron in this deception.

3. <u>Merrill Lynch & Co.</u>

262. Merrill Lynch provided investment banking services to Enron, helped to structure and finance one or more of Enron's off balance sheet partnerships or SPEs, and

helped Enron hide billions of dollars of debt that should have been disclosed on Enron's financial statements.

263. Merrill Lynch helped Enron structure and finance certain of the off balance sheet SPEs and partnerships Enron controlled, which were used by Enron to falsely inflate profits and conceal debt.

264. Merrill Lynch also helped Enron structure Azurix, Enron's purported worldwide water company. Merrill Lynch knew that Enron had grossly overpaid for Azurix, that Azurix had been undertaken without a proper and detailed feasibility study, and without a thorough and well-thought out business plan. Merrill Lynch acted as lead underwriter for the Azurix IPO, which raised $370 million in badly needed capital for Enron and later as lead underwriter of over $650 million in Azurix senior notes reaping millions of dollars for Azurix.

265. Merrill Lynch was also intimately involved in creating, structuring and helping to finance the LJM2 partnership. Merrill Lynch, working with certain of the Enron Defendants, the Andersen Defendants, and Enron's Lawyers, created and structured the LJM2 partnership. Merrill Lynch, acting as the placement agent of individual limited partnership investments, used a private placement memorandum that made clear that Enron would be the "source" of most, if not all, LJM deals, that Enron insiders such as Fastow,

Kopper and Glisan would manage LJM2's activities, and that LJM2 would benefit from investment opportunities with Enron that "would not be available otherwise to outside investors." The private placement memorandum further made clear that LJM2 presented an unusually attractive investment opportunity," because Fastow's "access to Enron's information pertaining to potential investments will contribute to superior returns." Thus, Merrill Lynch and the other defendants knew that LJM2 was intended to profit from self-dealing transactions with Enron.

266. In return for its assistance, Merrill Lynch and many of its senior executives invested almost $22 million in LJM2 in late 1999 so LJM2 would have the cash to fund four SPEs to do deals with Enron at year-end 1999 to create huge profits for Enron and enable it to meet its 1999 profit forecasts. Merrill Lynch also knew that other banks and their top executives would invest in LJM2, in return for their assistance in helping Enron set up partnerships and SPEs and do deals in order to create false financial reports.

267. Merrill Lynch knew that LJM2 was intended to do deals that allowed Enron to keep debt off its balance sheet via transactions that were not arm's length and were not indicative of fair market transactions with independent, unrelated third parties. Merrill Lynch also provided financing to the LJM2 partnership via a $120 million line of credit to

provide the financing that LJM2 needed to engage in transactions with SPEs and Enron to falsify Enron's reported results.

268. Merrill Lynch also issued numerous securities analysts' reports containing false and misleading information concerning Enron's business, cash flow, profitability, debt, and overall financial condition. Merrill Lynch knew that if Enron's stock price fell below certain "trigger" prices, Enron would be required to issue millions of additional Enron shares, which would substantially reduce Enron's shareholders' equity, endanger its investment-grade credit rating, and its access to the capital markets. Merrill Lynch further knew that this result would be devastating, not only to Enron, but to Merrill Lynch and its top executives as well.

269. As one of Enron's leading investment banks, and based on the close relationship between top executives at Merrill Lynch and Enron's senior officers, Merrill Lynch knew that Enron was providing false financial information in its public reports and disclosures, and that its true financial condition was far from what it was reporting to the public. Merrill Lynch assisted Enron in this deception.

4. **Barclays Capital, Inc.**

270. Barclays provided commercial and investment banking services to Enron, help to structure and finance one or more of Enron's off balance sheet partnerships or SPEs, and helped Enron hide billions of dollars of debt that should have been disclosed on Enron's financial statements.

271. Barclays helped Enron by participating in syndicated loans to it of over $3 billion, helping it raise almost $2 billion from the sale of new securities, and helping it structure and finance certain of the off-balance sheet SPEs and partnerships Enron controlled which were used by Enron to falsely inflate profits and conceal debt.

272. Barclays knew that its assistance would help Enron to falsify its financial condition.

273. In addition, at year-end 1997, Barclays helped Enron structure Chewco to buy out the outside investor's interest in JEDI. Barclays knew that if Enron could not find a legitimate independent third-party investor to replace the outside investor's interest in JEDI, Enron would be forced to restate profits it had earlier reported during 1997 and put millions of dollars of debt back on its balance sheet.

274. To avoid the disastrous consequences associated with having to restate profits and report debt previously unreported, Barclays agreed (a) to loan $240 million to Chewco on unusually favorable terms, receiving not only high interest rate payments but

very significant commitment and lending fees, as well as a guarantee of the loan by Enron; and (b) to make available approximately $11.4 million in so-called "equity loans" to the purported equity investors in Chewco. Barclays knew the so-called "equity investors" were, in fact, straw persons controlled by Enron, who did not have any real credit standing. Barclays required Chewco to make a $6.6 million cash deposit with Barclays to offset the so-called "equity loans." Thus, Barclays knew (a) that the Chewco partnership was a sham with little or no outside equity; (b) that Enron formed Chewco to prevent restatement of Enron's previously reported 1997 profits; and (c) that Enron could and would use Chewco to engage in other non-arm's-length transactions to falsely create huge profits and to move billions of dollars of debt off its financial statements.

275. As one of Enron's primary lenders, and based on the close relationships between Enron's senior officers and employees, Barclays knew that Enron was providing false financial information in its public reports and disclosures, and that its true financial condition was far from what it was reporting to the public. Barclays assisted Enron in this deception.

E. THE ROLE OF THE CREDIT RATING AGENCIES

276. Through numerous acts and omissions, the Credit Rating Agencies negligently misrepresented Enron's financial health to CRRA. Despite their position in the

investment market, and their duty to CRRA and similarly situated persons contemplating a $220 million loan to Enron, the Agencies negligently published false and misleading credit information concerning Enron when they had information available to them, and when they could have and should have requested information directly from Enron, that would have showed Enron's financial situation was precarious and not what Enron had been representing it to be. As the Agencies reasonably should have expected, CRRA relied on these misrepresentations in making its decision to enter the Enron Transaction, suffering harm as a result.

277. The Agencies represent themselves to the public as occupying a niche in the investment information market, by providing credit ratings reflecting the Agencies' determinations of the creditworthiness of particular companies or securities based on the Agencies' self proclaimed objective and independent analysis. The Agencies tout their ratings as a key component of the capital markets, expected to create efficiencies in financial markets by providing reliable, credible, and independent assessments of credit risk. The Agencies recognize and encourage use of their ratings as informational tools by, among others, issuers seeking access to the capital markets and government entities who rely on these ratings in making investment decisions.

278. According to the Agencies, investors throughout the world look to the Agencies' ratings to help in their understanding of credit risks. The standing of the Agencies in the business and investing community stems from what is widely understood to be their independent, objective and credible analysis. The Agencies' know that their position in the business and investment community ultimately depends on the credibility of their ratings with investors.

279. The Agencies specifically disclaim that the ratings are based on the issuer's financial projections or management's view of what the future may hold. Rather, the Agencies assert that their ratings are based on the Agencies' assessment of the firm's prospects. The Agencies claim that, in determining ratings, they try to take into account whatever relevant future events may be anticipated.

280. While acknowledging that investors look to them for their forecasts of long-term creditworthiness, the Agencies recognize that investors did not expect Enron, a very large issuer of bonds and other investment vehicles that they had rated "investment grade," to default very shortly after holding an investment grade rating. The combination of the Agencies' access to information from the issuers, its experienced staff, the financial disclosure regime in the United States, put the Agencies in a special position in relationship

to investors who rely on their ratings, and reasonably should have enabled the Agencies to avoid making this misrepresentation of Enron's creditworthiness.

281. The Agencies acknowledge that having unfettered access to management and information about an issuer contributes substantially to the quality and timeliness of ratings. Their access to information far exceeds that of market investors, and is used by the Agencies to induce reliance by investors upon their ratings. The avenues for access take several forms, including the following:

a. Meetings with corporate management are an integral part of the Agencies' rating process. The purpose of such meetings is to review in detail the company's key operating and financial plans, management policies, and other credit factors that have an impact on the rating. Management meetings are critical in helping to reach a balanced assessment of a company's circumstances and prospects. Well in advance of the meeting, the Agencies receive background materials from the company clients (the Agencies derive in excess of eighty-five percent of their annual revenue from issuers whom they rate), including:

- five years of audited annual financing statements;
- the last several interim financial statements; and
- narrative descriptions of operations and products.

b. The Agencies encourage companies to discuss hypothetically--again, in strict confidence--transactions that are perhaps only being contemplated (e.g., acquisitions, new financings), and they provide frank feedback about the potential ratings implications of such transactions.

c. In addition, the Agencies have procured for themselves a broad exception to the provisions of U.S. Securities & Exchange Commission's Regulation Fair Disclosure ("Reg FD"). The exemption from the requirements of Reg FD has left the Agencies in a position to gain additional information that management may not choose to disclose, either because it is not specifically required to be disclosed or because the company chooses to omit such disclosure as immaterial. There are many cases where areas of risk are clear, such as with Enron, and the Agencies are in a position to extract crucial material information on major areas of risk that may not have been made available to investors broadly. The Agencies' exemption from Reg FD gives them a platform to be demanding of issuers and highlight areas that may be specific to a given issuer or industry and not effectively captured by GAAP requirements or by the often sweeping, general disclosure requirements of the SEC.

282. In addition to touting their extraordinary access to information, the Agencies tell investors who rely on their ratings that they assemble teams of analysts with appropriate expertise to review information pertinent to the rating. The Agencies state that their analysts are encouraged to exercise skepticism with respect to an issuer's claims and promises.

283. The Agencies also tell investors that all public ratings are monitored on an ongoing basis, including review of new financial or economic developments. They assure investors that surveillance enables analysts to stay abreast of current developments, discuss potential problem areas, and be apprised of any changes in an issuer's plans. For example,

one Agency identifies its "CreditWatch" actions as taken in response to specific events or sudden changes in circumstances that have a high potential to affect creditworthiness.

284. At the time of the Enron Transaction, the Agencies claimed that their credit ratings of Enron in the investment grade category were supported by meetings and other reviews, and were calculated and monitored on an ongoing basis through a thorough analysis of, among other materials, Enron's reported and audited financial statements including, in particular, its cash flow, debt burden, and other key financial metrics relative to Enron's creditworthiness.

285. The Agencies knew, or reasonably should have known, that Enron's credit rating was unsupportable. The Agencies failed to reasonably reassess Enron's ratings at reasonable intervals in light of changed company or market circumstances; assess Enron's liquidity risk; evaluate Enron's corporate governance; or monitor and investigate Enron's accounting practices.

286. Despite ample information available to them suggestive of financial fraud and the potential for financial fraud, the Agencies did not engage in a reasonable investigation of Enron to verify their ratings. In fact, when asked how Enron makes its money, Standard & Poor's Todd Shipman stated, "If you figure it out, let me know," and

Fitch's Ralph Pellecchia responded, "Do you have a year?" Had they reasonably done so, the Agencies would have uncovered at least some of the following:

a. Enron's "off-the-books" and "asset light" strategies and other actions taken by Enron to move billions of dollars in assets off its balance sheet to separate but affiliated companies. Indeed, as of October 2000, the Finance Committee of the Board of Directors was aware that Enron had a total of $60 billion in assets, of which $27 billion, or nearly 50 percent, were held by Enron's "unconsolidated affiliates."

b. The use of huge loans disguised as business deals to falsely portray inflated income and cash from operations rather than debt and to deceive Enron's investors and business partners.

c. The use of aggressive accounting practices that "pushed the limits" and were "at the edge" of acceptable accounting practices, including Enron's increasing reliance on complicated transactions with convoluted financing and accounting structures, multiple special purpose entities, hedges, derivatives, swaps, forward contracts, prepays, and other forms of structured finance.

d. The establishment of numerous special purpose entities, the issuance of Enron preferred shares, and the pledge of Enron's stock to support Enron's massive off-the-books activities.

e. The use of questionable valuation methodologies to overvalue assets reported on Enron's financial statements.

f. The use of private equity funds, the LJM partnerships, to do business with Enron for the purpose of improving Enron's financial statements.

g. The nature and purpose of Whitewing, LJM, and Raptor transactions.

h. The use of almost 3000 related entities, with over 800 of them organized in well-known offshore locations, including about 120 in the Turks and Caicos, and about 600 using the same post office box in the Cayman Islands.

i. Inadequate disclosure concerning the creation of special purpose entities, issuance of preferred Enron shares, and the pledge of Enron stock as collateral allowing Enron to move at least $27 billion off its balance sheet.

j. The creation of LJM1 and LJM2 partnerships and the Rhythms stock hedge to move debt off Enron's financial statements, portray inflated earnings and cash flow, and protect Enron's income statement from loss if the value of Enron's stock were to drop in price.

k. Numerous transactions involving clear conflicts of interest in violation of Enron's code of conduct, including the LJM1, LJM2 and LJM3 partnerships, which allowed Defendant Fastow to reap tremendous profits at Enron's expense.

l. The change of Whitewing from a consolidated to an unconsolidated entity allowing Enron to pledge approximately $2.5 billion as collateral for Whitewing debt and Whitewing to purchase over $2 billion in Enron assets as part of an "asset light" strategy to reduce debt levels on Enron's financial statements and move assets with relatively low returns into unconsolidated affiliates that Enron controlled.

m. The creation of and use of Whitewing, Osprey Trust and Yosemite Trust as off-balance sheet vehicles to purchase Enron assets and create the appearance of increased equity investments and lower debt ratios.

n. Authorization of the Raptor hedge transactions despite high-risk accounting, no true independent third party, lack of economic substance, no assets other than Enron stock and stock contracts, and no counter-party creditworthiness.

o. Other extensive undisclosed off-the-books transactions and so-called "Balance Sheet Management" efforts involving numerous other sham entities including Hawaii 125-0 Trust, Black Hawk, and Osprey.

287. These practices should not have come as a surprise to the Agencies, but they failed to conduct a reasonable analysis of Enron's public filings or use their access to company information to uncover them. Enron disclosed many transactions in, among other things, its 2000 Form 10-K filing and proxy statements, which analysts at the Agencies failed to review with the critical eye required--but nonetheless expected of them--to uncover the fraud. At the time of the Enron Transaction, the Agencies also knew or reasonably should have known that:

a. Enron had significantly shifted its business mix, developing a complex organizational structure including numerous highly complex partnerships with no business purpose other than to move debt off Enron's balance sheet and hide financial losses.

b. Enron engaged in numerous related party transactions which were designed to hide debt and inflate income, including Enron's deals with partnerships and special purpose entities run by Enron insiders. These related parties were not consolidated for purposes of Enron's financial reporting as relevant auditing standards required.

c. Enron's reported financial profile (in size alone), as presented in its income statement and balance sheet, changed significantly, as Enron established numerous offshore entities to shift income, minimize or avoid taxation, circumvent United States laws, and maintain secrecy.

d. Enron management's incomes and huge bonuses were tied to Enron's stock price, creating a tremendous incentive and risk to engage in overly aggressive accounting procedures and even fraud in order to achieve targets and goals.

e. Enron's supposed growth, revenues, and profitability far surpassed that of other companies in the same industry, as its market capitalization of Enron increased dramatically over several years.

f. Enron had engaged in, and continued to engage in, overly aggressive and fraudulent accounting practices.

288. At the same time, the Agencies knew, or should have known, that the independence of Enron's auditors, Andersen, was compromised by the massive amount of fees Enron was generating for Andersen, including burgeoning amounts of non-auditing and non-accounting consulting fees. Despite this awareness that Andersen's independence was compromised, the Agencies did not inquire of Enron regarding this conflict-laden consulting work.

289. Meanwhile, the Agencies continually maintained Enron's investment grade ratings. In assessing Enron's credit risk, the Agencies failed to make an evaluation of the quality or aggressiveness of Enron's accounting procedures. Without providing reasonable notice to CRRA and others relying on their ratings, the Agencies did not comment on a number of very pressing accounting issues that called into question the quality of the

ratings. The Agencies unreasonably failed to comment on or even ask Enron about very important issues, such as Enron's portfolio of derivatives, while identifying themselves as coming from a more objective platform.

290. Instead, going against their publicized practices of encouraging their analysts to exercise skepticism with respect to an issuer's claims and promises, the Agencies fell sway to Enron PowerPoint presentations and phone calls from high-level Enron executives. Beginning in the fall of 1999, Enron began a concerted effort to obtain an upgrade of its long-term debt rating. The Agencies asked Enron for information that might justify such a move, including financial data on leverage and the sustainability of the company's cash flow. Enron responded by providing what its executives termed the "kitchen sink" disclosure, which purportedly presented all significant financial information about the company, including unconsolidated assets and debt. Thereafter, at least one Agency, Moody's, upgraded Enron's corporate long-term debt rating. At the same time, Standard & Poor's negligently fell sway to Enron's repeated articulations of its strong commitment to maintain creditworthiness during personal visits to Standard & Poor's offices by the company's executives, including its CFO (recently-indicted Andrew Fastow), and, in at least one instance, a personal telephone call from its Chairman, Kenneth Lay, who explicitly stated that maintaining Enron's creditworthiness was a top corporate priority.

291. The Agencies unreasonably failed to use their leverage in these situations, or thereafter, to extract crucial information. Specifically, the Agencies were unreasonably unwilling to detail the most important questions that needed to be addressed by Enron, and to clarify for investors exactly what questions the company would or would not address. The fact that Enron came out of various meetings with the rating agencies with its investment grade ratings intact led many investors to believe that many of the crucial questions were addressed.

292. With their exemption from Reg FD, and the access described above, the Agencies should have been able to focus on the economics of unusually risky activities engaged in by Enron, such as the extensive and unlawful use of Special Purpose Entities (SPEs), counterparty transactions, contingent liabilities, and rising structural risks in any kind of on- or off-balance sheet financing. These risks show up in a very distinct minority of the corporate sector, but were used excessively by Enron, and were unreasonably overlooked by the Agencies. In short, the Agencies repeatedly took Enron officials at their word as to the Company's financial health, without asking specific, probing questions--despite indications that Enron had misled the Agencies in the past.

293. If a company fails to disclose or discuss material areas of risk, then a credit rating agency may, at the very least, withdraw its rating, but the Agencies failed to do so

here. In this instance, despite all of the signs of trouble at Enron and Enron's failure to provide complete access to company information, the Agencies even considered, and did, in fact, raise their credit ratings.

294. In fact, Moody's and S&P reasonably knew or should have known firsthand that the Enron Transaction consisted of nothing more, from Enron's point-of-view, than a huge loan disguised as a business deal intended to falsely portray inflated income and cash from operations, rather than debt, and thereby deceive Enron's investors and business partners. Specifically, in evaluating bonds to be issued by CRRA in Fall 2000, Moody's and S&P learned that Enron, CL&P and CRRA had been working on the transfer of CL&P's obligations under an Energy Purchase Agreement to Enron. CRRA informed these Agencies that pursuant to a proposed series of transactions:

a. CL&P would assign to Enron and Enron would assume the obligations of CL&P under the Energy Purchase Agreement. CL&P would make a lump sum payment to Enron in an amount equal to the above-market portion of the price CL&P is required to pay for steam for the duration of the Energy Purchase Agreement.

b. CRRA and Enron would simultaneously amend the Energy Purchase Agreement to provide for the sale by CRRA of steam to Enron in an amount sufficient to generate 250 million kilowatt hours of electricity in each year. Enron would pay CRRA a "capacity charge" equal to $2.2 million per month.

c. Enron would enter into an Electric Generation Agreement with CRRA under which Enron would pay CRRA to convert the steam sold to Enron into 250

> million kWh of electricity per year at prices starting at $.030 per kWh in the calendar year 2001 and increasing $.001 per year up to $.033 per kWh for the calendar year 2004 and each calendar year thereafter through the remainder of the term of the agreement in 2012.

295. Although the information provided concerning the Enron Transaction indicated that Enron was, in essence, to receive a loan in the form of a "lump sum" to be repaid on a monthly basis (Enron itself never would generate or distribute steam or electricity), Moody's and S&P raised no concerns over this transaction. In addition, even though CRRA informed these Agencies that in entering into the Enron Transaction, CRRA was motivated by and relying on Enron's higher credit ratings compared to CL&P, Moody's and S&P did not engage in any reasonable review of Enron's financial statements or use their multiple avenues of access to obtain further information concerning this specific transaction or whether it was symptomatic of Enron's business strategy and accounting practices.

296. Rather, with knowledge of the nature of the proposed transaction, Moody's and S&P gave favorable ratings to the bonds issued by CRRA, A2 and A, respectively. In issuing its rating on or about December 1, 2000, Moody's spoke to the Enron Transaction specifically, endorsing it, by stating that:

> Since January of this year, the State, Enron (Baa1 senior unsecured), CL&P and CRRA have been working on the transfer of CL&P's obligations under the Energy Purchase Agreement to Enron.

> As part of the transactions Enron will receive an approximate $225 million upfront payment from CL&P in compensation for the estimated above-market portion of the contract. In addition, the contract with the facility contributes to Enron's compliance with Section 25 of the state deregulation act, which requires electric providers in Connecticut to generate a portion of their energy supply (growing to 13% in 2009) from renewable resources.
>
> Under the provisions of a new Energy Purchase Agreement between CRRA and Enron, Enron will pay CRRA a $2.2 million/month capacity charge. The first 250 million kWh of electricity generated at the facility will be sold by Enron to CL&P at an initial 3 cents/kWh, with the revenues being passed through to the Authority. The excess generation (the facility has generated an average 450 million kWh over the last four years) will be sold by CRRA to CL&P, also at an initial 3 cents/kWh. CRRA will own the generating facilities. Moody's views as a credit positive the $26.4 million "floor" in the annual payments that is a result of the capacity payments. We also note that at lower than historic generation levels, the facility's electric revenues are higher than they would have been under the CL&P contract.

297. Thereafter, Moody's, S&P, and Fitch, which had access to the issuance reports on CRRA's bonds, failed to perform a reasonable review of Enron's business dealings used to dress-up loans as energy transactions, or its accounting of this transaction or others, to ensure that Enron merited the credit ratings that the Agencies continued to maintain.

298. As a consequence, and as a result of the foregoing false representations by Enron throughout the Relevant Period, Standard & Poor's, Moody's, and Fitch gave Enron

investment grade credit ratings that were undeserved and were more favorable than the credit rating of CL&P. For example, as of October, 2000, Enron had a credit rating from Standard & Poor's of BBB+ with "unsecured outlook stable;" Moody's of unsecured BAA1 with "no watch;" and Fitch Longterm BBB- and commercial paper (short term) F2. CRRA relied to its detriment on Enron's favorable credit ratings and the positive results published in the preceding several years of fraudulent public filings in entering into the Agreements in December, 2000, and making the approximately $220 million loan to Enron. In fact, under Connecticut Statutes, CRRA, like a Connecticut Savings Bank, is not allowed to make investments rated below "investment grade" by the Agencies. Conn. Gen. Stat. § 22a-265(14), 3GA-275(b). Thus, CRRA was by law required to rely on the reported credit ratings of Enron.

VIII. CAUSES OF ACTION

FIRST COUNT - Fraudulent Misrepresentation (The Enron Defendants)

1 - 298. Paragraphs 1 through 298 are incorporated as though fully set forth herein.

299. The Enron Defendants, through numerous schemes, artifices and manipulations created by them, at their direction, or with their knowledge and participation,

as detailed herein, knowingly, intentionally, and fraudulently made false representations as statements of fact concerning the financial condition of Enron, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q and other SEC filings, press releases, and other publicly disseminated reports and disclosures (the "False Statements").

300. The False Statements were untrue and were known to the Enron Defendants to be untrue at the time that they were made.

301. The foregoing False Statements were made by the Enron Defendants in wilful, wanton, and reckless disregard for the rights of the business community and investing public, including CRRA, to induce parties such as CRRA to rely upon and act upon these statements in making decisions to do business with Enron.

302. CRRA relied upon the False Statements in entering into the Enron Transaction.

303. CRRA has been damaged as a result thereof.

SECOND COUNT - Negligent Misrepresentation (The Enron Defendants)

1 - 298. Paragraphs 1 through 298 are incorporated as though fully set forth herein.

299. The Enron Defendants, through numerous schemes, artifices and manipulations created by them, at their direction, or with their knowledge and participation,

as detailed herein, negligently made false representations as statements of fact concerning the financial condition of Enron, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q and other SEC filings, press releases, and other publicly disseminated reports and disclosures (the "False Statements").

300. The Enron Defendants failed to exercise reasonable care of competence in obtaining and communicating the foregoing false information.

301. The foregoing False Statements were made by the Enron Defendants with negligent disregard for their truth and accuracy.

302. It was reasonably foreseeable to the Enron Defendants that parties such as CRRA would rely upon and act upon the foregoing False Statements in making decisions to do business with Enron.

303. CRRA reasonably and justifiably relied upon the False Statements in entering into the Enron Transaction.

304. CRRA has been damaged as a result thereof.

THIRD COUNT - Aiding and Abetting Fraudulent Misrepresentation (The Enron Defendants)

1 - 298. Paragraphs 1 through 298 are incorporated as though fully set forth herein.

299. The Enron Defendants, by their active participation in the numerous schemes, artifices and manipulations detailed herein, and/or their failure to perform the duties of their offices as officers and directors of Enron, knowingly and intentionally aided and abetted the fraudulent misrepresentations of Enron concerning its financial condition, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q and other SEC filings, press releases, and other publicly disseminated reports and disclosures (the "False Statements").

300. The assistance of the Enron Defendants in Enron's fraudulent misrepresentations was substantial inasmuch as it was vital to Enron's ability to implement and further its illegitimate business objectives, continue the ponzi-scheme, make the False Statements, misrepresent its financial condition, and deceive the business community and investing public, including CRRA, all as detailed herein.

301. The Enron Defendants acted in wilful, wanton, and reckless disregard for the rights of the business community and investing public, including CRRA.

302. CRRA has been damaged as a result thereof.

FOURTH COUNT - Aiding and Abetting Negligent Misrepresentation (The Enron Defendants)

1 - 298. Paragraphs 1 through 298 are incorporated as though fully set forth herein.

299. The Enron Defendants, by their active participation in the numerous schemes, artifices and manipulations detailed herein, and/or their failure to perform the duties of their offices as officers and directors of Enron, knowingly and intentionally, aided and abetted the negligent misrepresentations of Enron concerning its financial condition, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q and other SEC filings, press releases, and other publicly disseminated reports and disclosures (the "False Statements").

300. The assistance of the Enron Defendants in Enron's negligent misrepresentations was substantial inasmuch as it was vital to Enron's ability to implement and further its illegitimate business objectives, continue the ponzi-scheme, make the False Statements, misrepresent its financial condition, and deceive the business community and investing public, including CRRA, all as detailed herein.

301. It was reasonably foreseeable to the Enron Defendants that parties such as CRRA would rely upon and act upon the foregoing False Statements in making decisions to do business with Enron.

302. CRRA reasonably and justifiably relied upon the False Statements in entering into the Enron Transaction.

303. CRRA has been damaged as a result thereof.

FIFTH COUNT - Fraudulent Misrepresentation (The Andersen Defendants):

1 - 204. Paragraphs 1 through 204 are incorporated as though fully set forth herein.

205. The Andersen Defendants, through numerous schemes, artifices and manipulations created by them, at their direction, or with their knowledge and participation, as detailed herein, knowingly, intentionally, and fraudulently made false representations as statements of fact concerning the financial condition of Enron, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q and other SEC filings, press releases, and other publicly disseminated reports and disclosures (the "False Statements").

206. The False Statements were untrue and were known to the Enron Defendants to be untrue at the time that they were made.

207. The foregoing False Statements were made by the Andersen Defendants in wilful, wanton and reckless disregard for the rights of the business community and investing public, including CRRA, to induce parties such as CRRA to rely upon and act upon these statements in making decisions to do business with Enron.

208. CRRA relied upon the False Statements in entering into the Enron Transaction.

209. CRRA has been damaged as a result thereof.

SIXTH COUNT - Negligent Misrepresentation (The Andersen Defendants):

1 - 204. Paragraphs 1 through 204 are incorporated as though fully set forth herein.

205. The Andersen Defendants, through numerous schemes, artifices and manipulations created by them, at their direction, or with their knowledge and participation, as detailed herein, negligently made false representations as statements of fact concerning the financial condition of Enron, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q and other SEC filings, press releases, and other publicly disseminated reports and disclosures (the "False Statements").

206. The Andersen Defendants failed to exercise reasonable care or competence in obtaining and communicating the foregoing false information.

207. The foregoing False Statements were made by the Andersen Defendants with negligent disregard for their truth and accuracy inasmuch as the Andersen Defendants failed to exercise reasonable care or competence in obtaining, developing, and disseminating complete and accurate financial information about Enron.

208. It was reasonably foreseeable to the Andersen Defendants that parties such as CRRA would rely upon and act upon the foregoing False Statements in making decisions to do business with Enron.

209. CRRA reasonably and justifiably relied upon the False Statements in entering into the Enron Transaction.

210. CRRA has been damaged as a result thereof.

SEVENTH COUNT - Aiding and Abetting Fraudulent Misrepresentation (The Andersen Defendants)

1 - 204. Paragraphs 1 through 204 are incorporated as though fully set forth herein.

205. The Andersen Defendants, by their active participation in the numerous schemes, artifices and manipulations detailed herein, and/or their failure to perform their duties as accountants for a publicly traded corporation, knowingly and intentionally aided and abetted the fraudulent misrepresentations by Enron and the Enron Defendants concerning the financial condition of Enron, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q and other SEC filings, press releases, and other publicly disseminated reports and disclosures (the “False Statements”).

206. The assistance of the Andersen Defendants was substantial inasmuch as it was vital to Enron’s ability to implement and further its illegitimate business objectives,

continue the ponzi-scheme, make the False Statements, misrepresent its financial condition, and deceive the business community and investing public, including CRRA, all as detailed herein.

207. The Andersen Defendants acted in wilful, wanton and reckless disregard for the rights of the business community and investing public, including CRRA.

208. CRRA has been damaged as a result thereof.

EIGHTH COUNT - Aiding and Abetting Negligent Misrepresentation (The Andersen Defendants)

1 - 204. Paragraphs 1 through 204 are incorporated as though fully set forth herein.

205. The Andersen Defendants, by their active participation in the numerous schemes, artifices and manipulations detailed herein, and/or their failure to perform their duties as accountants for a publicly traded corporation, knowingly and intentionally aided and abetted the negligent misrepresentations by Enron and the Enron Defendants concerning the financial condition of Enron, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q and other SEC filings, press releases, and other publicly disseminated reports and disclosures (the “False Statements”).

206. The assistance of the Andersen Defendants was substantial inasmuch as it was vital to Enron's ability to implement and further its illegitimate business objectives, continue the ponzi-scheme, make the False Statements, misrepresent its financial condition, and deceive the business community and investing public, including CRRA, as detailed herein.

207. It was reasonably foreseeable to the Andersen Defendants that parties such as CRRA would rely upon and act upon the foregoing False Statements in making decisions to do business with Enron.

208. CRRA reasonably and justifiably relied upon the False Statements in entering into the Enron Transaction.

209. CRRA has been damaged as a result thereof.

NINTH COUNT - Negligence (Arthur Andersen):

1 - 204. Paragraphs 1 through 204 are incorporated as though fully set forth herein.

205. The Andersen Defendants owed a duty of care to CRRA to exercise that degree of skill normally expected of accountants performing auditing services for public companies.

206. It was foreseeable to the Andersen Defendants that those with whom Enron entered into business transactions, such as CRRA, would rely upon and act upon the audit and other financial data prepared by the Andersen Defendants in entering into and maintaining business relationships with Enron.

207. The Andersen Defendants knew that Andersen's audits would form the basis for public filings, and would be relied upon by parties such as CRRA entering into business transactions with Enron.

208. The Andersen Defendants, in performing audits and other work for Enron, failed to exercise the degree of care, skill, and competence, exercised by and expected of competent members of the accounting profession performing such work for publicly traded companies. As a result, Andersen's audits of Enron, and other work for Enron, seriously misrepresented the financial condition of Enron.

209. CRRA reasonably and justifiably relied upon the work of the Andersen Defendants in entering into the Enron Transaction.

210. CRRA has been damaged as a result thereof.

TENTH COUNT - Aiding and Abetting Fraudulent Misrepresentation (Vinson & Elkins)

1 - 184. Paragraphs 1 through 168 and 205 through 220 are incorporated as though fully set forth herein.

185. Vinson & Elkins, by its active participation in numerous schemes, artifices and manipulations detailed herein, and/or its failure to perform its duties as lawyers for a publicly traded corporation, knowingly and intentionally aided and abetted the fraudulent misrepresentations by Enron and the Enron Defendants concerning the financial condition of Enron, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q and other SEC filings, press releases, and other publicly disseminated reports and disclosures (the "False Statements").

186. The assistance of Vinson & Elkins was substantial inasmuch as it was vital to Enron's ability to implement and further its illegitimate business objectives, continue the ponzi-scheme, make the False Statements, misrepresent its financial condition, and deceive the business community and investing public, including CRRA, all as detailed herein.

187. Vinson & Elkins acted in wilful, wanton and reckless disregard for the rights of the business community and investing public, including CRRA.

188. CRRA has been damaged as a result thereof.

ELEVENTH COUNT - Aiding and Abetting Negligent Misrepresentation (Vinson & Elkins)

1 - 184. Paragraphs 1 through 168 and 205 through 220 are incorporated as though fully set forth herein.

185. Vinson & Elkins, by its active participation in the numerous schemes, artifices and manipulations detailed herein, and/or its failure to perform its duties as lawyers for a publicly traded corporation, knowingly and intentionally aided and abetted the negligent misrepresentations of Enron and the Enron Defendants concerning the financial condition of Enron, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q and other SEC filings, press releases, and other publicly disseminated reports and disclosures (the "False Statements").

186. The assistance of Vinson & Elkins was substantial inasmuch as it was vital to Enron's ability to implement and further its illegitimate business objectives, continue the ponzi-scheme, make the False Statements, misrepresent its financial condition, and deceive the business community and investing public, including CRRA, as detailed herein.

187. It was reasonably foreseeable to Vinson & Elkins that parties such as CRRA would rely upon and act upon the foregoing False Statements making decisions to do business with Enron.

188. CRRA reasonably and justifiably relied upon the False Statements in entering into the Enron Transaction.

189. CRRA has been damaged as a result thereof.

TWELFTH COUNT - Aiding and Abetting Fraudulent Misrepresentation (Kirkland & Ellis)

1 - 187. Paragraphs 1 through 168 and 221 through 239 are incorporated as though fully set forth herein.

188. Kirkland & Ellis, by its active participation in the numerous schemes, artifices, and manipulations detailed herein, and/or its failure to perform its duties as lawyers for Enron and Enron's numerous partnerships and special purpose entities, knowingly and intentionally aided and abetted the fraudulent misrepresentations of Enron and the Enron Defendants concerning the financial condition of Enron, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q, and other SEC filings, press releases, and other publicly disseminated reports and disclosures (the "False Statements").

189. The assistance of Kirkland & Ellis was substantial inasmuch as it was vital to Enron's ability to implement and further its illegitimate business objectives, continue the ponzi-scheme, make the False Statements, misrepresent its financial condition, and deceive the business community and investing public, including CRRA, all as detailed herein.

190. Kirkland & Ellis acted in wilful, wanton and reckless disregard for the rights of the business community and investing public, including CRRA.

191. CRRA has been damaged as a result thereof.

THIRTEENTH COUNT - Aiding and Abetting Negligent Misrepresentation (Kirkland & Ellis)

1 - 187. Paragraphs 1 through 168 and 221 through 239 are incorporated as though fully set forth herein.

188. Kirkland & Ellis, by its active participation in the numerous schemes, artifices, and manipulations, as detailed herein, and/or its failure to perform its duties as lawyers for Enron and Enron's numerous partnerships and special purpose entities, knowingly and intentionally aided and abetted the negligent misrepresentations of Enron and the Enron Defendants concerning the financial condition of Enron, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q, and other SEC filings,

press releases, and other publicly disseminated reports and disclosures (the "False Statements").

189. The assistance of Kirkland & Ellis was substantial inasmuch as it was vital to Enron's ability to implement and further its illegitimate business objectives, continue the ponzi-scheme, make the False Statements, misrepresent its financial condition and deceive the business community and investing public, including CRRA, all as detailed herein.

190. It was reasonably foreseeable to Kirkland & Ellis that parties such as CRRA would rely upon and act upon the foregoing False Statements in making decisions to do business with Enron.

191. CRRA reasonably and justifiably relied upon the False Statements in entering into the Enron Transaction.

192. CRRA has been damaged as a result thereof.

FOURTEENTH COUNT - Aiding and Abetting Fraudulent Misrepresentation (J. P. Morgan Chase)

1 - 183. Paragraphs 1 through 168 and 240 through 254 are incorporated as though fully set forth herein.

184. J. P. Morgan Chase, by its active participation in the numerous schemes, artifices, and manipulations detailed herein, knowingly and intentionally aided and abetted the fraudulent misrepresentations of Enron and the Enron Defendants concerning the

financial condition of Enron, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q, and other SEC filings, press releases, and other publicly disseminated reports and disclosures (the "False Statements").

185. The assistance of J. P. Morgan Chase was substantial inasmuch as it was vital to Enron's ability to implement and further its illegitimate business objectives, continue the ponzi-scheme, make the False Statements, misrepresent its financial condition, and deceive the business community and investing public, including CRRA, all as detailed herein.

186. J. P. Morgan Chase acted in wilful, wanton and reckless disregard for the rights of the business community and investing public, including CRRA.

187. CRRA has been damaged as a result thereof.

FIFTEENTH COUNT - Aiding and Abetting Negligent Misrepresentation (J. P. Morgan Chase)

1 - 183. Paragraphs 1 through 168 and 240 through 254 are incorporated as though fully set forth herein.

184. J. P. Morgan Chase, by its active participation in the numerous schemes, artifices, and manipulations detailed herein, knowingly and intentionally aided and abetted the negligent misrepresentations of Enron and the Enron Defendants concerning the

financial condition of Enron, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q, and other SEC filings, press releases, and other publicly disseminated reports and disclosures (the "False Statements").

185. The assistance of J. P. Morgan Chase was substantial inasmuch as it was vital to Enron's ability to implement and further its illegitimate business objectives, continue the ponzi-scheme, make the False Statements, misrepresent its financial condition, and deceive the business community and investing public, including CRRA, all as detailed herein.

186. It was reasonably foreseeable to J. P. Morgan Chase that parties such as CRRA would rely upon and act upon the foregoing False Statements in making decisions to do business with Enron.

187. CRRA reasonably and justifiably relied upon the False Statements in entering into the Enron Transaction.

188. CRRA has been damaged as a result thereof.

SIXTEENTH COUNT - Aiding and Abetting Fraudulent Misrepresentation (Citigroup, Inc.)

1 - 181. Paragraphs 1 through 168, 240 through 245 and 255 through 261 are incorporated as though fully set forth herein.

182. Citigroup, by its active participation in the numerous schemes, artifices, and manipulations detailed herein, knowingly and intentionally aided and abetted the fraudulent misrepresentations of Enron and the Enron Defendants concerning the financial condition of Enron, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q, and other SEC filings, press releases, and other publicly disseminated reports and disclosures (the "False Statements").

183. The assistance of Citigroup was substantial inasmuch as it was vital to Enron's ability to implement and further its illegitimate business objectives, continue the ponzi-scheme, make the False Statements, misrepresent its financial condition, and deceive the business community and investing public, including CRRA, all as detailed herein.

184. Citigroup acted in wilful, wanton and reckless disregard for the rights of the business community and investing public, including CRRA.

185. CRRA has been damaged as a result thereof.

SEVENTEENTH COUNT - Aiding and Abetting Negligent Misrepresentation (Citigroup, Inc.)

1 - 181. Paragraphs 1 through 168, 240 through 245 and 255 through 261 are incorporated as though fully set forth herein.

182. Citigroup, Inc., by its active participation in the numerous schemes, artifices, and manipulations detailed herein, knowingly and intentionally aided and abetted the negligent misrepresentations of Enron and the Enron Defendants concerning the financial condition of Enron, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q, and other SEC filings, press releases, and other publicly disseminated reports and disclosures (the “False Statements”).

183. The assistance of Citigroup, Inc. was substantial inasmuch as it was vital to Enron’s ability to implement and further its illegitimate business objectives, continue the ponzi-scheme, misrepresent its financial condition, and deceive the business community and investing public, including CRRA, all as detailed herein.

184. It was reasonably foreseeable to Citigroup, Inc. that parties such as CRRA would rely upon and act upon the foregoing False Statements in making decisions to do business with Enron.

185. CRRA reasonably and justifiably relied upon the False Statements in entering into the Enron Transaction.

186. CRRA has been damaged as a result thereof.

EIGHTEENTH COUNT - Aiding and Abetting Fraudulent Misrepresentation (Merrill Lynch)

1 - 182. Paragraphs 1 through 168, 240 through 245 and 262 through 269 are incorporated as though fully set forth herein.

183. Merrill Lynch, by its active participation in the numerous schemes, artifices, and manipulations detailed herein, knowingly and intentionally aided and abetted the fraudulent misrepresentations of Enron and the Enron Defendants concerning the financial condition of Enron, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q, and other SEC filings, press releases, and other publicly disseminated reports and disclosures (the “False Statements”).

184. The assistance of Merrill Lynch was substantial inasmuch as it was vital to Enron’s ability to implement and further its illegitimate business objectives, continue the ponzi-scheme, make the False Statements, misrepresent its financial condition, and deceive the business community and investing public, including CRRA, all as detailed herein.

185. Merrill Lynch acted in wilful, wanton and reckless disregard for the rights of the business community and investing public, including CRRA.

186. CRRA has been damaged as a result thereof.

NINETEENTH COUNT - Aiding and Abetting Negligent Misrepresentation (Merrill Lynch)

1 - 182. Paragraphs 1 through 168, 240 through 245 and 262 through 269 are incorporated as though fully set forth herein.

183. Merrill Lynch, by its active participation in the numerous schemes, artifices, and manipulations detailed herein, knowingly and intentionally aided and abetted the negligent misrepresentations of Enron and the Enron Defendants concerning the financial condition of Enron, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q, and other SEC filings, press releases, and other publicly disseminated reports and disclosures (the "False Statements").

184. The assistance of Merrill Lynch was substantial inasmuch as it was vital to Enron's ability to implement and further its illegitimate business objectives, continue the ponzi-scheme, make the False Statements, misrepresent its financial condition, and deceive the business community and investing public, including CRRA, all as detailed herein.

185. It was reasonably foreseeable to Merrill Lynch that parties such as CRRA would rely upon and act upon the foregoing False Statements in making decisions to do business with Enron.

186. CRRA reasonably and justifiably relied upon False Statements in entering into the Enron Transaction.

187. CRRA has been damaged as a result thereof.

TWENTIETH COUNT - Aiding and Abetting Fraudulent Misrepresentation (Barclays Capital, Inc.)

1 - 180. Paragraphs 1 through 168, 240 through 245 and 270 through 275 are incorporated as though fully set forth herein.

181. Barclays, by its active participation in the numerous schemes, artifices, and manipulations detailed herein, knowingly and intentionally aided and abetted the fraudulent misrepresentations of Enron and the Enron Defendants concerning the financial condition of Enron, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q, and other SEC filings, press releases, and other publicly disseminated reports and disclosures (the “False Statements”).

182. The assistance of Barclays was substantial inasmuch as it was vital to Enron’s ability to implement and further its illegitimate business objectives, continue the ponzi-scheme, make the False Statements, misrepresent its financial condition, and deceive the business community and investing public, including CRRA, all as detailed herein.

183. Barclays acted in wilful, wanton and reckless disregard for the rights of the business community and investing public, including CRRA.

184. CRRA has been damaged as a result thereof.

TWENTY FIRST COUNT - Aiding and Abetting Negligent Misrepresentation (Barclays Capital, Inc.)

1 - 180. Paragraphs 1 through 168, 240 through 245 and 270 through 275 are incorporated as though fully set forth herein.

181. Barclays, by its active participation in the numerous schemes, artifices, and manipulations detailed herein, knowingly and intentionally aided and abetted the negligent misrepresentations of Enron and the Enron Defendants concerning the financial condition of Enron, including its operations, performance, profitability, liquidity, debt structure, indebtedness, and debt and borrowing capacity as set forth in financial statements, 10-K, 10-Q, and other SEC filings, press releases, and other publicly disseminated reports and disclosures (the "False Statements").

182. The assistance of Barclays was substantial inasmuch as it was vital to Enron's ability to implement and further its illegitimate business objectives, continue the ponzi-scheme, make the False Statements, misrepresent its financial condition, and deceive the business community and investing public, including CRRA, all as detailed herein.

183. It was reasonably foreseeable to Barclays that parties such as CRRA would rely upon and act upon the foregoing False Statements in making decisions to do business with Enron.

184. CRRA reasonably and justifiably relied upon the False Statements in entering into the Enron Transaction.

185. CRRA has been damaged as a result thereof.

TWENTY SECOND COUNT - Negligent Misrepresentation (Moody's Investors Services):

1 - 191. Paragraphs 1 through 168 and 276 through 298 are incorporated as though fully set forth herein.

192. The representations and ratings made by Moody's were false, inaccurate and careless, and Moody's made such representations and issued such ratings with negligent disregard for the truth and accuracy thereof.

193. Moody’s failed to exercise reasonable care or competence in obtaining and communicating accurate information concerning the creditworthiness of Enron to the business community and the investing public, including CRRA.

194. Moody's knew, or should have known, that CRRA would rely on the representations and ratings made by Moody's.

195. CRRA did, in fact, reasonably and justifiably rely on Moody's false, inaccurate and careless misrepresentations and ratings in that, based upon said misrepresentations, CRRA entered into the Enron Transaction.

196. CRRA has been damaged as a result thereof.

TWENTY THIRD COUNT - Negligent Misrepresentation (Standard & Poor's Ratings Services):

1 - 191. Paragraphs 1 through 168 and 276 through 298 are incorporated as though fully set forth herein.

192. The representations and ratings made by Standard & Poor's, as aforedescribed, were false, inaccurate and careless, and Standard & Poor 's made such representations and issued such ratings with negligent disregard for the truth and accuracy thereof.

193. Standard & Poor’s failed to exercise reasonable care or competence in obtaining and communicating accurate information concerning the creditworthiness of Enron to the business community and the investing public, including CRRA.

194. Standard & Poor's knew, or should have known, parties such as CRRA would rely on the representations and ratings made by Standard & Poor's.

195. CRRA did, in fact, reasonably and justifiably rely on Standard & Poor's false, inaccurate and careless misrepresentations and ratings in that, based upon said misrepresentations, CRRA entered into the Enron Transaction.

196. CRRA has been damaged as a result thereof.

TWENTY FOURTH COUNT - Negligent Misrepresentation (Fitch)

1 - 191. Paragraphs 1 through 168 and 176 through 298 are incorporated as though fully set forth herein.

192. The representations and ratings made by Fitch, as aforedescribed, were false, inaccurate, and careless, and Fitch made such representations and issued such ratings with negligent disregard for the truth and accuracy thereof.

193. Fitch failed to exercise reasonable care or competence in obtaining and communicating accurate information concerning the creditworthiness of Enron to the business community and the investing public, including CRRA.

194. Fitch knew, or should have known, that parties such as CRRA would rely on the representations and ratings made by Fitch.

195. CRRA did, in fact, reasonably and justifiably rely on Fitch's false, inaccurate, and careless misrepresentations and ratings in that, based upon said misrepresentations, CRRA entered into the Enron Transaction.

196. CRRA has been damaged as a result thereof.

TWENTY FIFTH COUNT - Connecticut Unfair Trade Practices Act (All Defendants)

1 - 298. Paragraphs 1 through 298 are incorporated as though fully set forth herein.

299. The Enron Defendants, the Andersen Defendants, Enron's Lawyers, Enron's Bankers, and the Credit Rating Agencies are all persons engaged in trade or commerce in the State of Connecticut within the meaning of Conn. Gen. Stat. § 42-110a.

300. The aforementioned conduct of the Enron Defendants, the Andersen Defendants, Enron's Lawyers, Enron's Bankers, and the Credit Rating Agencies constitute deceptive, unscrupulous, immoral, unethical, and unfair acts and/or practices in violation of the Connecticut Unfair Trade Practices Act, Conn. Gen. Stat. § 42-110a, *et seq.*

301. Plaintiff has suffered ascertainable losses of money and property as a result thereof.

IX. <u>PRAYER FOR RELIEF</u>

WHEREFORE, The Connecticut Resources Recovery Authority prays for relief as follows:

1. On all Counts, compensatory damages in excess of $15,000, exclusive of interest and costs;
2. On the First, Third, Fifth, Seventh, Tenth, Twelfth, Fourteenth, Sixteenth, Eighteenth and Twentieth Counts, common law exemplary damages, attorneys' fees, costs and expenses;
3. On the Twenty Fifth Count, exemplary damages, attorneys' fees and costs pursuant to Conn. Gen. Stat. § 42-110a, *et seq*.;
4. On all Counts, post judgment interest and costs; and
5. On all Counts, such other and further relief as the Court deems proper in law or equity.

Plaintiff, Connecticut Resources Recovery Authority, hereby demands a trial by jury of all claims so triable.

Dated at Hartford, Connecticut this 29th day of October, 2002.

THE PLAINTIFF
CONNECTICUT RESOURCES RECOVERY AUTHORITY

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