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**UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF PENNSYLVANIA**

BOB JOHNSON, on behalf of himself and all others
similarly situated,

Plaintiff,

vs.

PNC FINANCIAL SERVICES GROUP, INC.,
ERNST & YOUNG, LLP, JAMES E. ROHR, and
ROBERT L. HAUNSCHILD,

Defendants.

Civil Action No.

**CLASS ACTION COMPLAINT
FOR VIOLATION OF
FEDERAL SECURITIES LAWS**

JURY TRIAL DEMANDED

Plaintiff, Bob Johnson, residing at 901 Parkes Run Lane, Villanova, PA 19085, individually and on behalf of all other persons similarly situated, by his undersigned attorneys, alleges the following based upon personal knowledge as to himself and his own acts, and information and belief as to all other matters, based upon, *inter alia*, the investigation conducted by and through his attorneys, which included, among other things, a review of the public documents and announcements made by the defendants, Securities and Exchange Commission ("SEC") filings, and press releases regarding PNC Financial Services Group, Inc. ("PNC" or the "Company"), and plaintiff believes that substantial

evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a class action brought by plaintiff on behalf of himself and a Class consisting of all other persons who purchased PNC common stock during the period from July 19, 2001 through and including January 29, 2002 (the "Class Period"), to recover damages caused by the defendant's violation of federal securities laws. During the Class Period, the defendants issued and/or failed to correct false and misleading financial statements and press releases concerning the Company's publicly reported revenues and earnings directed to the investing public.

JURISDICTION AND VENUE

2. The claims alleged herein arise under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. §§ 78j(b) and 78t(a), and Rule 10b-5, 17 C.F.R. § 240.10b-5 promulgated thereunder.

3. This Court has jurisdiction over the subject matter of this action pursuant to Section 27 of the Securities Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. §78aa and 28 U.S.C. § 1331.

4. Venue is proper in this Judicial District pursuant to Section 27 of the Exchange Act and 28 U.S.C. §1391(b). Many of the acts and transactions alleged herein, including the preparation and dissemination to the investing public of false and misleading information, occurred in substantial part in this Judicial District. Moreover, the Company's corporate headquarters are located in this Judicial District.

5. In connection with the acts, transactions and conduct alleged herein, defendants,

directly and indirectly, used the means and instrumentalities of interstate commerce, including the United States mails, interstate telephone communications and the facilities of the national securities exchanges.

THE PARTIES

6. Plaintiff, Bob Johnson, purchased shares of PNC common stock as set forth in the accompanying Certification of Named Plaintiff.

7. Defendant PNC is incorporated in the Commonwealth of Pennsylvania and maintains its corporate headquarters at One PNC Plaza, 249 Fifth Avenue, Pittsburgh, PA 15222. PNC is a bank holding company and a financial holding company. The Company is a diversified financial services company operating community banking, corporate banking, real estate finance, asset-based lending, wealth management, asset management and global fund services businesses. The Company provides certain products and services nationally and others in PNC's primary geographic markets in Pennsylvania, New Jersey, Delaware, Ohio and Kentucky. The Company also provides certain products and services internationally. As of January 28, 2002, there were approximately 283,000,000 shares of PNC common stock issued and outstanding. During the Class Period, PNC common stock was actively traded on the New York Stock Exchange ("NYSE") under the ticker symbol "PNC."

8. Defendant Ernst & Young, LLP ("E&Y") is incorporated in the State of New York and maintains corporate headquarters at 787 7th Avenue, New York, New York 10019-6085. E&Y describes itself as a global leader in professional services that helps companies in businesses across all industries, from emerging growth companies to global powerhouses, identify and capitalize on business opportunities. With 84,000 employees in more than 130 countries worldwide E&Y performs services ranging from audit, tax, corporate finance, transactions, online security, enterprise risk management, the valuation of intangibles, and other critical business-performance issues. At all relevant times herein

E&Y served as both an auditor and consultant for Defendant PNC as well as a consultant for American International Group (“AIG”) whose transactions with PNC are the subject of this complaint.

9. Defendant James E. Rohr (“Rohr”) was the Chairman, President and Chief Executive Officer of PNC, at all relevant times herein. As such, Rohr was responsible for overseeing all aspects of PNC’s operations and on numerous occasions made public statements on the Company’s behalf regarding PNC’s financial condition and future prospects.

10. Defendant Robert L. Haunschild (“Haunschild”) was the Senior Vice President and Chief Financial Officer of PNC at all relevant times herein. As such, Haunschild was responsible for the Company’s financial, treasury and accounting functions. Haunschild signed PNC’s Form 10-Q for the second and third quarter of 2001.

11. Defendants Rohr and Haunschild are collectively referred to hereafter as the “Individual Defendants.”

12. By reason of their positions with the Company, the Individual Defendants had access to internal Company documents, reports and other information, including the adverse non-public information concerning the Company's services, financial condition and future prospects, and attended management and/or board of directors meetings. As a result of the foregoing, they were responsible for the truthfulness and accuracy of the Company's public reports, SEC filings and press releases described herein.

13. PNC, and the Individual Defendants as officers and directors of a publicly-held company, had a duty to promptly disseminate truthful and accurate information with respect to PNC and to promptly correct any public statements issued by or on behalf of the Company which had become false or misleading.

14. E&Y as auditor and consultant for Defendant PNC, who signed off on PNC's financial results and approved of PNC's transactions with AIG which are in question here, had a duty to promptly disseminate truthful and accurate information and opinions with respect to PNC and to promptly correct any public statements issued by or on behalf of the Company which had become false or misleading or to correct any opinions given to the company in its role as auditor or consultant.

15. Each of the defendants knew or recklessly disregarded that the false and/or misleading statements and omissions complained of herein would adversely affect the integrity of the market for the Company's stock and would cause the price of the Company's common stock to become artificially inflated. Each of the defendants acted knowingly or in such a reckless manner as to constitute a fraud and deceit upon plaintiff and the other members of the Class.

16. Defendants are liable, jointly and severally, as direct participants in and co-conspirators of, the wrongs complained of herein.

CLASS ACTION ALLEGATIONS

17. Plaintiff brings this action as a class action pursuant to Federal Rules of Civil Procedure 23(a) and (b)(3) on behalf of a class (the "Class") consisting of all persons who purchased PNC common stock during the Class Period, a period previously defined as from July 19, 2001 through January 29, 2002, inclusive (the "Class Period"). Excluded are the defendants, any entity in which the defendants have a controlling interest or is a parent or subsidiary of or is controlled by the Company, and the officers, directors, employees, affiliates, legal representatives, heirs, predecessors, successors and assigns of the defendants.

18. The members of the Class are so numerous that joinder of all members is impracticable. While the exact number of Class members is unknown to plaintiff at this time and can only be

ascertained through appropriate discovery, plaintiff believes there are, at a minimum, thousands of members of the Class who traded during the Class Period. The Company had approximately 280 million shares of its common stock outstanding as of January 28, 2002.

19. Common questions of law and fact exist as to all members of the Class and predominate over any questions affecting solely individual members of the Class. Among the questions of law and fact common to the Class are:

- i) whether the federal securities laws were violated by defendants' acts as alleged herein;
- ii) whether the Company issued false and misleading financial statements during the Class Period;
- iii) whether defendants acted knowingly or recklessly in issuing false and misleading financial statements;
- iv) whether the market prices of the Company's securities during the Class Period were artificially inflated because of the defendants' conduct complained of herein; and
- v) whether the members of the Class have sustained damages and, if so, what is the proper measure of damages.

20. Plaintiff's claims are typical of the claims of the members of the Class as plaintiff and the other members of the Class each sustained damages arising out of the defendants' wrongful conduct in violation of federal law as complained of herein.

21. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class actions and securities litigation. Plaintiff has no interests antagonistic to or in conflict with those of the Class.

22. A class action is superior to other available methods for the fair and efficient adjudication of the controversy since joinder of all members of the Class is impracticable. Furthermore,

because the damages suffered by the individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for the Class members individually to redress the wrongs done to them. Plaintiff anticipates no unusual difficulties in the management of this action as a class action.

23. Plaintiff will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that:

- i) defendants made public misrepresentations or failed to disclose material facts during the Class Period;
- ii) such omissions and misrepresentations were material;
- iii) the securities of the Company traded in an efficient market;
- iv) the misrepresentations and omissions alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities; and
- v) plaintiff and the other members of the Class purchased PNC stock between the time the defendants failed to disclose or misrepresented material facts and the time the true facts were disclosed, without knowledge of the omitted or misrepresented facts.

24. Based upon the factors set forth in the preceding paragraph, plaintiff and the other members of the Class are entitled to the presumption of reliance upon the integrity of the market.

NO STATUTORY SAFE HARBOR

25. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the false statements pleaded in this Complaint because none of the statements pleaded herein are "forward-looking" statements nor were they identified as "forward-looking statements" when made. Nor did meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in any purportedly forward looking statements. In the alternative, to the extent that the statutory safe harbor does apply to any statements

pleaded herein which are deemed to be forward-looking, defendants are liable for those false forward-looking statements because at the time each of those statements was made the speaker actually knew those forward-looking statement were false and/or the statement was authorized and/or approved by an executive officer of PNC who actually knew that the statements were false when made.

SUBSTANTIVE ALLEGATIONS

26. On July 19, 2001, PNC issued a press release announcing its financial results for the second quarter of fiscal year 2001. Specifically, the Company announced second quarter 2001 earnings of \$295,000,000 or \$1.00 per diluted share. The press release also stated that taxable-equivalent net interest income for the second quarter of 2001 was \$569 million, an increase of \$19 million or 3% from the same period in 2000. In addition, Defendant Rohr was quoted in the release as saying “[T]he diversity of PNC’s businesses helped to mitigate the impact of a weaker economic environment.”

27. The Company filed a Form 10-Q with the SEC on August 14, 2001 which included the finalized financial results for the second quarter of fiscal year 2001. The Form 10-Q was signed by Defendant Haunschild and confirmed the results issued in the July press release. Additionally, E&Y and PNC signed off on this filing as being accurate and assured the investing public that PNC’s reported financial results were presented in conformity with Generally Accepted Accounting Principles (“GAAP”).

28. On October 18, 2001, PNC issued a press release announcing its results for the third quarter of 2001, ended September 30, 2001. In that release, the Company reported net earnings of \$298,000,000 or \$1.02 per diluted share. The press release also stated that taxable-equivalent net interest income for the second quarter of 2001 was \$564 million, an increase of \$30

million or 6% from the same period in 2000. Furthermore, Defendant Rohr was quoted in the release as saying “[O]ur diverse mix of businesses, including solid performance from our Regional Community Bank, BlackRock and PFPC, drove earnings that were within the range of analysts’ estimates while we added to loan loss reserves and **reduced nonperforming assets.**” [Emphasis added].

29. Subsequently, PNC filed its Form 10-Q with the SEC for the third quarter of fiscal year 2001 (period ended September 30, 2001), signed by Defendant Haunschild which confirmed the previously announced financial results from the October press release. In addition, E&Y and PNC signed off on this filing as being accurate and assured the investing public that PNC’s reported financial results were presented in conformity with Generally Accepted Accounting Principles (“GAAP”).

30. On January 17, 2002 the Company issued a press release announcing PNC’s fourth quarter fiscal year 2001 and full year 2001 financial results. The Company reported a net loss of \$326 million or \$1.15 per diluted share. The release explained that the loss was due to PNC’s earlier announced strategy to accelerate and reposition the Company’s banking and venture capital business. The release further explained that when these charges were excluded earnings for the fourth quarter of 2001 were \$289 million or \$1.01 per diluted share. As for PNC’s full year 2001 results the release noted earnings of \$567 million or \$1.91 per diluted share. Defendant Rohr was again quoted speaking about the increasing strength of the Company’s position and his belief that PNC would “[d]eliver 2002 earnings in line with the current median First Call estimate of \$4.60 per diluted share.”

31. The statements referenced above in paragraphs 24-28 were each materially false and misleading when made and omitted material facts in that, as further described herein, the defendants knew, or recklessly disregarded, that the Company was engaged in improper and/or suspect accounting practices which affected the accuracy of its financial results and that, contrary to the

statements in documents filed with the SEC during the Class Period, PNC's financial statements issued during the Class Period were not prepared in accordance with GAAP.

32. Indeed, on January 29, 2000, the Company announced that the Federal Reserve Board had informed PNC about accounting inaccuracies in its financial statements for the second, third, and fourth quarters of fiscal year 2001. Specifically, PNC failed to consolidate preferred interests in three subsidiaries it had established with AIG. In response to the Federal Reserve Board's recommendations that PNC adjust its accounting methods pertaining to certain aspects of its financial results, the Company announced that it would restate its earnings for the second and third quarters of fiscal year 2001 and revise its fourth quarter for the same year resulting in year-end earnings being reduced \$155 million to approximately \$412 million, or \$1.38 a share. The Company also revealed that these accounting adjustments would cause PNC's nonperforming assets to rise by \$125 million to \$393 million. Finally, PNC stated that the Federal Reserve Board and SEC were making inquiries about PNC's transactions and that the Company would cooperate with the investigations.

33. On January 29, 2002 the market responded to the Company's latest announcement regarding a reduction in year-end earnings which had been released just days before. The price of PNC stock closed on January 29, 2002 down \$5.79 or nearly 10% at \$56.08 in extremely heavy trading volume of 6,305,100 shares.

34. In addition, it was recently revealed in a Wall Street Journal article dated January 31, 2002 that while acting as auditor and a consultant for PNC, E&Y was also acting as a consultant for AIG. In fact, as PNC's auditor, E&Y approved PNC's transactions with AIG discussed herein while at the same time acting as an "accounting adviser" to AIG. E&Y drew up the financial structure for the subsidiaries in question and approved them for implementation by AIG. E&Y would also issue a letter

that helped AIG pitch its product to banks.

35. The Wall Street Journal article further reported that E&Y provided AIG with an SAS-50 letter for the establishment of the subsidiaries with PNC. Such a letter is a formal statement attesting that a transaction had been reviewed and approve of by senior E&Y officials.

36. PNC stock had been open, well-developed and efficient at all times during the Class Period. As a result of the defendants' materially false and misleading statements and failures to disclose set forth herein, the Company's stock traded at artificially inflated prices during the Class Period.

37. The financial statements and related press releases by the Company identified above contained statements that were materially false and misleading when made. Despite PNC and E&Y's representations to the contrary, the Company's Class Period financial statements did not comply with GAAP, causing PNC to restate and/or revise financial results for the second, third, and fourth quarters of fiscal year 2001, the Federal Reserve Board to recommend changes in the Company's accounting practices, and investigations by the Federal Reserve Board and Securities Exchange Commission.

38. The SEC requires that publicly-traded companies present their financial statements in accordance with GAAP. 17 C.F.R. § 210.4-01(a)(1). Financial statements filed with the SEC which are not prepared in accordance with GAAP "will be presumed to be misleading or inaccurate, despite footnote or other disclosures, unless the Commission has otherwise provided." 17 C.F.R. § 210.4-01(a)(1).

39. The defendants violated the following GAAP principles, among others:

- a. the principle that a conservative approach be taken providing early

recognition of unfavorable events and minimizing the amount of income reported. (See Statement No. 4 of the Accounting Principles Board ("APB Nos.") at 4 ¶¶ 28, 35, 171);

- b. the principle that the financial information presented should be complete. (See APB No. 4, ¶¶ 28, 35, 88, 171);
- c. the principle of fair presentation ("presents fairly"). (See APB No. 4, ¶¶ 109, 138, 189);
- d. the principle of adequacy and fairness of disclosure. (See APB No. 4, ¶¶ 81, 106, 189, 199);
- e. the principle of materiality concerning information that is significant enough to affect evaluations or decisions. (See APB No. 4, ¶¶ 25, 128);
- f. the principle that the substance of transactions rather than form should be reflected. (See APB No. 4, ¶¶ 25, 35, 127);
- g. the principle that informed judgment based on background and knowledge should be applied. (See APB No. 4, ¶¶ 25, 35, 124, 173, 174);
- h. the principle that items included in the financial statements be reliably corroborated by outside evidence (verifiability). (See APB No. 4, ¶¶ 23, 35, 90);
- i. the principle that the financial statements contain and disclose relevant, understandable, and timely information for the economic decisions of the user. (See APB No. 4, ¶¶ 23, 88, 89, 92);
- j. the principle that the financial statements provide reliable financial information about the enterprise for the economic decisions of the user. (See APB No. 4, ¶¶ 77, 78, 107, 108); and
- k. the principle that accounts receivable must be reported in the financial statements at net realizable value (See, e.g., ARB-43, Chapter 3A; Financial Accounting Standard No. 5, Accounting for Contingencies.)

40. PNC is restating its financial statements for the second and third quarters of

fiscal year 2001 and revising its fourth quarter 2001 financial results announced in its January 17, 2002 press release. These restatements and announced revision constitute defendants' own admission that the financial statements originally issued during the Class Period were false in a material way.

41. During the Class Period, PNC and E&Y materially misled the investing public thereby inflating the price of PNC's securities by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make PNC's statements, as set forth herein not false and misleading. Throughout the Class Period, each defendant knew or recklessly disregarded that PNC's true earnings were not as represented in those reports, releases and statements, because in order to generate the appearance of prospering performance and favorable financial results, defendants had to, and did, violate GAAP. As a result of these false and misleading statements, the Company's shares were traded at artificially inflated prices, causing damage to plaintiff and the other members of the Class when the Company revealed that the Company's previously filed financial statements were the subject of an internal investigation.

SCIENTER ALLEGATIONS

42. The facts alleged herein, compel a strong inference that the Individual Defendants made material false and misleading statements to the investing public with scienter in that the Individual Defendants knew that the public statements issued or disseminated in the name of the Company were materially false and misleading; knew or recklessly disregarded that such statements would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements as primary violators of the federal securities laws. In addition, the Individual Defendants caused PNC to engage in irregular accounting practices, and in turn caused the Company to report artificially inflated financial results. Moreover, Defendant E&Y, which was collecting

millions of dollars in fees to act as an auditor and consultant for PNC and as a consultant to AIG, knowingly approved the transaction between the two companies as described herein in order for both companies to appear more profitable and financially stable and thus allow E&Y to continue its work for two very large clients.

COUNT I

(VIOLATION OF SECTION 10(b) OF THE EXCHANGE ACT AND RULE 10b-5 BROUGHT AGAINST ALL DEFENDANTS)

43. Plaintiff repeats and realleges each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

44. During the Class Period, defendants directly engaged in a common plan, scheme, and unlawful course of conduct, pursuant to which it knowingly or recklessly engaged in acts, transactions, practices, and courses of business which operated as a fraud and deceit upon plaintiff and the other members of the Class, and made various deceptive and untrue statements of material facts and omitted to state material facts in order to make the statements made, in light of the circumstances under which they were made, not misleading to plaintiff and the other members of the Class. The purpose and effect of the scheme, plan, and unlawful course of conduct was, among other things, to deceive the investing public, including plaintiff and the other members of the Class, and to induce plaintiff and the other members of the Class to purchase PNC common stock during the Class Period at artificially inflated prices.

45. During the Class Period, the defendants, pursuant to said scheme, plan, and unlawful course of conduct, knowingly and/or recklessly issued, caused to be issued, participated in the issuance of, the preparation and/or issuance of deceptive and materially false and misleading statements to the investing public as particularized above.

46. As a result of the defendants' dissemination of and/or failure to correct the false and misleading statements set forth above, the market price of PNC common stock was artificially inflated during the Class Period. Unaware of the false and misleading nature of the statements described above and the deceptive and manipulative devices and contrivances employed by the defendants, plaintiff and the other members of the Class relied, to their detriment, on the integrity of the market price of the stock in purchasing PNC common stock. Had plaintiff and the other members of the Class known the truth, they would not have purchased PNC shares or would not have purchased them at the inflated prices that they did.

47. Plaintiff and the other members of the Class have suffered damages as a result of the wrongs herein alleged in an amount to be proved at trial.

48. By reason the foregoing, the defendants have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder and are liable to plaintiff and the other members of the Class for damages which they suffered in connection with their purchases of PNC stock during the Class Period.

COUNT II

(VIOLATION OF SECTION 20(a) OF THE EXCHANGE ACT BROUGHT AGAINST THE INDIVIDUAL DEFENDANTS)

49. Plaintiff repeats and realleges each and every allegation contained in each of the foregoing paragraphs as if set forth fully herein.

50. The Individual Defendants acted as controlling persons of the Company within the meaning of section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and active participation in and/or awareness of the Company's day-to-day operations, each Individual Defendant had the power to influence and control and did influence and control, directly or indirectly,

the decision-making of the Company, including the content and dissemination of the various statements and SEC filings that plaintiff alleges are false and misleading. The Individual Defendants were provided with, or had unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged herein to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

51. In particular, the Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

52. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to section 20(a) of the Exchange Act. As a direct and proximate result of the wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

WHEREFORE, plaintiff, on his behalf and on behalf of the Class, prays for judgment as follows:

A. Declaring this action to be a proper class action and certifying plaintiff as class representative under Rule 23 of the Federal Rules of Civil Procedure;

B. Awarding monetary damages against all of the defendants, jointly and severally, in favor of plaintiff and the other members of the Class for all losses and damages suffered as a result of the wrongdoings alleged herein, including punitive damages where appropriate, together with interest thereon;

C. Awarding plaintiff the fees and expenses incurred in this action, including reasonable allowance of fees for plaintiff's attorneys and experts;

D. Granting plaintiff and the other members of the Class such other and further relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff hereby demands a trial by jury.

Dated: February 1, 2002

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